BBC Trust

# BBC response to Ofcom's Second Public Service Broadcasting Review, Phase 1

# Foreword

This is an important time for public service broadcasting (PSB) in the UK. The boundaries between the traditionally separate worlds of television, radio and online are disappearing. Digital switchover is already a reality for the residents of Whitehaven in Cumbria and will be for viewers in the Border region by the time Ofcom has completed its review. Broadband penetration is increasing rapidly and the successes of the BBC's iPlayer, ITV.com and 4oD have demonstrated the public appetite for on-demand content.

Competition for UK audiences is becoming more global, with players like Google and Microsoft presenting a new challenge to traditional broadcasters. Audiences are able to access more content than ever before, with the popularity of high-quality US imports showing no sign of waning. This competition is placing increasing pressure on the level of UK production by commercial broadcasters and the PSB system itself.

Audiences are changing, too. Traditional family and social structures are fragmenting; the demographic profile of the UK is changing; there is burgeoning diversity among the audiences which the BBC exists to serve. The changing face of life in the UK has created a complex web of 'belonging' for its citizens and much debate around the notion of 'Britishness'.

In response to this rapidly changing world, I welcome Ofcom's decision to bring forward its second review of public service broadcasting. From both Ofcom's research and our own, it is clear that audiences continue to value PSB highly, both for themselves as consumers, and for society as a whole. The role of PSB may even need to be enhanced in a society which is increasingly diverse and fragmented. The question is therefore how PSB – and the BBC as a cornerstone of it – can rise to the challenge and best serve the needs of audiences in the future.

I have previously called for an open and wide-ranging debate, focused on the interests of audiences. What follows is our initial contribution to this debate; a joint response to Ofcom from the BBC Trust and BBC Executive. In a debate about the future of PSB we felt it important that the BBC put forward a shared vision. The BBC is already changing in response to the changing world in which it operates. This response to Ofcom explores some of those changes, and what they mean for audiences. It reflects the six year strategy for the BBC agreed by the Trust towards the end of last year; and beyond that timeframe it reflects shared discussion between both sides of the BBC and our initial conclusions on the challenges ahead and possible solutions.

Our vision is focused not on narrow institutional needs but on how best to serve audiences in a complex and changing world. As we move into the second phase of Ofcom's review, we will seek the views of licence fee payers, policy makers and the broadcasting industry on the ideas that we have put forward.

Michael Lyons.

*Sir Michael Lyons, Chairman*

# Contents

# 1 The challenge of sustainability

This section explores the challenges ahead for public service broadcasting. It sets out a shared vision between the Trust and the Executive and a commitment that the BBC should do more in co-operation with the wider broadcasting industry for the benefit of audiences. It ends with a statement by the Director-General outlining ideas for unlocking the power of partnership across the sector. It is followed by an Executive Summary of the BBC's detailed response to Ofcom's consultation.

The UK is admired around the world for the quality and range of its public service broadcasting. The BBC is often described as the cornerstone of the UK PSB system, but other public service broadcasters – in particular ITV, Channel 4 and Five – continue to make vital contributions. For audiences, this system has meant more investment in original content, more choice and more innovation.

**Now, in common with the rest of the media sector, this system faces unprecedented change. For commercially funded PSBs, there are exciting new opportunities, but also a range of profoundly disruptive developments.**

**The BBC has developed a clear vision of how to deliver its public purposes in a digital age. It also enjoys the benefits of scale and – through the licence fee – relatively secure funding. The challenge now is to find tangible ways in which this cornerstone of UK public service broadcasting can – without weakening its ability to deliver its own public mission – support the rest of a unique and precious structure.**

The UK benefits culturally and economically from one of the most vibrant and competitive broadcasting sectors in the world. Yet, public service broadcasting will soon be delivered in a context almost unrecognisable from the old era of limited choice. The forces driving change are profound: globalisation, digitisation, fragmentation, the erosion of old regulatory certainties. All will require more agile, efficient and partnered approaches in future.

Commercially funded PSBs are being particularly tested. Television advertising is not the healthy revenue source it was. Success online – amid competition greater, and entry barriers lower, than those that shaped broadcasting – means securing fragmented, harder-to-capture revenue streams. A proliferation of platforms and technologies, meanwhile, make investment decisions both more frequent and risky. Broadcasters are seeing diminished value from the spectrum to which they have privileged access. Audiences, meanwhile, have become harder to define and to serve. From finding the right tone of voice to extracting the full benefit from new technologies – almost all of the variables at the heart of broadcasting have become more complex and interwoven.

The influence of globalisation on many areas of UK broadcasting will grow. Best-in-class output will increasingly set quality expectations across borders just as it has in other sectors. Many leading UK programmes already take their benchmarks for quality and innovation as much from international output as from rival domestic programmes. Even the BBC can now find itself of minimum scale in some areas to make content that rivals the world's best. Traditional debates around plurality must clearly be widened as the spur to quality and innovation in PSB becomes increasingly cross-platform, cross-genre and cross-border.

And yet the fully digital world heralds far more opportunity than challenge. When digital switchover is complete and when broadband penetration is near-universal, a fully digital world will have arrived in everyone's home. On-demand viewing could rival standard viewing. Families and communities will still come together to enjoy original, high-quality UK content – whether breaking news, landmark natural history or costume drama. But audiences will be in control in a way they have never been before.

Whilst welcoming the choice provided by new entrants, public service broadcasters can and must play a powerful role in this future: guaranteeing a constant supply of new high-quality content; investing in primary newsgathering; bringing new audiences online via trusted brands. Indeed, the more ubiquitous and diverse content provision becomes, the stronger the need for trusted guides and the higher the demand for high-quality output to set standards.

For as the regulated proportion of overall public service content declines, it is entirely possible that its importance will rise. Our analysis of three months' worth of output and viewing behaviour shows, for example, that while UK-produced PSB content accounted for just 16% of output, it accounted for 70% of actual viewing across all channels. The BBC iPlayer, meanwhile, is dispelling old fears that people won't watch long-form content on their computers, particularly some older audiences that might otherwise be hard to reach.

To capture the full opportunity for PSB in a digital age, commercially funded broadcasters must be able to make flexible decisions in response to the forces shaping their industry. Only then can they meet the new demands for quality and innovation in a more global, digital future. And only then can they continue making a sustainable contribution to the UK creative economy and maintain their creative challenge to the BBC.

**Audiences**

Audiences must be at the heart of any new settlement for PSB. The BBC Trust exists to represent the interests of licence fee payers and the new governance system has begun to bring a greater focus on audience needs and concerns. From its outset, the Trust has undertaken wide-ranging research to understand audience needs in a changing and increasingly complex UK. As part of this response, the BBC has now completed one of the most wide-ranging research programmes conducted into public opinion on PSB and its future. Clear from this research is that audiences:

- Believe that PSB's role is as powerful as ever. Indeed, the Trust's work with the Social Issues Research Centre has demonstrated that PSB could play an even greater role in contributing to social cohesion in future

- See the BBC as the cornerstone of PSB delivery, with high and rising expectations of what it should deliver.

This research, combined with the BBC's everyday contact with thousands of licence fee payers, has informed and shaped our conclusion that there are the following three main aspects to a robust future for UK PSB.

**The BBC**

A BBC at its best can help UK broadcasting retain its high-quality national focus in the face of profoundly disruptive forces. Not a complacent, unchanging BBC – but a BBC that combines a total commitment to its public purposes, and to quality, range and distinctiveness, with a clear vision of its mission in a digital age. A BBC that listens to what audiences want and that makes important and sometimes painful changes to meet its purposes. A BBC that supports the creative life of the UK and continues to train not just its own staff, but people across the industry. Governed by a BBC Trust that continues to represent all licence fee payers, actively promoting their interests whilst paying due attention to the competitive impact of the BBC

The BBC is committed to investing in the quality and originality of all its content and services, as well as nurturing the UK's cultural and creative life. It will serve the whole of the UK, including by making 50% of the BBC's network television output outside London by 2016.

Importantly, the BBC believes that the public's capacity to engage with and digest a rich diet of content has gone up rather than down. And so Five screens insightful documentaries like *Paul Merton in China* and high-quality children's output like *Milkshake*, and Sky its arts output or *Ross Kemp in Afghanistan* – not because they must, but because they're responding to a genuine demand for a richer mix of quality content. Driven by an increasingly empowered audience, the market conditioning of the BBC, and a new world of public service content online – this demand is likelier to rise than it is to fall.

There will of course be areas of public service output that remain uneconomic for many organisations other than the BBC to provide. But one should not rush to the conclusion that these areas – absent competition – will want for quality. For an open, creative culture at the BBC has been able to maintain high quality in areas that lack much direct competition, whether Radio 4, Radio 3, natural history or whole areas of older children's content.

The BBC realises that it has a special duty to guarantee provision in areas where it is likely to remain the sole or lead player. An example of this is our children's output where, as investment in original UK production beyond the BBC has fallen over the past decade, the BBC has substantially increased its own investment. To underpin further our commitment in this area, the BBC Trust has recently tripled the guaranteed minimum volume of children's output on BBC One and Two, to 1,500 hours per year. The BBC has also recently announced new investment in children's of £15m over five years, to be directed towards online and TV origination. As part of its *Delivering Creative Future* strategy, the BBC announced new investment in a multi-platform content offer for teens under the brand BBC Switch. This investment amounts to £7-10m per annum in television, online and radio content investment that the market would not provide. Finally, and subject to regulatory approval, the BBC intends to extend the transmission hours of its channel for older children, CBBC, to 9pm. The BBC's commitment to regional news will remain similarly strong.

**A sustainable settlement for PSB**

A sustainable future for PSB should centre on an effective BBC facing creative competition across a wide range of programming from thriving commercially funded broadcasters. It is important to avoid the risk of over-regulating an industry that is exposed to disruptive forces, for the ultimate result may be under-funded and lower quality PSB – less able to respond to market challenges and raise the BBC's game. ITV, Channel 4 and Five can all play to their strengths in delivering priority PSB aims, and the result would be continued strong competition for the BBC, together with choice and diversity in most genres for most audiences.

Any future PSB settlement should seek to maintain a rich mix of institutions with different funding sources, ownership structures and editorial approaches. From this diversity will flow a natural and sustainable diversity of approach – more effectively and efficiently than through direct interventions like contestability (which should be used only where institutional delivery is not feasible). We suggest that the focus of future policy should therefore be on broad measures to maintain a mix of institutions with different approaches, rather than on more detailed interventions.

ITV remains the only broadcaster capable of consistently securing high reach and impact for public service programming beyond the BBC. We believe that it has a vital role to play in a number of areas: continuing to invest in a wide range of high-quality programming that delivers Ofcom's purposes and characteristics; investing in national news; and maintaining its evolving contribution to regional news. Five will also play a significant future role in the PSB ecology, adding diversity to news and current affairs coverage; serving younger children; and bringing a fresh tone and approach to PSB in general.

Channel 4 should continue to provide its vital alternative take on PSB, taking risks that the BBC might not and catering for particular groups – including older children – by exploiting the advantages of its brand and audience loyalty. As a publicly-owned PSB, Channel 4, like the BBC, has a special responsibility to work with the independent sector and the wider creative industries to revolutionise the way that television is produced – both to take advantage of new platforms and to maximise efficiency. The BBC has already committed to delivering 20% like-for-like efficiencies across its in-house and independent commissions over the next five years for reinvestment in programmes and services. A similar approach at Channel 4 – potentially using some of the know-how currently being developed by the BBC – could have a significant positive effect on its business model, and therefore on the sustainability of its public service offering.

While each of the existing PSBs has a role to play in the future of UK broadcasting, their future obligations should be adjusted. For example: by extending the PSB purposes to new media as growing broadband penetration allows, some PSB objectives, for instance children's output or regional news, could be met in future and where appropriate by investing in new media services rather than in broadcast television alone.

Ofcom has a number of tools at its disposal to support commercially funded PSBs, and can use them to great advantage – including potentially through a new commitment that the spectrum fees PSBs will be required to pay will be adapted to reflect the difference between the cost of their public service obligations and the value to them of PSB status.

**Partnership**

It is already clear that the overall future of public service broadcasting will be forged in a new set of partnerships across the industry. It is not enough for the UK to have a strong BBC; other broadcasters need to be strong too. Greater co-operation could make an important difference to the sustainability of commercially funded PSBs and to the production sector across the UK.

Working within a consortium of broadcasters, the BBC has already helped build the leading digital platform in the UK, Freeview. Similarly, partnership between the BBC and ITV has brought the launch of a free satellite service, Freesat, that will bring high-definition channels to all audiences without subscription and cover parts of the country unable to receive Freeview through a television aerial. The BBC is playing a leading role in supporting digital switchover for the whole country, including through marketing campaigns, by running the Digital Switchover Help Scheme and by supporting Digital UK.

The BBC has also been working with partners across the Nations and Regions of the UK. Our important relationship with S4C, for instance, has been refreshed with a new Strategic Partnership. Together with the Gaelic Media Service, the BBC will soon launch a Gaelic digital television channel. Other broadcasters and producers already benefit from BBC Scotland's new state-of-the-art headquarters at Pacific Quay in Glasgow, and the BBC's development at mediacity:UK in Salford will provide facilities, talent and support to broadcasters, independent companies and many others.

To stimulate debate at this important point in Ofcom's Review, the BBC Chairman has asked the Director-General to explore new ways of helping bring the benefits of the BBC's scale and public investment to the whole sector. A condition set for these ideas is that they do not compromise the model of a BBC owned and funded by licence fee payers, and held to account on their behalf by the BBC Trust. The BBC Executive will consider and develop the following partnership ideas over the summer and will present a detailed set of proposals to the BBC Trust in the autumn.

**Unlocking the power of partnership**

*Mark Thompson, BBC Director-General*

Compared with other UK broadcasters, the BBC has formidable advantages: scale; dependable funding; deep resources of creative and technological talent; near-universal access to audiences. But in many ways, the BBC is smaller than it looks. Its revenue represents less than a quarter of the UK television industry and that share is set to fall further over the next five years. In a converging and increasingly globalised media market, it is also dwarfed by the big international players.

In recent years we have come to realise that, if it is to help support innovation, consumer choice and critical mass in UK broadcasting and the wider creative industries, the BBC must act not on its own but together with others; not just to its own benefit but to the benefit of UK broadcasting in general; not as captain but as an equal partner. Freeview, Freesat, HD, DAB, Pacific Quay and Salford are examples of projects designed to deliver more choice, higher quality, new investment and new creative opportunities. None of them would have been possible without strong and supportive partners – and a BBC willing to accept the responsibilities and shared leadership inherent in every good partnership.

For the BBC, partnership is no longer a theory. It is a proven model – indeed it is now the default model for the BBC when any new large-scale issue or opportunity presents itself. I believe it will be key to finding practical solutions to the challenge of sustaining the wider PSB system. Partnership is a way of unlocking the formidable scale, resources and know-how of the BBC in ways which can significantly support other broadcasters – yet without weakening the BBC itself.

I and my colleagues in the BBC Executive are currently developing a package of proposals for new partnerships specifically designed to strengthen PSB and the broadcasting sector as a whole. We will be presenting them to the BBC Trust this autumn after a process which will involve extensive discussions with the prospective partners themselves. What follows are some of our emerging ideas.

- *The digital production revolution*: In the BBC we are spending over £100million by 2012 investing in a revolution in digital production. The vision across all media is for 100% total digital production so that all content is ‘born digital and stays digital’. The BBC is backing this revolution for two reasons: first, because it is the only way of fully exploiting the incredible creative opportunities that 360˚ media offers to content creators and audiences; second, because this revolution is the only way in which the BBC can fully meet its own daunting productivity and efficiency targets – targets which, by 2012, imply a 20% like-for-like saving in in-house and independent TV production. If the BBC shared its knowledge and expertise with producers, broadcasters, publishers and manufacturers of broadcast and production equipment, much of this opportunity could be unlocked across the industry. Other broadcasters – and in particular other PSBs – could migrate more easily onto the new digital platforms and the adoption of common technology standards could have significant benefits for the UK as a whole. If other PSBs could achieve savings comparable to the BBC’s, then their linear content budgets could go further. As a result, their ability to continue to support PSB could be significantly improved.

- *Research & Innovation:* The BBC has an active research and development department (BBC Research & Innovation) that supports its core needs as a traditional broadcaster, as well as providing technological solutions for the BBC's digital media offering. The BBC already shares innovation related to broadcast technologies widely with the UK and global industry, and has made a central contribution to collaborative initiatives such as Freeview, Freesat, HD and DIRAC video compression technology. In new media, there is scope to increase the BBC's wider contribution to the industry, working more extensively with developers and others on open-source standards and approaches.
- *Enhancing findability*: Ofcom identifies the wealth of public service content already on the internet – from museums, galleries and many others – but concludes that it is often too hard to find and aggregate. To enhance the findability of such content, the BBC could work with cultural and creative partners to explore the possibility of sharing content, navigation systems and other resources so that audiences can find the best UK public service content online.
- *Helping make regional news sustainable beyond the BBC*: The BBC remains fully committed to comprehensive regional and local newsgathering across the UK. Mindful of the potential for market distortion, we are exploring ways of making some of the BBC's regional and local news materials available to other news outlets for repurposing and rebroadcast in ways which support the economics of regional news provision beyond the BBC.
- *Exploring global opportunities with the independent sector and other PSBs*: BBC Worldwide has already begun to explore ways of using its global scale and leverage to deliver stronger global revenues to other UK PSBs, and looks to take this idea further through open discussion within the sector.

There is a further important field for potential partnership which, while not affecting the immediate economics of other broadcasters, might nonetheless help to play an important and valuable role in the future of electronic media in the UK, extending the public value delivered by traditional PSB in a fully digital age.

- *The challenges facing DAB*: Some tough choices had to be made at the time of the BBC's six year plan about the funding available for DAB. However, beyond its current commitments, the BBC could support a bold set of measures to develop DAB on behalf of the whole industry, including extending the coverage of the BBC's national multiplex beyond 90% of the UK population; developing a plan for extending the coverage of the BBC's Nations radio stations; and initiating a stronger marketing effort co-ordinated across the industry.
- *Closing the digital divide*: Around 20% of the population is still expected not to be connected to the internet by 2012. By working in cooperation with Government, PSBs, ISPs and other partners, the BBC could play an important content-led role in helping bridge this divide – using outstanding content, comprehensive public information, and pan-industry coordination to encourage the last cohorts of British households to join the broadband revolution.
- *IPTV*: There is an opportunity for the BBC and other PSBs to work with ISPs and the wider industry to set a simple, open standard to deliver internet television to TV sets. IPTV could play an important part in delivering the ultimate goal of universal broadband access, with all of the wider consumer and citizen benefits that would bring.

# 2 Executive Summary

In its consultation document, Ofcom raises a number of issues and sets out some options for the future. In the rest of this submission, the BBC responds to these issues and options and explores how they may align with the vision set out above.

## The context for Ofcom's review

Public service broadcasting (PSB) has been at the heart of British society for many decades. It supports our democracy, it informs us as citizens and it encourages us to take part in civic life. PSB programmes can foster social cohesion, broaden our horizons and teach us about the world; they can unite us in times of celebration or in times of trouble. They can surprise and delight us, bringing us the best of UK culture and creativity. The PSB system has brought considerable and tangible benefits to our society; it has been questioned and tested on many occasions, but has stood the test of time and remains widely supported by the vast majority of audiences.

Public service broadcasting can continue to play a vital role in a fully digital future. Audiences are clear that they support the role that PSB plays in a fast-changing media landscape, with most agreeing that it remains for them as important as ever. In particular, the BBC supports Ofcom's assessment that:

- The purposes and characteristics of PSB retain clear public support
- PSB should be defined widely rather than in narrow market failure terms
- The main PSB channels continue to play a dominant role in delivering public service purposes
- Overall, the main public service channels are broadly achieving these purposes.

Ofcom's report sets out many of the challenges facing PSB and UK media more generally over the next decade and beyond. We agree with the broad thrust of Ofcom's market analysis. The BBC's own market modelling suggests, like Ofcom's, a future in which commercial PSBs must adjust to unpredictable and sometimes radical market trends. Outcomes range from a relatively benign evolutionary scenario, to a less comfortable and highly fragmented world with a large digital divide.

Against this backdrop, PSB will only remain successful if it:

- Retains sufficient scale, relevance and reach to make an impact in a market potentially dominated by major well-funded global players
- Continues to deliver stimulating, enjoyable and high-quality content to a wide audience
- Embraces the creative opportunities provided by new digital and broadband opportunities
- Finds ways of bringing the benefits of digital technology to all audiences and making new digital content relevant to all parts of society
- Works with the grain of technological change and market developments
- Delivers clear value for money, with demonstrable cost efficiency.

## The digital opportunity

The BBC supports the emphasis contained within Ofcom's chosen title, 'the digital opportunity'. We believe digital advances offer many opportunities to respond to the challenges ahead:

- Sustaining reach and impact through creative use of multiple platforms and portfolios
- Enhanced content through the introduction of user participation, interactivity, new ways of using and manipulating content and through the building of communities of interest
- Well-known PSB brands signalling content which can be trusted and which meets high standards
- More effective public service delivery through new platforms, on-demand services and syndication
- New streams of revenue for commercial PSBs.

The BBC has a formal public purpose to 'deliver to the public the benefit of emerging communications technologies and services'. Building on its role in leading digital switchover, the BBC can play a critical part in leading UK users into the broadband age by helping promote understanding and awareness of the potential of the internet and by securing the success of digital radio.

## The role of plurality

Ofcom focuses much of its report on how to maintain plurality in the provision of PSB alongside the BBC. However, the UK is now entering a very different marketplace, one in which the regulated sphere of influence will account for a much smaller proportion of total audiovisual consumption. This is a world increasingly open to a far more diverse range of content from many different sources alongside the established broadcasters and where the balance of broadcasting revenues has shifted to the commercial sector. It is a world in which the spur of competition for the BBC and other PSBs is provided by many new broadcasters and new media players from around the world. Against this background, plurality of PSB provision should be considered not as an end in itself, but as one of a range of tools and approaches to help achieve Ofcom's overarching objective to 'maintain and strengthen the quality of PSB'. Everyone will need to be very clear about which elements of plurality are most important to preserve in future.

Ofcom suggests three main potential benefits of plurality of PSB provision: higher quality as a result of competition between PSBs, diversity of views and perspectives, and improved reach for PSB. However, in each case the rationale for PSB plurality and its impact appears less strong than in the past:

- It does not guarantee **quality**, which is what audiences really value. There is little correlation between audience perceptions of quality and levels of competition
- It does not guarantee **diversity** – Ofcom itself cites News as a case in point
- It does not guarantee improved **reach** – analysis suggests that the incremental reach delivered by programmes on different channels is quite small.

Our own and Ofcom's research seems to suggest a complex picture: although audiences not surprisingly welcome choice and diversity, they also look to non-PSBs to provide much of that choice and diversity in many genres. Moreover, when confronted with the costs implied in securing plurality of PSB provision with public funds, public support declines sharply. The public believes the market delivers much choice so, when confronted with the fact that resources for public service alternatives are limited, they tend to favour quality, innovation and distinctiveness above further plurality of content.

The BBC's own analysis of economic factors and audience preferences suggests that there are only a limited number of PSB genres in which specific public intervention to secure plurality of provision might be justified. These are:

- Nations and Regions news programming, where support for an additional provider of impartial and independent news alongside the BBC is a vital democratic safeguard
- Programming for older children, where provision by a range of broadcasters could enhance reach and impact and increase volumes of supply.

However, the BBC believes that a vital aspect of plurality – not given enough prominence by Ofcom in its consultation – has been that represented by a range of institutions with different models of ownership, funding and organisation. The interplay between the BBC, ITV, Five, Channel 4 and Sky, as well as other broadcasters, has resulted in a competitive dynamic which has supported quality and diversity, even in areas that lack much direct competition. This is less about individual programme genres, and more about different approaches to broadcasting and its purposes, to the overall benefit of audiences.

We therefore think that the focus of any future policy or regulatory changes should be on broad measures to maintain a mix of institutional approaches – including from ITV, Channel 4 and Five – rather than on narrow interventions or on micro-managing the division of public funding. Direct public funding of commercially funded channels, in particular, would lessen this institutional diversity by changing the inherent characteristics that make each broadcaster different and complementary.

## Future approaches and funding

Rather than adding further layers of public service intervention and regulation, the aim should be to secure a continuing plurality of institutions, through:

- Maximising the value of regulatory assets, including access to spectrum and relaxation of airtime rules.
- Adjusting the PSB obligations for commercial broadcasters, so that they can be supported by those regulatory assets. We see ITV, Channel 4 and Five all playing a valuable PSB role in certain priority areas.
- Ensuring that the key 'plurality gaps' can be met through the existing range of institutions, to secure quality, reach and impact and avoid any additional and potentially costly infrastructure.

This approach would best satisfy the criteria set out by Ofcom for assessing future options, and in addition would satisfy two further, equally important, criteria: value for money, and audience acceptability. In addition, the costs of setting up a new PSB infrastructure to allocate funding and monitor performance would be avoided.

The BBC Trust is not convinced that contestable funding and contracts for the delivery of PSB to broad audiences would deliver sufficient benefits in the small number of areas identified to justify the cost of their introduction and the possible adverse effects on the rest of the PSB landscape.

**Funding**

The BBC does not believe that the starting position should be that 'new funds should be found to replace the current declining implicit subsidy'. Further examination is needed as to whether the original level of subsidy is both necessary and material today in delivering audience needs. We would suggest maximising the value of regulatory assets as the most promising future funding method with the fewest disadvantages.

Our research shows that the majority of the public and the creative sector are, on balance, against top-slicing the licence fee. Use of the licence fee to fund PSB content beyond the BBC is, we believe, undesirable, for it would:

- End the unique link between the licence fee payer and the BBC
- Require new accountability mechanisms to be put in place for any new recipients
- Risk further upward pressure on the licence fee by giving scope for powerful and continuing lobbying in future, in turn risking the continual erosion of funding available to the BBC
- Reduce, if given to commercial broadcasters, the total amount of money spent on PSB: by running the risk of subsidising programmes that might have been made anyway and by wasting money on new mechanisms
- Mix advertising revenue and public funding at a UK level for the first time, potentially weakening commercial incentives and advantaging some commercially funded broadcasters over others.

Ofcom describes as an 'excess licence fee' the money spent by the BBC on targeted help for digital switchover. The obligations created by the BBC's public purposes, including its sixth purpose to 'deliver to the public the benefit of emerging communications technologies and services', mean that we do not recognise this as an 'excess'. Whilst it is ring-fenced, this income is fully allocated to the BBC's sixth purpose, the current focus of which is television switchover. With switchover far from complete; with DAB requiring further support; and with a 'digital divide' set on current trends to remain well beyond 2012, we believe that continuing funds will be needed so that the BBC can fulfil its sixth purpose in appropriate and relevant ways.

## The way forward

The BBC agrees with Ofcom that it is important to prepare now for the changes that will be needed to maintain and strengthen PSB in future. The first priority is to look for ways of ensuring that PSB captures the digital opportunity, facing up to the challenges of globalisation, digital technology and fragmentation. The BBC – with its scale and scope – can be at the heart of this response, enabling industry-wide solutions and embracing the new media world.

To enable this to happen, we suggest a range of proposals and initiatives:

- The PSB purposes should be extended to cover new media and modified to incorporate 'trust' as a key aim – in response to recent audience feedback and to reflect a new role in the broadband world
- Broadcasters, regulators and the communications sector should work together to ensure that all users have a reasonable quality of access to public service content over the internet

- IP and rights policy should be revisited to ensure effective exploitation of content across media and platforms, while ensuring a fair return to producers and creators
- PSBs should work together to address the many challenges facing the industry. In section 1 of this document, the BBC Executive has proposed a range of future partnerships intended to strengthen PSB and the broadcasting sector as a whole.

To secure a continuing diversity of institutions, the BBC envisages a future scenario in which:

- Channel 3 licensees continue to be PSBs, with the value of regulatory assets fully utilised to support a more limited range of obligations, such as original UK production, particularly drama, and national and regional news
- Five continues its PSB role, with obligations adjusted to reflect the value of its privileges and with an enhanced role for younger children's programming
- Channel 4 remains a publicly owned PSB with a secure future complementary to the BBC – with a different approach, tone, organisational and funding structure. Direct public funding of Channel 4 would compromise its ability to take risks, blunt its commercial incentives, and thereby detract from the current institutional diversity in PSB from which so much else flows
- Finally, in the main body of this report, there are some suggestions for addressing the key Nations and Regions issues identified in Ofcom’s document.

In conclusion, measures to support PSB, given the high levels of uncertainty reported by Ofcom and the rest of the industry, should continue to be flexible and make use of existing institutions and assets. Given the wide range of plausible future scenarios, this is not the time to design a radical new system requiring new infrastructure, funding and processes. Rather the focus should be on improving further the quality, range and impact of PSB content across media. The digital opportunity brings great opportunities for public value – we believe that the proposals we have set out indicate a strong way forward to secure that future for all.

# 3 The context for Ofcom's review

Public service broadcasting has been at the heart of British society for many decades. To turn on a TV or radio is to enter a communal space and to be constantly aware of and influenced by it. Public service programmes support our democracy, informing us as citizens and encouraging us to take part in civic life. They foster social cohesion, showing what we have in common and what makes us different. They can surprise and delight us, showcasing the best of UK culture and creativity. They broaden our horizons and teach us about the world. They unite us in times of celebration or in times of trouble. At moments of crisis, public service broadcasting can be a lifeline, providing vital trusted news and information.

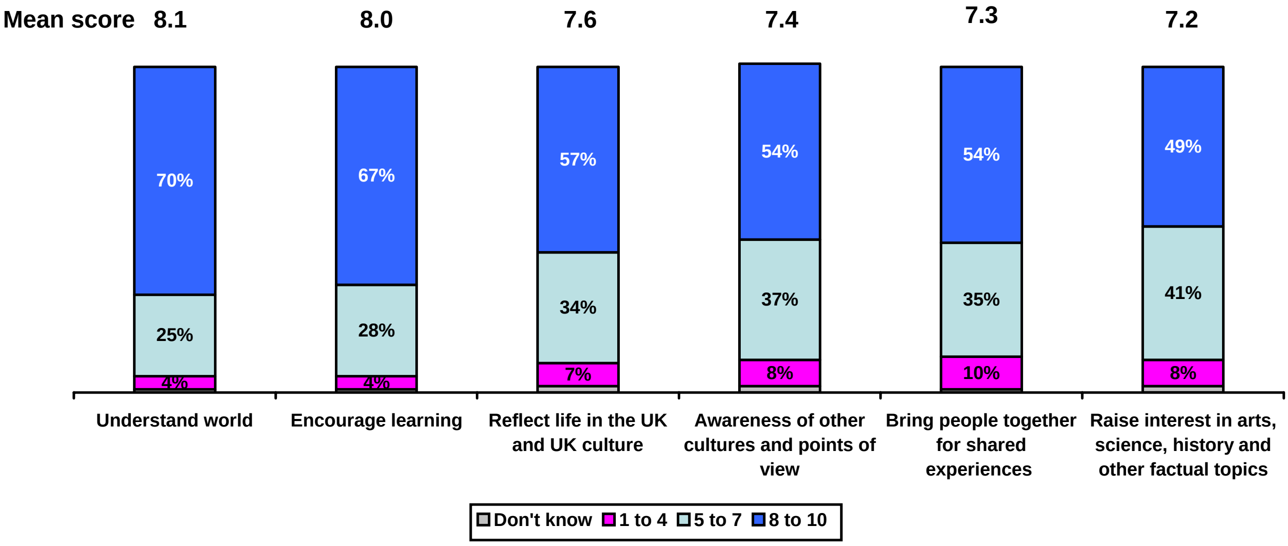
The PSB system has brought considerable and tangible benefits to our society. The UK invests more per head on original programming than any other country in the world, securing for it uniquely high reach and impact. It supports a portfolio of UK, national and local radio stations with a range and quality of provision which is unequalled anywhere in the world. The system delivers standards of news provision and impartiality which are also unmatched. It makes learning opportunities available to all. And, because it is a universal system, it is able to bring large parts of the UK together at times of public interest, sadness or celebration. It is an ecology which has been questioned and tested on many occasions, but which has stood the test of time and remains widely supported by the vast majority of audiences.

## 3.1 PSB delivery today

As part of the BBC's contribution to the Ofcom Review, we have undertaken what we believe is one of the most wide-ranging research programmes conducted into public service broadcasting. What follows is a summary of the key messages from this research – our detailed findings are available at bbc.co.uk/thefuture.

Our in-depth audience research and analysis shows that PSB retains broad public support and that audiences continue to regard its purposes and characteristics as important:

*Thinking about the needs of society as a whole, how important do you think each aim is?*
*(Scale: 1 = not important at all; 10 = very important)*




*Source: Ipsos MORI quantitative survey; base = 4,577*

Our research, like Ofcom's in its first Review of PSB, shows that the public continues to define public service broadcasting not as a narrow set of particular programme categories which the market may fail to provide, but as a broad and integrated system of programmes and services. To audiences, PSB can include drama, sport and entertainment as much as the sometimes-defined 'public service' categories of, for instance, news, current affairs, arts and religion.

Similarly, among the wider programme-making community:

- There is widespread and profound support for and faith in the purposes and the future of PSB
- A broad definition of PSB, not a narrow one, was unanimously supported
- Programme-makers are acutely aware that to retain public support, PSB must have scale and impact.

Overall, our consultation of the creative community showed robust support for PSB, tempered by a sense that the ecology of PSB is delicate – with understanding of, and support for, the factors sustaining it being vital to its future[1].

Ofcom's consultation document examined the extent to which public service broadcasters have fulfilled the public service purposes, concluding that:

> *The BBC is particularly valued, and is seen by audiences as the cornerstone of public service broadcasting, demonstrating that publicly funded provision can ensure delivery of valued content, even in today's rapidly changing media environment.2*

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[1] BBC, *The Creative Perspective – The Future of Public Service Broadcasting*, June 2008

[2] Ofcom, *The Digital Opportunity*, April 2008

The BBC welcomes Ofcom's positive evaluation of the delivery of its mission, which is similar to findings from a broad range of surveys and analysis. When asked, in Human Capital's deliberative research for the BBC, how well the current PSBs are delivering the purposes and characteristics of public service broadcasting, audiences rated the BBC highest. Furthermore, almost all participants felt differently about the BBC compared to the other public service broadcasters[3]:

> *Participants gave it the highest score for general impression. The key strengths of the BBC were perceived to be (in order of frequency of mention): Impartiality and trusted guide; Freedom from advertising and commercial influence; Expectation of something for everyone; Authority; Worldwide reputation.*

In spite of the overall positive assessment, our research (in common with Ofcom's own assessment) has highlighted some key areas where licence fee payers believe the BBC could do better:

- In a similar finding to Ofcom's emphasis on innovation across all the broadcasters, BBC Trust research has shown a desire for the BBC to work harder to provide television programmes that are fresh or that demonstrate new ideas[4]
- There are also gaps in the performance of News and Current Affairs to audiences who value the BBC lower than the average; a desire for a greater emphasis on education and learning, particularly to children; and some sizeable performance gaps in how effectively the BBC represents and caters for the different Nations, Regions and communities of the UK.

## 3.2 The continuing relevance of PSB

PSB may be being delivered well overall but, as Ofcom points out, the market environment for the public service broadcasters has altered significantly since Ofcom's last PSB Review. Though technologies, distribution platforms and audience behaviour have changed, the fundamental case for public service broadcasting does, however, remain strong:

- Television programming, delivered via existing and new platforms, continues to play a significant role in shaping our lives, and influencing what we know and think about the world around us; recent research has shown that TV and radio broadcasters are perceived as the most powerful influence on UK society today[5]. The BBC Trust's recent report *Safeguarding Impartiality in the 21st Century* highlighted that broadcast media, particularly television, continue to be trusted far more highly than other media[6]

- The UK is becoming an increasingly plural and diverse society, as highlighted in work analysing social trends commissioned by the BBC Trust. Public service broadcasting may well have an even

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[3] Human Capital, *Public service broadcasting now and in the future - audience attitudes*, June 2008

[4] BBC Trust Purpose Remit survey, 2007 and Blinc Research, *Perceptions of Innovation and Distinctiveness*, December 2007

[5] Source: Ipsos MORI, January 2008

[6] Bridcut, *From Seesaw to Wagon Wheel: Safeguarding Impartiality in the 21st Century*, June 2007

more important role to play in supporting and promoting shared values and cultural reference points in an increasingly fragmented society[7]

- While viewing appears to be fragmenting among a number of channels and the dominance of the five main analogue channels has eroded, much viewing is simply shifting to UK-produced PSB content on digital channels. Our analysis of three months' worth of output and viewing behaviour demonstrates the resilience and continuing salience of UK-produced PSB output, accounting as it does for only 16% of output, yet 70% of all viewing[8]
- Public service broadcasting continues to play an important social role by delivering the benefits of universality to audiences in an increasingly complex technological landscape. Examples of this include Freeview, Freesat, DAB radio and digital switchover, bringing benefits to audiences in ways that go well beyond programme investment, and delivering measurable social outcomes
- The 'virtuous circle' of competition between the BBC, the other PSBs and the rest of the commercial market has produced a broadcasting ecology virtually unmatched in range, diversity and strength of indigenous production
- The PSBs have a wider economic impact by training the industry and helping to support a dynamic UK creative economy. The BBC plays a particularly important role here with its investment in training available to people both inside and outside the corporation. It spent £40m on training in 2006/7, including £1.4m to external training bodies serving the industry; and delivered 67,000 days of training, including 6,000 to other organisations and freelancers.

## 3.3 The challenges ahead for PSB

In its consultation document, Ofcom analyses the commercial pressures that may lie ahead for the PSB system and outlines a series of market scenarios with some common themes. These scenarios show that the audience share of the PSBs is likely to decline; commercial PSB revenues at best will remain flat in real terms; commercial digital channels are unlikely to fill the gap left by PSBs; and there will be pressure on some particular genres.

The BBC has conducted a complementary analysis that indicates similar challenges ahead. Our analysis shows that these include:

- The pressures that globalisation might bring to bear on the UK PSB sector
- A proliferation of ways to deliver and pay for television content
- PSB audience share likely to decline through changes in audience behaviour and the fragmentation of viewing
- Commercial PSB channel advertising revenues likely to remain flat at best, with a fragmentation of funding sources and possible structural changes in the advertising market.

[7] Social Issues Research Centre, *Life in the UK Today*, June 2008

[8] Source: BARB / TRP. If based on channels with share>=0.1% for Q1 2007, then UK-produced PSB output accounts for 22% of all airtime and 71% of all viewing.

The BBC modelling demonstrates that there are some potential outcomes and issues that could affect Ofcom's analysis:

- Although we would agree that the outlook for UK broadcasting is highly uncertain, we think there may be additional potentially positive developments that could alleviate, to an extent, some of the pressures that Ofcom highlights
- In particular, although the old PSB and advertising models may suffer, it is likely that new revenue sources will develop – e.g. targeted television advertising – which can help secure investment in UK content
- Ofcom's most pessimistic scenario seems to depend on a rather unlikely combination of assumptions around audience fragmentation; levels of content piracy; and a significantly reduced BBC – and may therefore be of limited application to the debate
- A properly funded BBC with continuing public support offers a clear guarantee that UK content can remain at the heart of the UK system. Ofcom's evidence shows that the BBC accounts for the great majority of current programme investment into public service broadcasting, and yet we believe that this is not given enough weight in Ofcom's overall conclusions.

#### 3.3.1 The global challenge

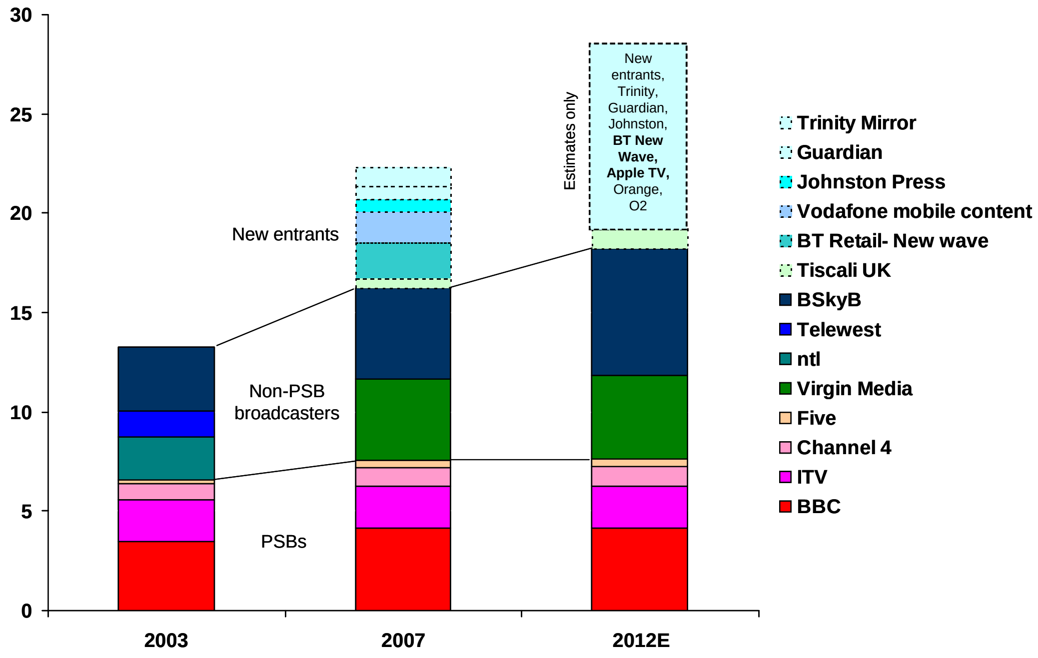
The shift to a more global market in content and programming could have a very significant impact on UK television, with an array of powerful competitors offering audiences an extensive range of services on demand:

- The internet places no barrier on the location of the buyer and supplier of content. It has opened up media markets dramatically, though some new restrictions have also emerged (e.g. digital rights management technology)
- The larger TV production companies now sell to a range of broadcasters around the world and are often involved in international co-productions
- The television channel market is also becoming international. Brands such as CNN, MTV and Discovery are global. The BBC has a channel in America and UK viewers can watch Fox News.

Clearly, it is essential that PSBs can continue to gain audience attention amid an increasing number of international providers. Comparisons between the PSBs may soon appear of less importance in the face of competition from the likes of Google, Yahoo, Viacom and Time Warner. Similar issues are having an impact on broadcasting ecologies outside the UK: the debate that is taking place across the rest of Europe is around how to secure the future reach and impact of PSB in the face of much greater competition. This is linked to the success of at least one PSB in each country, securing a reasonable market share in the face of constrained resources.

In the UK there will be many more players in a converged media landscape – bringing more revenue into the sector but significantly reducing the share taken by the BBC and the commercially funded PSBs. For instance, one key development has been evident in print media companies – both national and local – providing audio-visual content on national or local websites. Communications providers have already entered the entertainment market, such as BT (Vision), France Telecom (Orange who will be launching an IPTV service), Telefonica (O2 who are expected to launch an IPTV service) and Vodafone (who are one of the providers of mobile TV content). These players will be able to bring much greater investment into providing bundles of content and communications services than some traditional television players: France Telecom's and Telefonica's revenues are forecast to exceed €55.6bn and €63.7bn respectively by 2010 while Vodafone's total revenues are forecast to exceed £41bn by 2010[9]. While revenues from these companies may not be invested in UK content, they will have a powerful ability to influence the UK market.

*Media and other companies projected revenues (£bn)*




*Sources: Company reports, BBC estimates for PSBs and forecasts: BSkyB from Deutsche Bank, Tiscali from Mediobanca securities, Virgin Media from Credit Suisse; Apple TV and iPhone figures are classed as 'deferred revenue' in company accounts.*

New entrants bring growing competition for control and provision of content across platforms as well as control of the relationship with audiences. Securing the reach and impact of PSB content is likely to be the biggest challenge facing public service broadcasters in this new marketplace.

### 3.3.2 Modelling the UK TV sector 2008 – 2016

The BBC has used detailed market modelling work developed by the media practice at Capgemini to answer some key questions about the UK TV sector over the time period covered by Ofcom's Review. This section sets out a summary of the findings of this work – a fuller explanation of the methodology and more detailed results are available at bbc.co.uk/thefuture.

[9] Forecasts sources: BT from Bear Stearns; France Telecom and Vodafone from Credit Suisse, Telefonica from Société Générale

### 3.3.3 Addressing key areas of uncertainty

Any forecasting of the television and video market over the next decade is fraught with uncertainty. Many of the technologies that could revolutionise television viewing, such as IPTV, are currently at an early stage. However, there are a relatively small number of uncertainties that have a major impact on the outcomes for the PSBs. In many cases these uncertainties have the potential to be both positive and negative and it is on these that our modelling and scenario planning has been concentrated:

- Penetration of new TV platforms and time-shifting technologies: how quickly will the newest of television technologies penetrate a substantial number of homes?
- Diffusion of new viewing behaviours: will traditional linear viewing remain the main televisual experience or will the changing behaviour of younger audiences spread throughout the population?
- VOD viewing share: will the current PSBs be successful in the on-demand world?
- Business models of commercial broadcasters: in particular, how will the television advertising market evolve over the next decade?
- Broadcasters' costs: will costs continue to rise with greater competition for rights and content in a vibrant competitive market with multiple distribution platforms, or will increasing fragmentation and financial pressures force prices down?

In order to project these trends forward by ten years, we created four scenarios – allowing us to look at different ways the broadcasting market might evolve and highlighting some key areas where policy-making may make a real impact:

- In the **Evolution Scenario**, new television platforms continue to develop at their current pace. Except among younger audiences, daily hours of linear TV viewing per user still exceed non-linear consumption by a large margin. However, non-linear services on TV gain mass market reach, and services which permit viewers to watch TV on their PC also grow in popularity. PSBs' audience share continues to drift downwards until digital switchover and stabilises thereafter. PSBs use their content assets skilfully to maintain a powerful position in the UK broadcasting ecology while the advertising market continues to stagnate
- In the **Fragmentation Scenario**, the increasing take-up of new non-linear services on TV makes them a mass-market phenomenon across age-groups. The media consumption habits of young audiences spread, though older audiences remain in the traditional linear world. Players from outside the traditional TV value chain increasingly offer web TV content and, as TV walled gardens fall, PSBs will increasingly compete with these non-traditional players to retain audience share. There are adverse impacts on all business models as funding fragments: PSBs struggle to maintain their relative success into the on-demand world and linear television advertising declines
- In our two **Revolution Scenarios**, on-demand and time-shifted penetration reaches a tipping point. Rapid penetration of broadband access and increased consumer demand for interactive content make non-linear services the offering of choice across all age groups. New gatekeepers emerge as the TV walled gardens lose appeal. The market matures to support a wide range of business models, though linear advertising declines sharply. In **Revolution A**, the PSBs make a successful transition into the fully digital world with audiences retaining a preference for UK content. In **Revolution B**, an increasing share of viewing on new platforms is taken by new, often global, entrants.

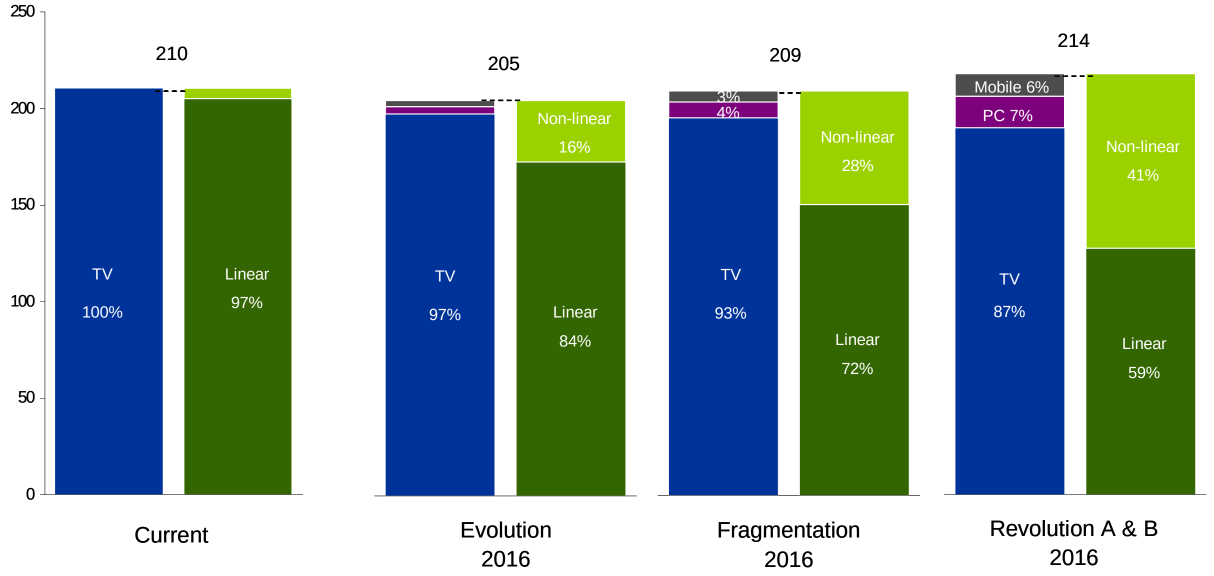
These four scenarios produce very different pictures of the digital television world in 2016 and deliver insights into various plausible possibilities around audience behaviour, the economics of commercial broadcasters and the opportunities of the digital world.

In response to Ofcom's modelling, we have been exploring a fifth scenario characterised by a rapid decline in TV advertising revenue and a fall in the network advertising premium. It appears to be less likely than the scenarios outlined above, though we are continuing to explore its implications for PSB provision.

***Platform penetration and viewing***

Under the four main scenarios, all technologies achieve significantly higher penetration than today. However, there are real variations in the level of video-on-demand and mobile video take-up. In the Evolution scenario, only around 30% of households have access to VoD, whereas this rises to around 70% in the Revolution scenarios. These shifts in platform penetration drive significant changes in audience behaviour. By 2016, in the Evolution scenario 84% of viewing is still linear and the vast majority of this takes place on the television screen. By contrast, in the Revolution scenarios, by 2016 only 59% of viewing remains a linear experience and platforms such as PC and mobile take an increasing share:

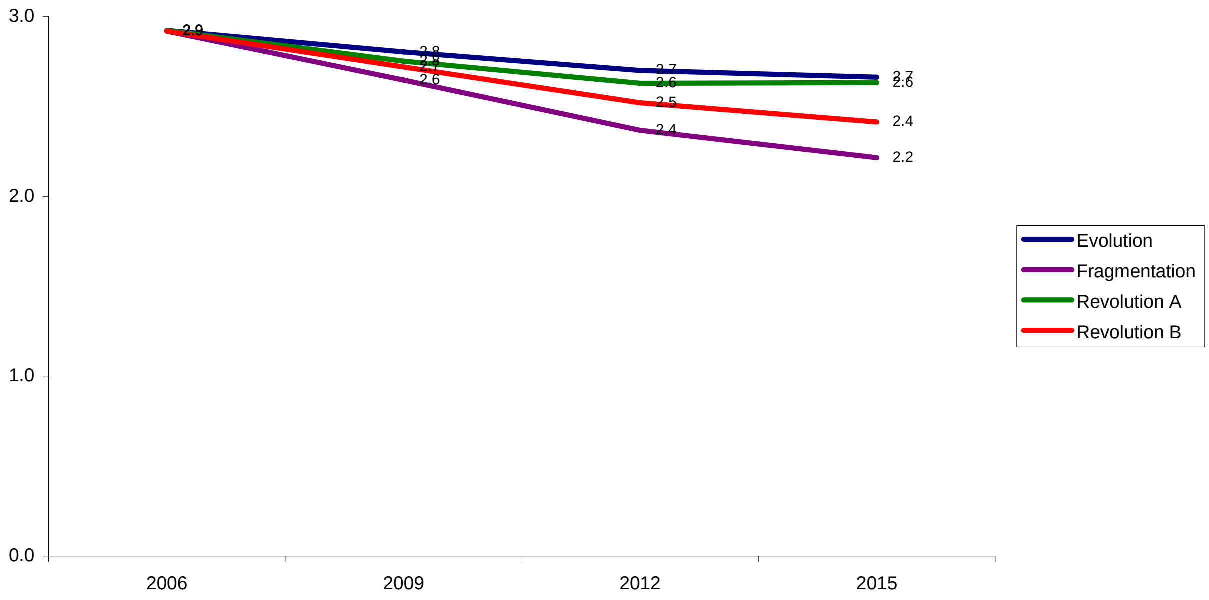
*Total daily viewing hours (millions of hours)*




***PSB revenues***

Our modelling suggests that even in the most benign conditions – the 'Evolution' scenario – commercial public service broadcasting revenues will fall in real terms between 2006 and 2015 from £2.7bn to £2.4bn. Under less benign scenarios, commercial PSB revenues may decline more steeply:

*Commercial PSB revenues by scenario (£bn, real terms)*




In the Fragmentation and Revolution B scenarios, commercially funded PSB would be unprofitable by 2015 unless the relevant broadcasters reduced their costs. One means of maintaining profitability for the PSBs will be to reduce programme costs – by reducing cost inflation; reducing the amount of commissioned material; shifting out of less profitable genres; or by increasing acquisitions and repeats. Our modelling suggests that, under the Fragmentation and Revolution B scenarios, the need to make significant adjustments to content spend and genre mix will occur as soon as 2010. Part of the likely strategy will be to shift out of those public service genres that are unprofitable and into cheaper content with broader appeal. In this context, it may be increasingly difficult to maintain costly PSB obligations on commercial broadcasters.

### 3.3.4 Key points for policy-making

There are a number of conclusions that can be drawn from the model and this headline analysis to help understand the challenges and opportunities ahead for PSBs:

- There is considerable uncertainty over how the broadcasting market may evolve over the next decade. Changes in a few key assumptions can have a large impact on the apparent viability of traditional PSB provision on commercial broadcasters. There is, therefore, significant risk in attempting to formulate policy solutions too quickly or too radically. Regulation will need to avoid complicating the regulatory framework in which commercial players operate
- Commercial PSBs such as ITV and Five are likely to remain profitable in most scenarios. The PSBs should enjoy considerable success from their spin-off channels which in virtually all scenarios contribute significantly to the overall profitability of the broadcasting groups concerned
- However, it is likely that PSBs will in general find that increased commercial pressures will not be offset by new revenue opportunities and Channel 4 will face more significant pressures than ITV or Five. Through a process of experimentation with different patterns of content provision, the BBC model shows that PSBs are likely to need to shift their pattern of output from genres with high opportunity costs towards those which attract higher viewing and advertising premiums

- For all PSBs and for the BBC and Channel 4 in particular, cost-efficiency will be a critical success factor. In a market where linear television advertising will remain under pressure, it will be vital for all broadcasters to keep tight control over programming and other costs
- Another critical success factor for PSBs will be their ability to capture a share of the emerging digital revenues post-2012. Traditional broadcasters must adapt quickly to the new media world and take advantage of the opportunities offered, or else others will move into this space
- There remains a key risk – more significant than in the past – from the increasing globalisation of the media sector. In both Ofcom's and the BBC's most extreme scenarios, this could undermine the commercial viability of PSB as a whole and the whole sector would not be susceptible to marginal public support. Under these scenarios, a strong BBC would be the only way of guaranteeing the impact and effectiveness of UK public service broadcasting in the face of the challenges from global brands and technological change.

# 4 The digital opportunity

We believe that making the transition to a fully digital world represents the central challenge for public service broadcasting. Securing the quality, reach and impact of PSB in this new context will need bold new approaches, discussion of which should figure centrally in the next stage of Ofcom's Review.

Though there are many challenges ahead for the PSBs in a fully digital world, they bring many advantages with them. They will have the opportunity to exploit their content across many platforms, using a much more flexible mix of media, delivering greater value to audiences and maximising their return on investment. Their comparatively strong market position in traditional media should help them to deliver distinctive propositions on mobile, on-demand and high-definition platforms to broad audiences.

The context in which public service broadcasting will be delivered in 2016 will certainly be very different from the past 50 years:

- Digital switchover will bring a broad range of services and enhanced interactivity into almost every home, offering increased choice and enhanced broadcast quality
- Rapid take-up of broadband among audiences is likely to continue. New access technology will allow much quicker downloads, uploads and streaming of broadcast-quality images
- Improved storage will affect consumers' ability to watch video content (feature films, drama, comedy and music videos for example) on offline mobile devices. It will also increase the amount of content that can be kept on PVRs and hard drives, enabling an increasingly on-demand environment
- There will be a proliferation of new devices that can stream, store and replay media from a wide variety of sources, including on next-generation mobile devices
- More powerful and intelligent user interfaces and search applications will help consumers to pick out the content they need from the ever-increasing amount on offer. These methods of delivery will be enhanced by user participation and social networking, further increasing their attractiveness
- Powerful new international players will be present alongside the UK broadcasters, putting the traditional debates around the relative scale of the PSBs into a very different context.

Broadband offers huge potential for on-demand access to an expanding PSB archive, with scope alongside this for new types of content and new levels of user involvement. The traditional broadcasters have solid reputations for quality and enviably strong brands, which can serve them well in a crowded marketplace. But they will also have to develop new ways of communicating with and engaging audiences. The BBC has a particular role to play, given the responsibilities laid on it through its sixth purpose ('delivering the benefits of emerging technology') and especially the high expectations of it held by audiences.

## 4.1 PSB in a digital age

While Ofcom's report focuses primarily on the institutions and mechanisms for future PSB, we believe that the most radical changes will be needed in the nature of PSB and the form in which it is delivered in the digital and broadband world. Most importantly, PSB will need to change fundamentally so that it continues to deliver reach and impact, and retains widespread public support.

Over the next decade, on-demand will emerge as a significant, mainstream, and possibly even the predominant, way by which content is consumed, bringing an unprecedented proliferation of content and choice. However, audience appetite remains unproven for many new services, while there is a significant difference between technology penetration and consumption (e.g. high-definition television sets). Therefore, over the next few years this will be a complex, hybrid world where organisations like the PSBs will have to meet the needs of audiences whatever their progress on the journey to the fully digital world.

It is often argued that the ability of the internet to provide access to a huge range of PSB-type content reduces the need for direct PSB intervention. Ofcom's analysis shows that the internet is home to a wide range of current providers of content meeting public service broadcasting purposes and characteristics. However, provision is strong only in a limited number of genres, and the findability of this content can be low. The PSBs will be able to play a unique role in the digital space, including:

- Guaranteeing a constant supply of new high-quality content
- Bringing new audiences online via trusted brands and websites
- Investing in primary newsgathering and investigative journalism, rather than recycling old news
- Supporting the creative industries through investment in independent new media commissions
- Linking to valued content across the internet, increasing its findability.

It is vital that publicly funded PSBs are sensitive to market developments in this area, particularly in new and nascent markets where business models are uncertain. PSBs can themselves help the market by being open and collaborative, transparent in their dealings, and by helping to close the digital divide and open up digital markets to new audiences.

Overall, though, PSB can be significantly more effective in future, if providers rise to the challenge. In effect, PSB can be re-invented for the broadband age to bring benefits in three major areas:

- Enhancing access to content – via different platforms, and through on-demand and time-shifting
- Enhancing the effectiveness of some types of content, e.g. learning and information. Allied to this, new social media can make possible greater audience participation, user-generated content and the prospect of a true dialogue between PSB providers and citizens
- Maintaining the reach, impact and value for money of PSB content.

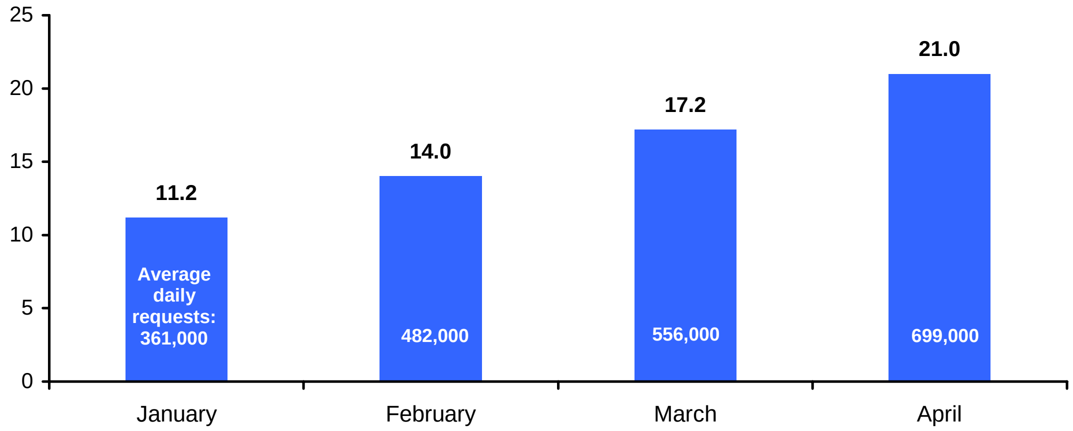
The BBC has been at the forefront of developing innovative approaches in these areas in line with its sixth purpose – 'delivering to the public the benefit of emerging communications technologies and services' – and many of the examples in this section are drawn from BBC services.

### 4.1.1 Enhanced access to content

Public service broadcasters have traditionally fulfilled their public purposes by broadcasting programmes on a limited number of television channels; now they can and must deliver content through a variety of platforms, scheduled and unscheduled, in the home or on the move.

The BBC's iPlayer has begun to demonstrate both the attractiveness and the public value that lies in new ways of accessing PSB content. Since its launch on Christmas Day 2007, average daily requests have risen to 700,000 a day, with total monthly requests in April at 21.0 million (up 22% on March):

*Monthly iPlayer stream and download requests (millions)*




*Source: BBC Livestats*

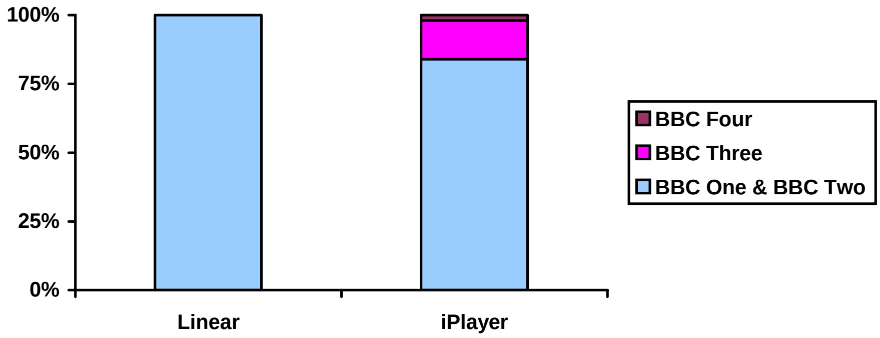
While services like iPlayer can make a great range of content available, Ofcom's consultation highlights the issue of how difficult it may become to find content of value in a world of seemingly limitless choice: 'in future, ensuring that people know about, and can find, a wide range of high-quality interactive public service content seems likely to be a greater challenge than ensuring its availability. Our research suggests that many people already find it hard to discern whether or not to trust a website that is new to them, and many are also frustrated by the narrowness of range of online content they consume'[10].

It has always been a core function of PSB to bring people to topics and programmes that they might not have chosen to watch. It is sometimes argued that this function becomes redundant in the on-demand world; in fact, it could be just as important, as new gateways create the opportunity to provide audiences with material that they do not yet know they want.

[10] Ofcom, *The Digital Opportunity*, April 2008

Figures from the BBC's own sites demonstrate the emerging power of gateways. These figures show that the iPlayer homepage is highly influential in driving the reach and usage of programmes, and this has led to programmes from BBC Three and BBC Four breaking through into the top ten of non-linear viewing, whereas in the linear world BBC viewing is dominated by BBC One and BBC Two.

*Top 10 programmes (March 2008)*




*Source: BBC*

Other gateway parts of the BBC's site show a similar ability to drive reach and usage. Around 55% of visits to the BBC's website start on one of the News, Sport or Main home pages, and this figure has been constant for some time. Gateways like the BBC's can therefore be places to make something known and shared spaces. However, PSB gateways will be few among many competing for attention – making PSB content visible in commercial gateways will be increasingly important as they, too, gather attention and critical mass. This may also mitigate another risk to public value – the risk that on demand makes it easier to consume a narrower range of content and exclude diverse views and perspectives.

### 4.1.2 More effective public service delivery

In addition to enhanced access, there are a number of other ways in which public purposes can more effectively be delivered in the online world.

***Communities of interest***

Communities of interest have a natural home on the web. Ofcom's analysis has demonstrated that there is a proliferation of public service content currently being provided through a vast range of providers. These include communities centred on geography, hobbies and social support among many others. In a PSB context, what might traditionally have been seen as 'niche' content in the linear world can now reach many more through the interconnectedness of communities on the web, thereby amplifying the public value of the original transmission.

PSBs can also host communities of interest where they can play a particular role. For instance, the BBC supports forums where there are active contributions from BBC hosts alongside user contributions, or where the BBC can make a valuable contribution through the deployment of best practice moderation – for example in spaces devoted to children and teenagers or around sensitive news topics.

*The* Archers message-board is hosted by a scriptwriter who uses the community as a sounding-board for new plotlines and character changes

- One Life offers a safe and expertly hosted environment for teenagers sharing health, relationship and exam problems
- CBBC's forums, blogs and the virtual gaming environment of *Adventure Rock* allow the younger audience to communicate with each other and the BBC
- The Have Your Say pages on bbc.co.uk actively seek to involve audiences in debate on the issues of the day. Have Your Say gives a platform to a wide range of views and, with the BBC's values of fairness and impartiality, it is uniquely trusted to give an editorial lead to debates. It receives 12,000 emails on an average day, while its Editors' Blog also provides a platform to explain programme decisions. In 2006/07, 70 BBC News and BBC Sport editors made 500 posts and received over 30,000 comments from readers in response.

***User-generated content***

The explosion in user-generated content has been one of the most striking developments in the online space, driven in large part by the ease with which it can now be created. Blogs of all kinds – text, photography, video, audio and music – have mushroomed. By November 2007, social media search engine Technorati was tracking 112.8m blogs and over 250m pieces of other user-generated content. Blogging has fuelled the growth of participatory or citizen journalism and its profile has grown as a result. Its rapid, interactive approach to news events; its ability to reach locations and people that journalists cannot always reach; and its related success in breaking news stories have forced it to the attention of the mainstream media.

The PSBs can both harness and further promote this creativity. They can encourage members of the public to develop both their use of technology and their creativity and then provide a showcase to the rest of the internet and via broadcast. The potential for a new kind of creative partnership between the PSBs and their audience is rich with opportunity for both, and could reshape content creation both online and on traditional linear platforms. This need not be confined to content creation: for instance, the development of applications or software built on or with BBC content is already happening, both solicited and unsolicited, and the BBC will encourage this to maximise the creative possibilities.

***A trusted part of the wider web***

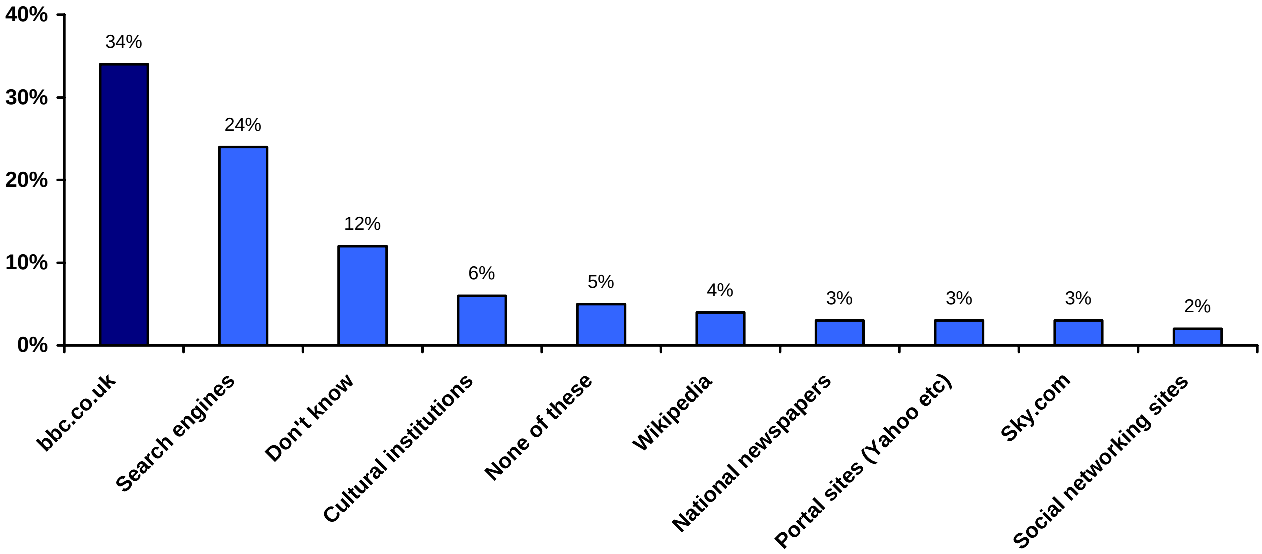
PSBs have strong reputations for quality, independence and trust. These attributes serve them well on the web, where audiences are alive to the risks and unreliability of much of the content. As a result, they could be vitally important in helping to guide audiences to high-quality, reliable content – not just on their own sites, but across the web.

This new aspect of PSB was supported by the BBC's deliberative research for the PSB Review:

> *Awareness of the risks of the internet was high (as well as of the benefits). The main concern was the risk of inappropriate content in relation to the young. Some participants also worried about the risk of security breaches and the potential for hardware and / or software to become damaged… Upon further reflection, some participants suggested that the risky nature of the internet heightened the need for a safe public service zone. Indeed, some saw an opportunity for the BBC to consolidate its position as a trusted guide on the internet.*

In our quantitative new media survey, the BBC's website emerged as the most trusted site by some margin among a broad range of peers.

*Which website do you find most trustworthy?*




*Source: YouGov; data weighted to online adults; base = 5,097; chart shows websites scoring greater than 1%*

The BBC believes that its role as a trusted space will remain important as new users come online and as experienced users encounter new developments. For instance, it can offer recommendation services around music, with users secure in the knowledge that the BBC has no agenda beyond bringing them the best the internet has to offer. It can use its airwaves as well as its online activity to explain podcasts or citizen journalism, for example, bringing internet developments to a diverse audience.

The BBC can also be a trusted guide to the rest of the internet. In the BBC's new media survey, 43% of online audiences said they tended to find new sites from links on current websites, second only to search engines at 76%[11]. However, the BBC Trust's recent review of bbc.co.uk showed that the site can do more to link to other websites which provide content and services that contribute to the BBC's public purposes – something the BBC is committed to doing.

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[11] Source: YouGov; 'recommendations from other users' was also selected by 43%

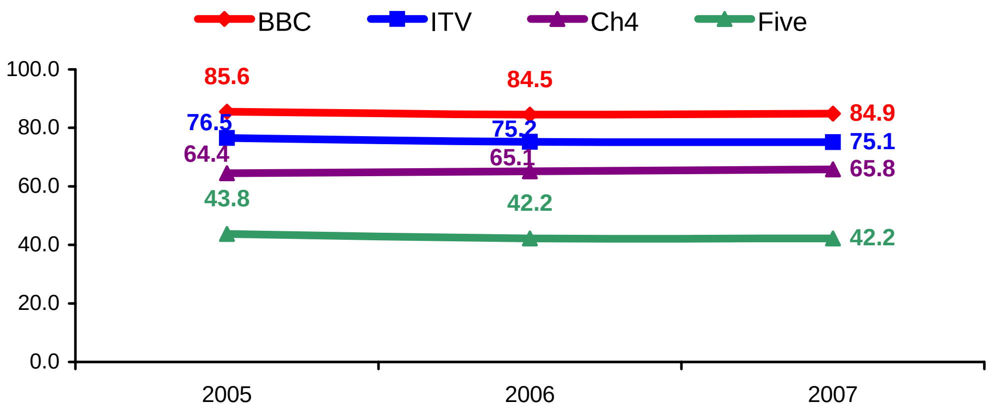
### 4.1.3 Maintaining reach and impact

While the digital world (both on television and on broadband) presents real creative opportunities for PSBs to deliver the public purposes in new and exciting ways, there may be challenges ahead around the effectiveness and value for money of PSB taken as a whole. To achieve public value, public service broadcasting must have reach and impact. It must achieve a minimum level of consumption in order to justify the level of investment that we make in it. Digital growth may go some way to substitute, but it is certain that imaginative approaches will be needed from the PSBs if they are to maintain their influence and deliver their social objectives.

In an increasingly crowded media landscape, public service broadcasters are already using a variety of methods to deliver the benefits of PSB to broad audiences:

- Portfolios of services: Broadcasters' portfolios have become increasingly important as they collectively account for a sufficient share of viewing and listening to make an impact on audiences. The reach of the overall portfolios of the PSBs shows a remarkable resilience over the last three years with reach varying by less than 2% (commercial PSB portfolio share shows a similar pattern):

*All Hours Portfolio % Reach: Individuals (15 mins)*

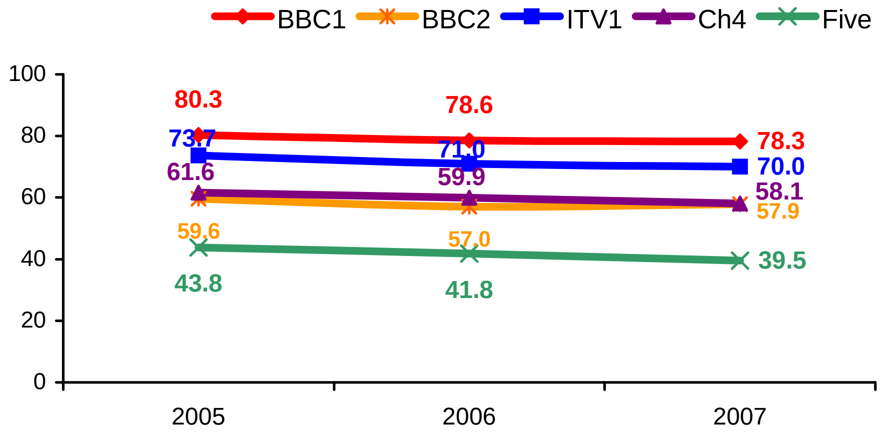



*Source: BARB*

Cross-promotion: the PSBs have an increasingly rich portfolio of media assets, covering television, radio, internet, mobiles and print media. In the complex digital age with its vast range of choice on all media, the broadcasters can use scheduling and promotion to lead audiences across TV, radio and the internet in order to enhance the delivery of PSB.

- Channels with high impact: to deliver the social objectives of the PSB system, it will be vital to maintain authoritative and trusted mainstream TV channels to which large audiences will naturally turn for news, information and interpretation at times of great national and international importance, and which can – through drama and entertainment – help create shared values and experiences which go beyond pure entertainment. The PSBs' main channels have suffered declines in share over recent years. However, because of the complex relationship between reach and share, they continue to reach the vast majority of the UK population and remain a potent force for mass communication unmatched by any other medium:

*Terrestrial channel % reach, all hours (15 mins, individuals)*



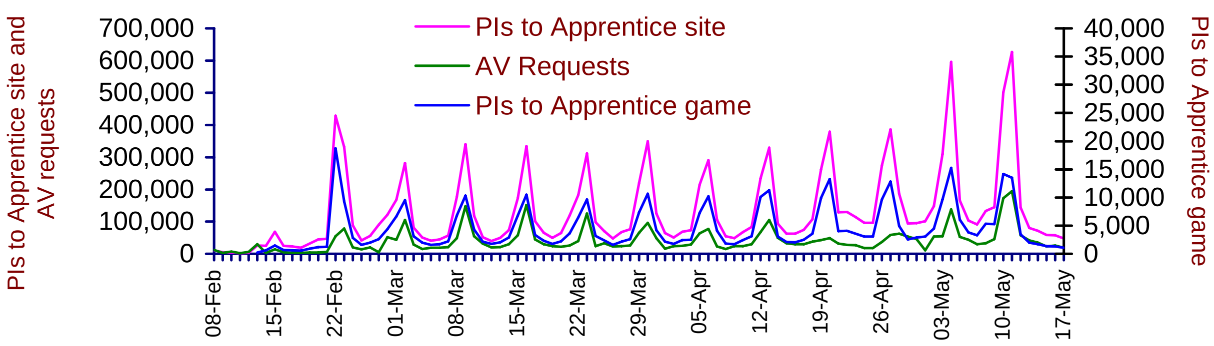

*Source: BARB*

***New approaches in the on-demand world***

In the broadband world, much of this will remain important, but new dimensions will also be needed:

- **Cross-media delivery**: PSB providers will be able to lead audiences across different media to secure reach and impact where it can most effectively be done. For instance, the website for *The Apprentice* (2007) shows sharp, weekly spikes in usage driven by the popularity of the main show. Nevertheless, page impressions to the site also illustrate how the 'troughs' built across the duration of the series, growing a 24/7 community around the broadcasts:

*Page Impressions by Day for The Apprentice Site and Game, and AV Requests (2007)*




*Source: BBC*

- **Digital creation and re-use**: new technology is not just transforming audience-facing digital media, it can revolutionise the very process of production of audio-visual programming. A number of recent developments have already made a significant impact on the way television is made, from light-weight cameras to desk-top editing. However, there is much unrealised potential here. The BBC itself plans, in the long term, to ensure that all content is 'born digital, and stays digital'. With a fully digital BBC where all content, and its associated metadata, is held on fully indexed databases, any content shot can be accessed by any person, from any terminal, at any time – reducing costs, opening up content for re-use, and stimulating creative opportunities. There could be significant public value here for all PSBs if this technology were made available more widely, including among independent producers.
- **Wider distribution of content**: The importance of services like BBC iPlayer and similar portals that can redistribute linear content on new platforms has already been explored. However, there are other approaches to distributing content that do not rely on the broadcasters' own websites. For instance, the BBC's iPlayer service has just launched on digital cable and games consoles, bringing the benefits of on-demand programming to independent platforms.

  Syndication is another of these new approaches, where broadcasters can construct the architecture of their websites and online content to increase findability and establish the tools that allow users to share material. At the moment this area is relatively undeveloped by traditional broadcasters, though sites like YouTube are built around this whole principle. One recent PSB example was around the BBC Two series *Seven Ages Of Rock*, where during the nine weeks of the show's transmission it is estimated that pages housing video clips from the series in sites away from bbc.co.uk were viewed four million times.

  Analysis from some of the most popular video-sharing websites, like Dailymotion and YouTube, appears to show that television content remains very popular in the broadband world. There is an enormous range of user-generated content available on video-sharing websites, but usage is heavily skewed towards professional content. For instance, a US Pew Internet survey found that of the 57% of online adults who have used the internet to watch or download video, 62% said that their favourite videos were those that are 'professionally produced'12. It seems likely that the attractiveness of PSB content in the linear world will carry over into the broadband world, even though its delivery may be divided amongst a number of platforms and gateways.

## 4.2 The BBC's role in the transition

The BBC, along with all the PSBs, will need to make the most of all the digital opportunities outlined above in order to continue to deliver public value to all audiences in a fully digital world. However, there are also some areas where the BBC, in particular, can play a pivotal, distinctive role to secure the transition to the digital future.

The BBC is already playing a crucial role in delivering the benefits of the digital opportunity to all audiences through its contribution to digital switchover. We believe that this role – supporting the BBC's

[12] Source: Pew Internet & American Life Project, 2007

sixth purpose of building Digital Britain – is likely to become even more important after 2012. There are two areas in particular where the BBC, in partnership with Government, Ofcom, ISPs and the other PSBs, can help the UK make the most of the digital opportunity:

- Helping to close the broadband digital divide by bringing audiences online through the use of trusted brands, media literacy initiatives and attractive content
- Securing the future of digital radio and helping to bring its benefits to the whole UK population.

### 4.2.1 Broadband

Achieving a truly broadband Britain is increasingly important to the delivery of all of the BBC's purposes:

- As an institution charged by Government with 'delivering to the public the benefit of emerging communications technologies and services', the BBC is keen to help all citizens benefit from the internet whether for entertainment, information, education or democratic participation
- As a major public service content provider, we want to ensure universal access to our services in the most convenient way consistent with a reasonable cost
- As a publicly funded technology innovator, we have a role in developing technologies that require cross-industry collaboration – such as multicast, allowing the delivery of linear channels over IP
- As a producer of innovative public service output, we believe that extending the limits and speeds of networks will allow creativity to flourish.

With the number of households connected to broadband expected to reach around 63% in 2008, the UK lags behind countries such as Canada (68%), the Netherlands (81%) and South Korea (76%). Though penetration of broadband in the UK is, on some measures, expected to grow to around 79% by 2012[13], this will still leave a significant proportion of the population unconnected. Audiences recognise this as a concern; in Ofcom's research, 72% of those with broadband access agreed that it was important that the internet was available to everyone[14].

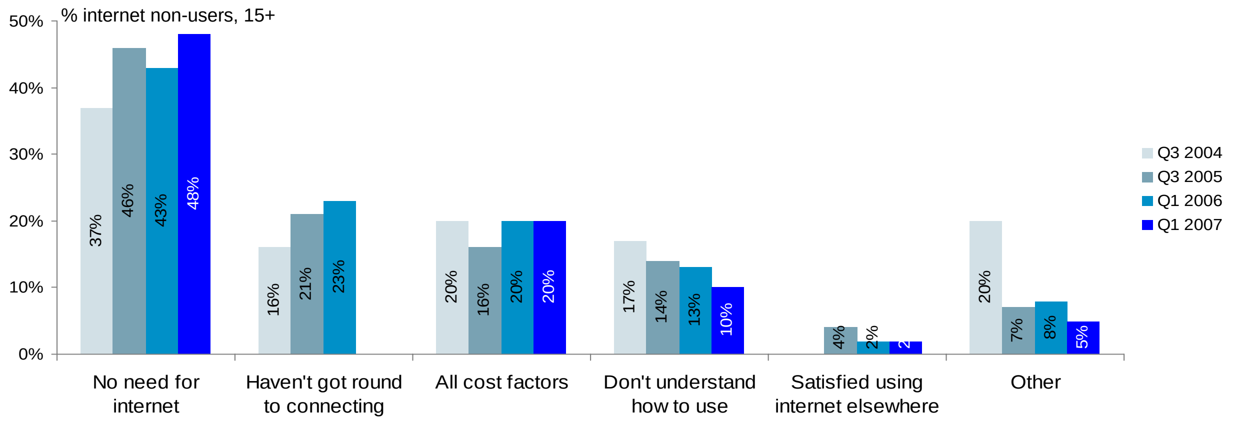
The BBC helps drive demand for broadband, including amongst those who are otherwise reluctant to adopt the internet. The elderly and socio-demographic group C2DE are those with the highest numbers unconnected. This is concerning given that they are amongst the groups most likely to benefit from the social benefits the internet provides – including participating in public debate, learning new skills and engaging in communities of interest. The BBC believes strongly that the wider availability of high-quality connections would play a powerful role in reducing social exclusion.

Audience research indicates that the main barrier to internet take-up is its apparent lack of relevance:

[13] Screen Digest, 2008

[14] Ofcom, *The Digital Opportunity*, April 2008

*Reasons for not having the internet at home*




*Source: Ofcom*

The main reason for not having the internet at home, for half of the unconnected, is that they think they have no need of it. The BBC can and does play a very significant role here; indeed a number of surveys have confirmed bbc.co.uk as an important reason given by people for connecting to the internet in the first place[15]. Many of our initiatives have targeted specific groups successfully. The *WW2 People's War*, for example, encouraged older users to go online for the first time – creating an important legacy of some 47,000 stories and 15,000 photos. Encouragingly, 90,000 over 65s said that they had started or would start to use the internet following attendance at a *WW2 People's War* event.

In addition, there remain many opportunities to collaborate with others who provide internet-based services that harder-to-reach groups find attractive. Such opportunities could include, for example, assisting in improving findability for third-party content on financial guidance; access to local services; job centres; transactions with government; or access to public institutions' websites (such as those of galleries and museums).

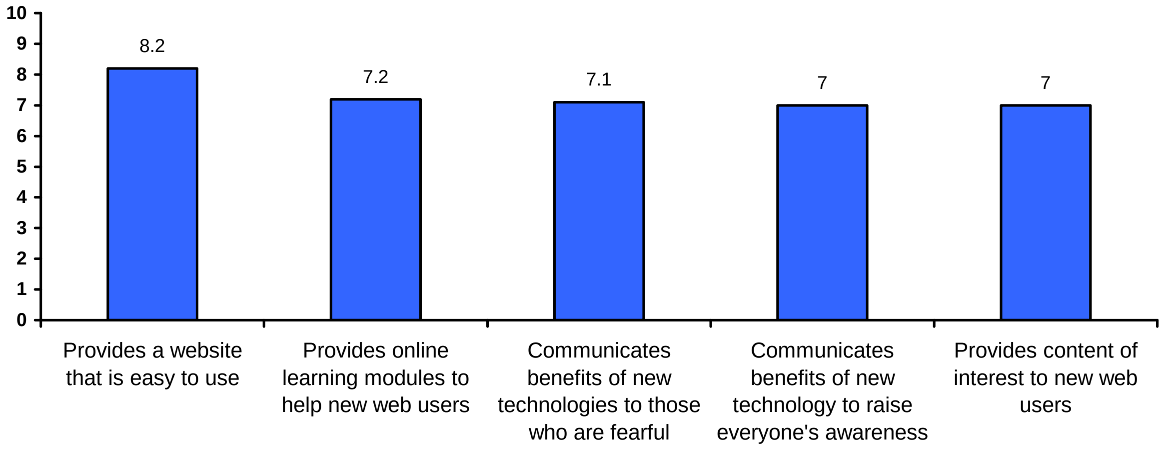
The BBC can also help people to become more confident, media-literate internet users. Already, the resources available on our Webwise service provide practical support to around 130,000 users a week16. The BBC will also continue to encourage user-generated content, giving people growing confidence to participate in new media opportunities.

Our YouGov online research shows that audiences believe it is important that the BBC continues to provide a broad range of activity that encourages audiences to take up and use the internet:

[15] A recent survey revealed that 9% of internet users agree that 'the existence of the BBC's website www.bbc.co.uk was one of the main reasons why I first accessed the Internet' (TNS, December 2007)

[16] Sage E-metrics, weekly average unique users, Oct 07

*How important do you feel it is that the BBC should do these things? (1 = not important at all; 10 = very important)*




*Source: YouGov; data weighted to online adults; base = 5,097; chart shows activities with means >= 7*

Through the provision and marketing of online content relevant to all groups; through targeted information on other resources available on the internet; and through dedicated web-based support – the BBC already therefore plays an important role in helping to bridge the broadband digital divide, and we believe that this will remain a core role in the future.

We believe that next-generation access networks (NGAN) are likely to play an important role in British society and could deliver real public value in the future, such as on-demand high-definition TV. We will continue to build partnerships with network providers to help them assess demand, and we will be working with all stakeholders to help guarantee fair access for PSB content over IP networks. However, we note that while the debate around NGAN focuses on super-fast (25 mbps+) broadband, it is in fact required to deliver speeds that are today considered average (2 mbps) to a significant minority (c10%[17]) of UK homes in remote areas. It is these areas that are most unlikely to be served by the market and in which market intervention could be considered more rapidly without reducing incentives for investment.

#### 4.2.2 DAB

Radio plays an important role in delivering public purposes in the UK. There are a number of barriers to the take-up and availability of digital radio across the UK, many of which will require significant policy intervention to overcome.

Primary among these barriers is the extent of geographic coverage and the cost of building that coverage out to near-FM levels. The geographical coverage issue is particularly important since it is unlikely that car manufacturers will adopt DAB as standard if coverage remains patchy. Resolving the situation will

[17] Source: Analysys Mason

require considerable investment at a time when radio broadcasters, particularly those in the commercial sector, are under increasing pressure; at a time of falling revenues the costs of simulcasting are unsustainable in the long term. Nor do commercial broadcasters have the financial capacity or commercial imperative to invest in a build-out of coverage beyond the existing 90% of the UK population currently covered by Digital One.

The BBC multiplex now covers around 86% of the UK population and this will be extended to 90% over the next five years, but geographic coverage is only at 60% and there are particular problems for large areas of Scotland and Wales. If all radio is to have a place in a digital age – including BBC local radio and the Nations stations – and if audiences in those areas are to continue to be able to receive radio as they do now then the issues will have to be resolved.

The BBC and its partners have proposed a broad set of measures to support DAB on behalf of the whole industry:

- Deliver on the BBC's existing commitment to extend coverage of its national multiplex to 90% of the UK population by the end of the first quarter of 2011
- Develop a plan to increase the geographic coverage of the BBC's national multiplex to 90% of the UK filling in areas where coverage has 'holes' – achieving this would also deliver near 99% coverage of the UK population
- Develop a plan to extend the coverage of Radio Scotland, Wales, Ulster, nan Gàidheal, Cymru and Foyle in their respective Nations
- Initiate a strong marketing effort co-ordinated across the industry, including active industry co-ordination to rebrand digital radio and by developing a national coverage database based on a single planning model made available online to the public (as for DTT / Freeview)
- Improving what digital radio offers, on DAB and other digital radio platforms including: wider choice, on-demand listening (e.g. through BBC iPlayer), podcasting, data services and visualised radio.

These initiatives would carry substantial costs which would have to be agreed – particularly the increase in coverage to 99% of the UK population for the BBC's national DAB multiplex. However, the prize of a long-term sustainable future for digital radio is of great public value. The BBC believes that it can help to secure it on behalf of the industry and the whole UK.

# 5 The importance of plurality

We welcome Ofcom's view that the BBC is the cornerstone of public service broadcasting. In the context of the challenges and uncertainties highlighted in the previous section, the role of the BBC in guaranteeing high-quality programming across a full range of genres will remain of critical importance. The key question, which lies at the heart of Ofcom's analysis, is how much guaranteed PSB provision will be needed beyond the BBC, and whether the benefits of intervening to secure it outweigh the costs.

## 5.1 Plurality past, present and future

For decades, UK audiences have had little option but to watch the output of a very small number of broadcasters, each committed to public service programmes. Reach and impact were virtually guaranteed, but it was an important objective to sustain an element of competition, diversity and choice in what was almost a completely closed system. In a four- and then five-channel world, a highly regulated 'PSB ecology' that covered the BBC, ITV, Channel 4 and Five continued to work well. Differing institutional models and access to different sources of funding increased the robustness of the system as a whole; increased range and diversity; encouraged competition for quality; and sustained mutually reinforcing PSB activity. There is an understandable desire to retain the benefits of this old model as we move towards 2016. Yet any intervention to achieve this will take place within a radically different market.

UK viewers are already taking advantage of a multichannel world, and are poised to enter fully into the broadband and non-linear revolution. Competition is now the everyday reality, almost across the board, for funding as well as audiences, and from an increasing range of media. Within this market, the regulated element will in future account for a diminishing proportion of what the viewer actually consumes. Non-PSB channels and other providers of news and information will increasingly deliver public service outcomes and meet the public service needs of audiences, but only provided that PSBs, with the BBC as the cornerstone of the system, continue to condition the market with their own standard-setting output.

The PSB system itself has also developed a far greater degree of internal contestability. Far from a world of vertically integrated producer/broadcasters, 45% of total production spend is now with a thriving independent production sector. This has produced a great range of programme suppliers, intense competition for scarce spots in the schedule and significant innovation in content and formats. Against this backdrop it is important to assess:

- The extent to which the aims and objectives of PSB plurality need to be re-imagined
- The extent to which those goals will be met by the way the market will itself develop (without any further intervention)
- The impact of any intervention to secure PSB plurality within the existing system, not only on plurality itself but on other parts of the ecology.

## 5.2 PSB plurality today

The central thrust of Ofcom's analysis is that the PSB goals of quality through competition, diversity of voices and opinions, and reach and impact, are directly delivered by the existence of a plurality of public service providers, and that any reduction in the number of PSB suppliers will inevitably affect the ability of the system to deliver these benefits to viewers. Ofcom underpins this with an assessment of the audience's appetite for plurality as expressed in qualitative and quantitative research, and a study of the likely provision of key programme genres, along with an estimate of the cost to existing providers of delivering these programmes.

The BBC believes that Ofcom's analysis leaves some important aspects unexplored, in particular:

- The extent to which the goals of PSB are dependent upon a plurality of **PSB** suppliers over and above the market
- The extent to which the audience research is mirrored by the evidence of audience behaviour and appreciation – and what any mismatch might mean
- The distinction between volume and plurality – in other words, distinguishing between where the problem is one of undersupply as opposed to one where it is one of a lack of PSB plurality. This is a crucial distinction, since the former problem is not one of lack of plurality, and may therefore require a different kind of response
- The different dynamics involved in how different institutional arrangements to deliver PSB in future might operate.

Given the stress placed upon plurality in Ofcom's consultation, we believe that it is vital to assess fully the role that it genuinely plays in delivering the goals of public service broadcasting.

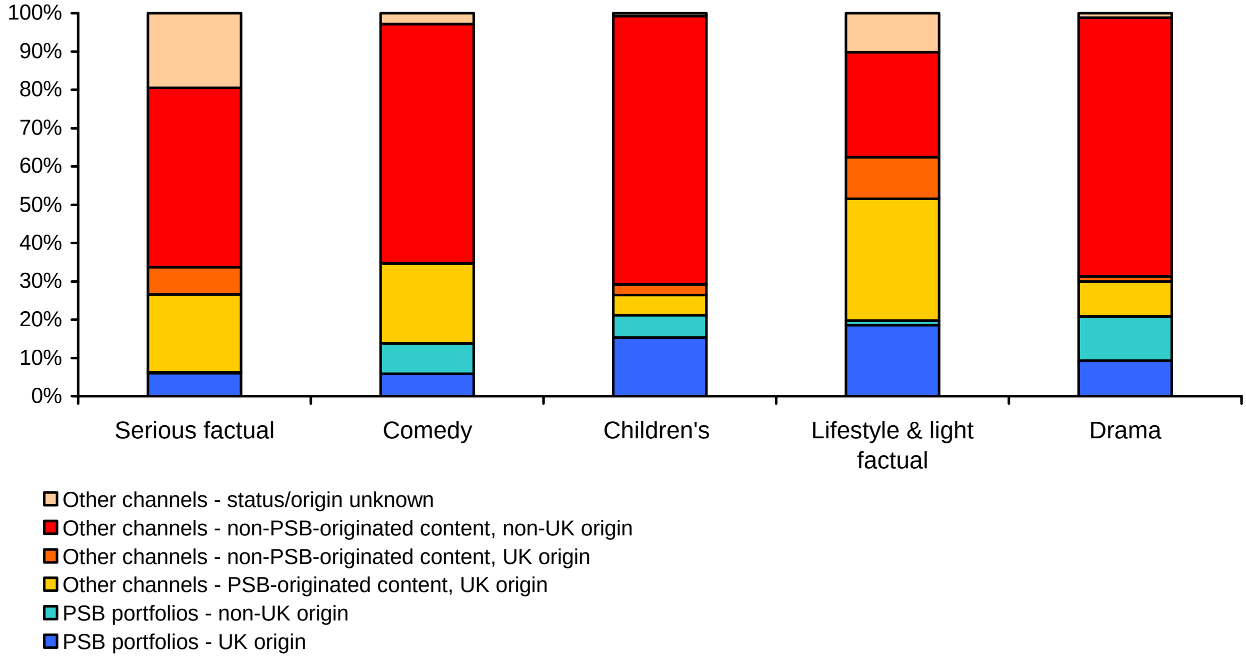
### 5.2.1 Quality through competition

The first benefit of plurality cited by Ofcom is the impact it has on quality and innovation as a result of competition. Across many markets, competition helps to drive quality, innovation and value for money. In broadcasting by and large the same applies, although competition is not straightforward or uniform in its impact and in some cases it can have a negative effect.

As is already clear from the media choices around us today, a fully digital world will mean that competition will be all-pervasive, from within and without the UK, from public service broadcasters and from non-PSBs, from media giants and from nimble, agile new media start-ups. The spur to quality and innovation in PSB has already become cross-genre, cross-platform and cross-border. Expectations are being set by best-in-class global output and many leading UK programmes already take their benchmarks for quality and innovation as much from the best American output as from rival domestic programmes.

The BBC's three-month audit of programming across terrestrial and multichannel output demonstrates the great volume of output now available to viewers. In certain areas, such as Nations and Regions content, only the PSBs are making a contribution. But across a broad variety of genres, non-PSB content and internationally sourced programming are making a wealth of programming choices available to audiences. This content is sometimes of PSB origin and sometimes produced by the non-PSBs, but in many genres it is dominated by international acquisitions. PSB provision accounts for well under a quarter of the output.

*Volume of output by genre, split by broadcaster and origin*




*Based on channels with share greater than or equal to 0.1% (excluding music channels), quarter 1 2007.*

*Drama excludes continuing drama. Source: BARB/TRP*

Actual viewing to this output varies, but for some genres like comedy and children's multichannel share is significant – at around 40% of all viewing. While UK output of course remains critical for delivering many of the public purposes, programmes from outside the UK also do support them across a range of genres. They can inform us about the world, deliver knowledge and education, and through providing high-quality programmes meet almost all of Ofcom's characteristics.

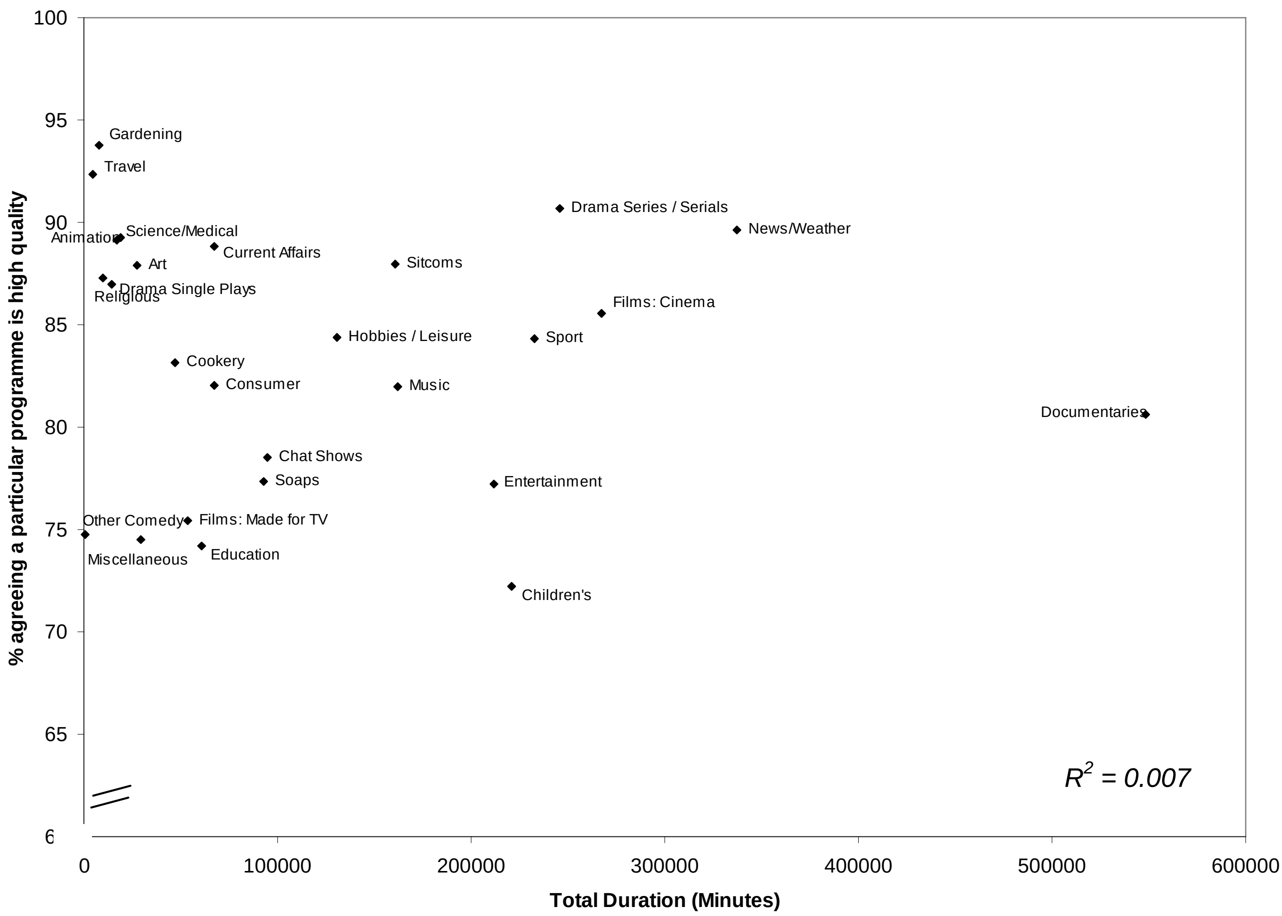
In this context, it is significant that the examples that Ofcom cites of **PSB** competition driving up quality are all drawn from the five-channel era. When the BBC and ITV competed in the area of popular drama, ITV faced little competition for commercial revenue. When Channel 4 experimented with new genres in the 1990s it did so in a broadly four-channel environment (and was in any case relieved of the obligation to return profit to shareholders).

This suggests the conditions which have seen genuine competition for quality among PSBs in the UK have been those where broadcasters have not needed to compete with each other for revenue. At a time when commercial income was secure, broadcasters could afford to compete with each other and the BBC on innovation and experimentation. But when broadcasters face direct challenge to their sources of revenue, the opportunity for experimentation in non-commercial genres is reduced, and competition might have the effect of reducing range and the appetite for risk. As a result, today the quality spur for programmes like *Spooks* or in genres like natural history comes as much from the best acquired output from abroad as from other broadcasters in the UK.

There are other reasons to be cautious about accepting the direct role that PSB competition apparently plays within each genre. Evidence for competition driving up quality should be found in any correlation between the extent of competition among PSBs within a genre and the level of audience appreciation. In other words, if competition itself had a demonstrable effect in driving up quality, this should be reflected in higher levels of audience appreciation.

In fact, no such correlation appears to exist. The chart below maps audience perceptions of quality against the volume of PSB output in different genres. Genres with higher volumes of output tend to have greater numbers of PSB providers and there would appear to be little relationship between increasing competition and increasing quality:

*% of audience rating programmes as high quality (aggregated by genre) versus PSB volumes of output*




*Financial year 07/08: BBC One-Four, ITV1, C4, E4, Five. Source: BARB / Pulse / TRP*

This evidence is not conclusive, but it is difficult to find any evidence that suggests a correlation. Conversely, BBC output on Radio 3, Radio 4 and in natural history on television has very little UK competition and yet audiences see these services and genres as very high quality.

### 5.2.2 Diversity of Voices and Views

The second benefit cited by Ofcom is the delivery of diverse views and perspectives. Particularly in news and current affairs programmes, there is value in ensuring that audiences are provided with a wide range of voices and points of view. If political and social debates are informed by the widest possible range of opinions, viewers will be better able to make informed choices and to play a fully effective role as citizens.

Fortunately, the development of online services, coupled with the wide availability of news and information channels from around the world, plays an increasing part in securing this plurality of points of view and range of voices. While television news remains central to the experience of UK citizens, and is instrumental in shaping views and ascribing importance and priority to the news agenda, it is increasingly supplemented by online and interactive news. Recent research by Harris suggests that, while the importance of television as a source of news will decline slightly over the next five years, the internet will nearly double[18].

On television, the wide availability of multichannel distribution provides viewers with a significant choice of news sources, especially news channels which draw their editorial stance and approach from other cultural perspectives. American news channels offer distinctively pitched approaches, while news and information programmes, not only in English, offer widely differentiated news agendas and stories which are of interest to particular groups but which do not get covered on the main PSB bulletins.

Ofcom's own recent research into news provision, in New News, Future News, suggests that real diversity is delivered from outside the PSBs rather than within. This is unsurprising given the principal reasons for securing plurality of public service news provision. Television is a medium of particular power. It reaches into every home, and its linear expression and limited duration has the capacity to both prioritise and limit editorial agendas to a greater degree than other media. The barriers to entry have traditionally been very high: only those who could secure a licence from the state could offer television news. This made it of paramount importance that a plurality of providers should be secured to guarantee the independence of broadcast news and provide the assured presence of an alternative voice to the BBC. This aspect of plurality continues to be highly valued by audiences and it remains vital to have additional providers of impartial and independent news with significant reach and impact alongside the BBC.

While Ofcom notes that there is unlikely to be a lack of supply of national and international news in addition to that provided by the BBC, there is nevertheless likely to be a problem in the devolved Nations where the ability of the PSB system to guarantee a second provider of distinctively national news for Scotland, Wales and Northern Ireland is under real pressure. Ofcom's own analysis suggests that the case for continued commercial provision by Channel 3 licensees is increasingly hard to sustain. We believe that, at the same time, the democratic justification for a guaranteed second source of television

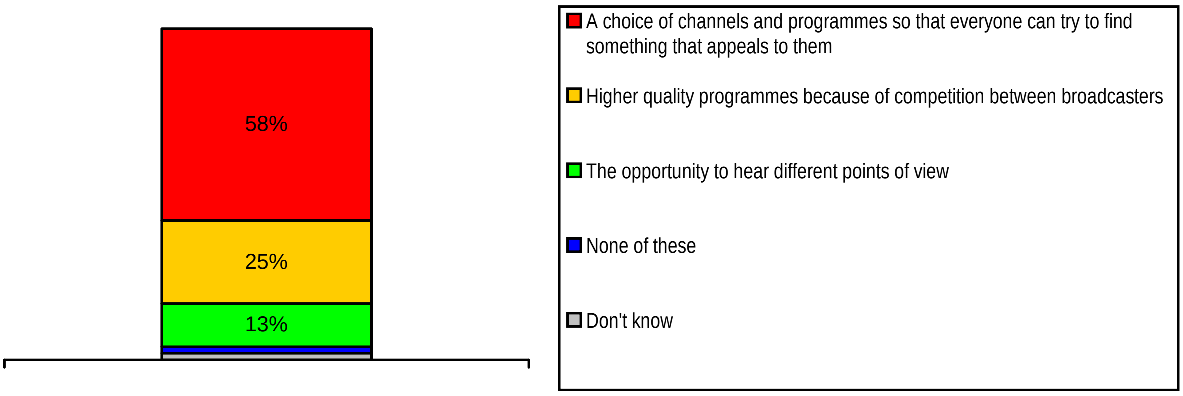
[18] Source: Harris Poll, May 2007

news is growing in force, as devolved administrations and institutions become well established. This remains, therefore, an important area where diversity of supply should be secured.

### 5.2.3 Reach and Impact

This, the third of the benefits traditionally associated with plurality, is the one where Ofcom produces the most evidence drawn from actual viewing – for instance, in its analysis of the pattern of news viewing across channels, or the amount of non-BBC viewing to children's programmes. This, alongside the qualitative views expressed in the audience research about the value of alternative suppliers ensuring that more viewers have a chance of being reached by public service content, is perhaps the strongest argument for intervening to secure plurality. The BBC's own research shows that this aspect is the one that audiences most value when prompted with the potential benefits:

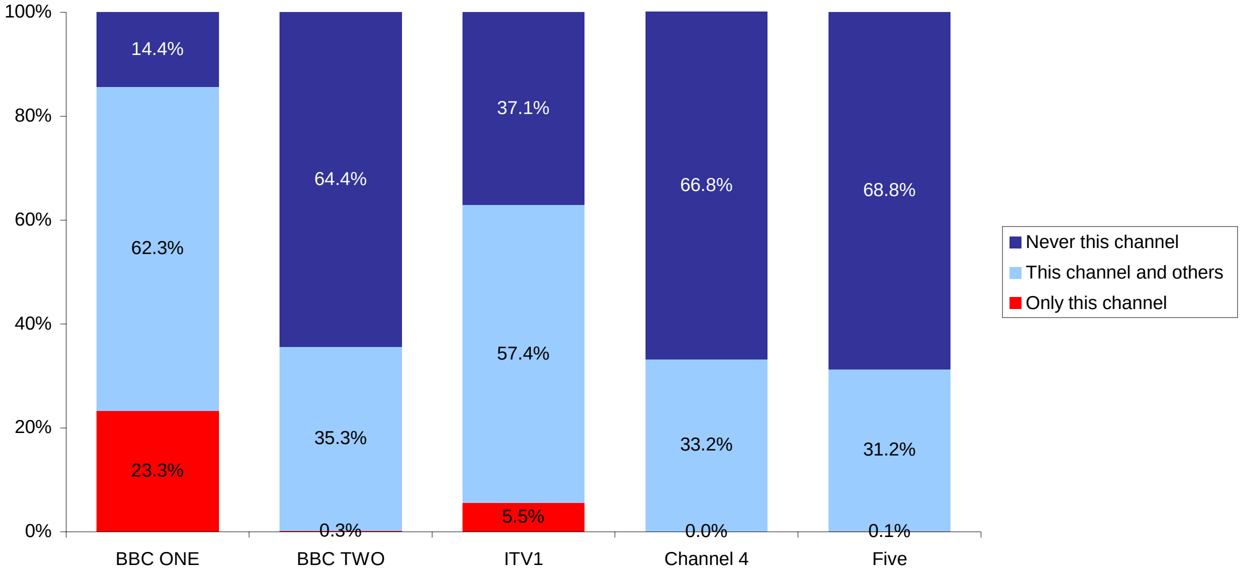
*Could you please choose which of these you think is the most important in broadcasting?*




*Source: Ipsos MORI quantitative survey; base = 4,577*

However, the evidence from actual viewing is more mixed than Ofcom's analysis suggests. While Ofcom suggests that 18% of viewers are dependent solely on ITV for their news, our own analysis shows that the number is closer to 6%:

*Unique viewing to News by channel (% of news viewers)*



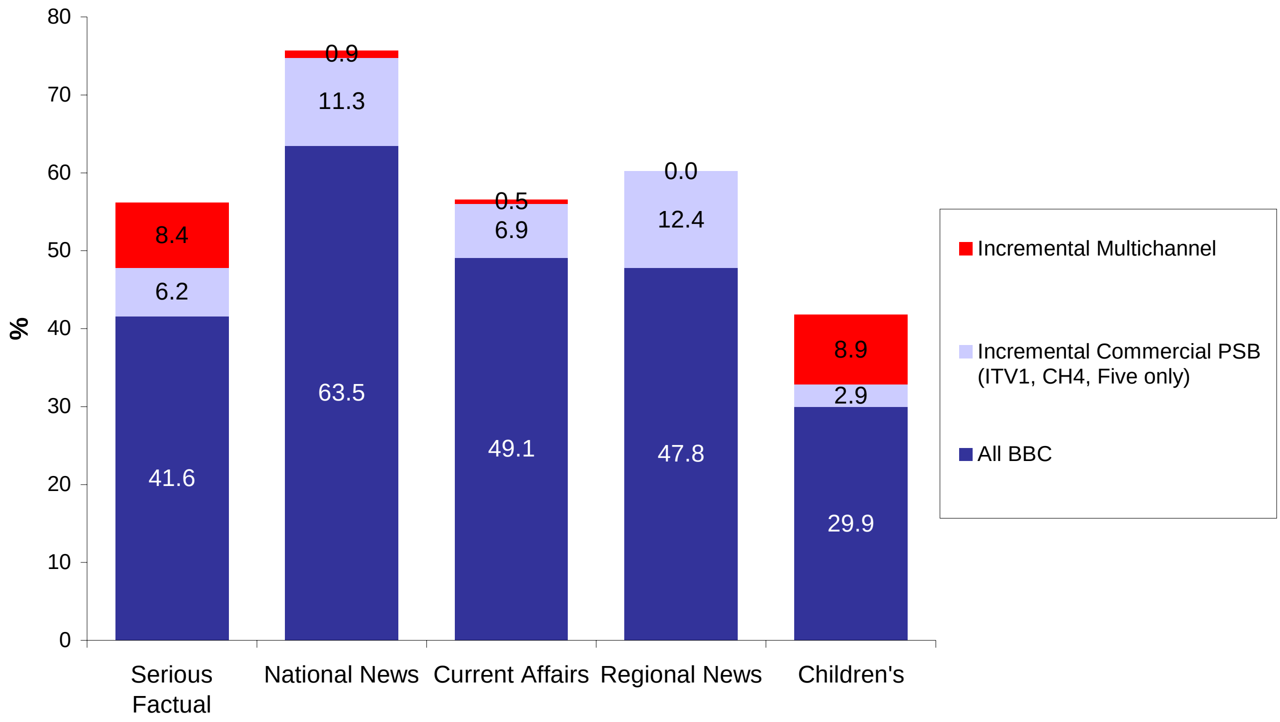

*News viewers watching the equivalent of at least 15 mins / week across a year, April 07-08. Source: BARB / Human Capital*

Perhaps more telling is that the number of unique viewers to the news as provided on Channel 4 and BBC Two – which might be considered more distinctive – is very small indeed. The different editorial approach of these channels is of benefit to existing audiences for news and current affairs, rather than bringing in a new or distinctive audience in itself.

As Ofcom points out, national and international news is likely to be delivered by commercial channels regardless of a specific regulatory requirement. However, in other core public service genres, the story is similar to the picture in News. In Current Affairs, the number of unique viewers to ITV is about the same as for News (6%); Channel 4 does not attract any viewers to Current Affairs who are not also watching it on other channels. Just 7% of the audience to regional news only watches it on ITV1 – the vast majority (77%) watches regional news on both BBC One and ITV1.

When the unit of measurement is reduced to a week rather than across the whole year (as in Ofcom's analysis), there are, of course, more viewers not visiting any BBC channel within the week for these genres. However, even here, nearly three-quarters of all viewers to serious factual programmes watch at least some of it on the BBC, and a very significant number of them are also reached by multichannel:

*% incremental weekly reach by genre (3 minutes consecutive, age 4+)*

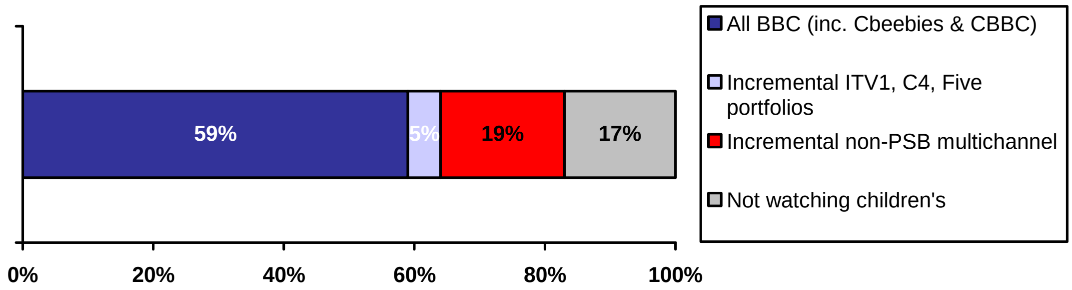



*Source: BARB / TRP*

Moreover, this does not take account of any likely switching behaviour. Unlike, for instance, in many other competitive markets, switching costs are zero for television. Therefore, if the news were no longer to be carried on ITV, the very significant numbers of people who are content to watch news on more than one channel suggests that news is a genre that viewers would be prepared to find elsewhere. Even though, as demonstrated above, ITV's regional news delivers incremental reach of around 20% of viewers across a week, it is clear from the yearly reach figures cited earlier that regional news viewers are happy to watch it on the BBC (as just 7% of the annual audience to regional news only watches it on ITV1). It is highly unlikely that these viewers would not switch to the BBC if ITV's service was no longer provided.

Subjecting children's programmes to a more detailed analysis produces similar results. It is true that a significant number of children aged 4 – 15 do not watch BBC programmes: Ofcom's analysis suggests a sixth of children who watch children's programmes do not watch BBC channels. Nevertheless, our analysis shows that the incremental reach of the PSB's children's output to children beyond the BBC is very limited. Children are not uniquely viewing PSB children's material on other PSBs rather than watching the BBC – the historic reach and impact justification for PSB plurality – but are watching the wide variety of digital channels instead:

*% incremental weekly reach to children's programming (3 minutes consecutive reach, 4-12 year olds)*




*Source: BARB / TRP, April 2007-March 2008*

This leads to an alternative analysis of the importance of reach and impact which suggests that, in the future outlined in Ofcom's report of multiple points of distribution and fragmented viewing, the most important safeguard for public service content will be to ensure that it is brought to the public on the back of powerful and trusted brands. PSB has benefited in the past from its first mover status in the television market: regulatory protection and nurture gave it immense advantages over the commercial market. However, in future, PSBs will lose these advantages: while their programmes and schedules may be sharply differentiated from other media offerings in terms of editorial scope and ambition, the challenge will become one of navigation and impact.

Public service content is already widely distributed across the multichannel world (via the secondary TV market) and will be increasingly available via different distribution platforms in future. But the challenge will be to secure institutions of sufficient scale, reach and trust to create that content in the first place and to support its distribution on as many platforms as necessary to guarantee its reach and impact.

### 5.2.4 Audience research

Ofcom's audience research appears to show that audiences value plurality of PSB supply. Ofcom reports that, in its deliberative research, a majority expressed a willingness to pay more to sustain plurality. However, it is clear from the research annex that this was a slim majority: we would suggest that a more convincing level of support might be necessary to justify further intervention by way of additional public funding. The BBC's quantitative research (see later) supports the view that audiences are reluctant to pay more for plurality and shows that audience views about plurality and its potential benefits are in fact more complex than might be supposed.

Some of Ofcom's questions in the research also appear to ignore some of the more complex but important aspects of plurality. For example, evidence to support plurality is drawn from the responses to the question 'how important, if at all, do you think it is that [programme type] is shown on more than one of the main TV channels?' So, plurality in this sense might include the role, for instance, of other BBC channels, particularly BBC Two. The audience was invited to say how much they agreed with the statement that the channels provide 'a wide range of high-quality UK-made children's programmes' –

where it is unclear from the response which part of the statement (range, quality or UK-made) they are agreeing with.

## 5.3 Institutional plurality

We believe that Ofcom does not give enough prominence to the crucial role that institutional plurality has played in the success of the current PSB ecology. It is vital to understand the way that the balance of institutions charged with delivering PSB has worked in the past, and what the dynamics of public intervention might be in future. If Ofcom is to embark on fashioning new mechanisms for intervention, it has to consider not only the sources of funding, but the nature and incentives of the different public and private institutions involved.

Institutional plurality in PSB originally ensured that public service broadcasters would compete for audiences but not for revenue. To achieve this, a complex web of different ownership and funding structures was created. This system evolved over time, most notably with the decision to create free-standing licensees in the 1990 Act and the decision to allow Channel 4 to sell its own air-time. However, while these changes in some ways anticipated the increasingly competitive broadcasting market, neither of them altered the fundamental structure of the market which continued to encompass three broad types of delivery:

- Publicly funded, not-for-profit institutions (e.g. the BBC)
- Commercially funded, not-for-profit institutions (e.g. Channel 4)
- Shareholder-focused, commercially funded institutions (e.g. ITV, Five)

Each type of institution brought different approaches, incentives and perspectives to bear on the delivery of PSB which can be traced back to their institutional nature, structure, remit and funding.

Arguably, the single most important characteristic of these broadcasting institutions is that they were given very wide scope and remit, and as a result, public service delivery was ingrained in their approach to broadcasting. Regulatory intervention may have formalised some of the more specific requirements – e.g. levels of original programmes, or production around the UK – but this was within an overall philosophy where many of the characteristics of what we now call PSB were part of the basic structure of commercial PSBs' operations – for instance, ITV's regional bases and a broad commitment to UK origination through its own production businesses. This was reinforced by the closely regulated and largely publicly owned broadcasting landscape in the UK, which encouraged broadcasters to compete on these lines.

This creation of broadcasters of scale with different kinds of output within a mixed schedule was the core of the PSB system. Each provider's mix of output reflected their own priorities at least as much as their externally imposed obligations. It is within this context today, for instance, that Channel 4 makes its distinctive contribution to current affairs, comedy and drama as it delivers PSB in a way that is consonant with its institutional objectives. As a result, much of what is broadly considered public service output makes commercial sense for the PSBs, at least in part, and this is reflected in the balance of existing quotas towards less commercial aspects of provision (e.g. regional news or current affairs) whereas the threat to other genres, such as network news, is small.

These benefits may be undermined by a move towards specific funding. The cost for a broad-based PSB to increase or enhance its existing production is likely to be marginal; the cost for a new provider to establish PSB delivery in only one area may be larger and have a smaller impact. It would also be impossible for many providers to deliver much of the high-quality, broad-based content that is shown by ITV, Channel 4 and Five.

In addition, there are two other important risks that Ofcom should take note of before deciding on any change to the structure. Any intervention will need to prove that it can successfully mitigate both these risks.

### 5.3.1 Innovation

'Innovative' is one of Ofcom's characteristics and both Ofcom and the BBC's research show that audiences value it highly. One of the benefits of this system has been the opportunity for innovation in the space *between* genres, e.g. through the development of docudramas or in series like *The Apprentice* or *Dragons' Den*. Ofcom has always recognised the limitations of specific genre descriptions and targets. Indeed, this was one of the reasons why the regulatory framework was changed in the 2003 Communications Act, to give broadcasters more creative and editorial freedom to experiment outside quota requirements and to explore cross-genre ways of reaching audiences with public service content.

This was effectively reinforced by Ofcom's own decision, in its first PSB Review, to identify a number of **purposes and characteristics** for PSB, to complement the list of programme genres set out in the Act. It did so explicitly to recognise the reality that creative PSB operates beyond genres to deliver public service outcomes, and that to restrict discussion of PSB to programme genres is to ignore where its real innovation has come from.

Through these mechanisms, the thrust of policy-making in the last five years has been away from a narrow definition of PSB defined by genres, towards a definition that is driven in large measure by creative and cross-genre innovation. This appears to be reversed in this first phase of Ofcom's second PSB review, insofar as Ofcom aims to secure the provision of particular genres from multiple broadcasters.

### 5.3.2 Flexibility

To the extent that it looks at institutional models, Ofcom suggests that where there are specific and defined programme obligations, these could be carved out and subject to a specific contract for delivery by a third party. The contractual model for broadcasting needs careful consideration (see section 6), but the atomisation of public service broadcasting into discrete and contractual blocks may cut against the very grain of what the system is designed to deliver. Rather than being a flexible response to the problem, it may, in fact, be far less flexible than what it replaces.

There is also a risk inherent in the nature of public funding itself, especially when applied to existing broadcasters. If public funding is used to fund plurality of supply – i.e. beyond what the BBC would otherwise provide within a specific genre – then the funding has to be ring-fenced to achieve that specific goal. As noted above, this is already at risk of reducing, rather than enhancing the opportunities for innovation and risk, since it limits the scope for using the funding to develop cross-genre approaches – often the most fertile ground for innovation. Consideration must also be given to the effect of public funding on the rest of that broadcaster's output, and the implications of a mixed model.

## 5.4 Future pressure points

The analysis above does not in any way undermine the values of quality or competition, of diversity and range, nor of reach and impact. Indeed, it is based on fundamental agreement with Ofcom that these are benefits that the broadcasting system has to guarantee. We believe that many of these benefits are being delivered by the market today, and the need to intervene to secure a plurality of PSB provision is lower than in a closed, five-channel world.

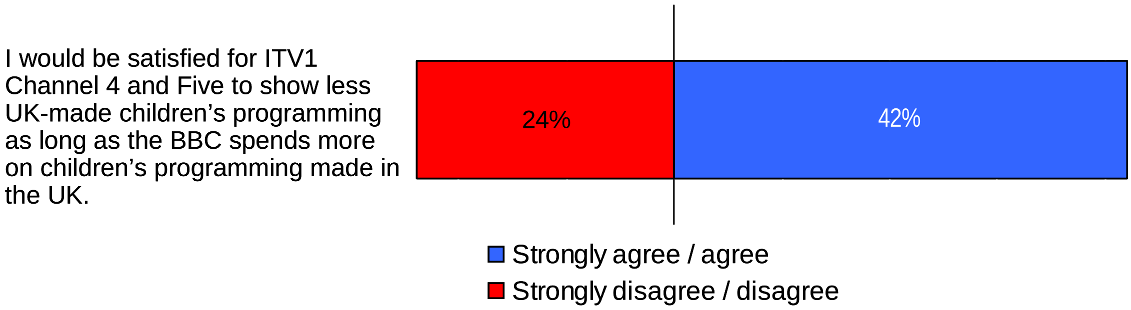
However, our own analysis suggests that there are challenges to the system in the immediate future and we agree that there are some programme areas where audiences are already underserved, or where there is a danger of undersupply in future. We agree with Ofcom that these areas need solutions that will be consistent with maintaining and strengthening public service provision.

### 5.4.1 Programmes for older children

It is increasingly clear that the current supply of programmes made for older children is inadequate: this is an audience which is on the whole not being well served with programmes specifically aimed at it. Broadcasters have found it increasingly difficult to target this audience with targeted output: it is made up of young people reluctant to consider themselves children, keen to explore a wider range of programmes. The existence of so much well-made and attractive multichannel material available to this audience, especially American scripted comedy, coupled with the expense of original drama and the difficulty in monetising this audience for commercial channels, has led to a consistent withdrawal from programming aimed at 10 – 15s.

We welcome the focus Ofcom has brought to this issue. However, it is important first to recognise that the problem is more one of undersupply rather than of a lack of plurality. By definition, if the problem is lack of supply in a particular area, then the BBC, as the recipient of public funding for public service broadcasting, should reflect on whether, and if so how, it could fill this gap. For example, the BBC's research suggests that when audiences are presented with the option of the BBC spending more on children's programming in the light of reductions on ITV, Channel 4 and Five, nearly twice as many parents agreed they would be satisfied with this option than disagreed:

*To what extent do you agree or disagree with the following statement? (parents of children under 16)*




*Source: YouGov; base = 5,097; data weighted to all adults; 'Neither agree nor disagree' 31%, DK 3%*

This does not mean that other broadcasters should not also assess whether they would be well placed to deliver more targeted programmes to this age group – particularly if they, too, can deliver reach and impact. We have undertaken further analysis in this area – see section 7.

### 5.4.2 News for the Nations and Regions

The other area where there is a danger of undersupply is in news services aimed at the devolved Nations. This is an area which is currently served by both the BBC and ITV, but which the commercial channel will struggle to sustain. However, a diversity of impartial and independent public service news suppliers is an important democratic safeguard and our audience research found that viewers in the Nations are keen that there should be an alternative voice to the BBC in future.

The continued existence of commercial regional news in its current form is more open to question. ITV has made it clear that, for the remainder of its licence term, it expects to continue to make regional news, albeit in a refashioned form. Ofcom's own analysis in *New News, Future News* acknowledges that regional news is in many ways a reflection of ancient transmitter patterns rather than a real reflection of coherent editorial planning.

We recognise that Ofcom will need to balance the guarantee of a continued regional service from ITV, albeit rather different from now (and therefore increasingly different from the BBC service) against the opportunity to find new ways of delivering news to localities and regions. We suggest some ways to explore this area in section 7.

In conclusion, the BBC supports the value of plural supply for audiences: increasing choice for viewers is fundamental to a prospering television market. But anatomising the problem accurately is essential if Ofcom is to frame the correct solution, and it is not clear that a failure to secure a plurality of supply from the PSBs is in itself the single most significant challenge ahead. While it is undoubtedly true that the existing system is unlikely to be able to sustain the same levels of commitment to PSB programmes, it is less clear that a significant structural intervention to achieve plurality is either necessary or desirable.

# 6 Future approaches and funding

In its consultation document, Ofcom projects that total funding of commercial PSB will have fallen by c£335m between 2003 and 2013 – a gap based on an analysis of the declining value of PSB privileges. Ofcom recommends that new funding sources should be found to fill the funding gap and secure the benefits of plurality.

In order to bring flexibility to the system, Ofcom sets out four possible models for PSB provision, ranging from the BBC alone to a broad mix of competing contracts. It also outlines a series of tests for any model, encompassing reach & impact, plurality, flexibility, governance, complementarity with the market, distribution and sustainability.

In this section, we assess the various PSB mechanisms and funding sources available, including Ofcom's suggested models. Our analysis suggests that:

- Public institutions, if properly designed and accountable, can provide the best way of delivering many of the PSB objectives valued by audiences
- A mix of institutional approaches, working with the grain of each institution, is most likely to deliver PSB benefits and mitigate any risks
- Contracts may have some limited role if PSB outcomes can be properly specified in the contract and then monitored, but it is difficult to see where this should happen in the short to medium term
- Discussion of PSB models should not be separated from the debate about funding sources. There would be no point in choosing a preferred model, only to find that the way to pay for it would be through the least preferred funding method
- The need for additional funding should be tested further. No funding option is ideal, although use of regulatory assets seems to offer most potential. Top-slicing the licence fee has many significant disadvantages
- Value for money is a vital criterion. Ofcom's criteria for new PSB models contain no reference to efficiency or value for money.

We do not agree with Ofcom that the starting position should be that 'new funds should be found to replace the current declining implicit subsidy'. The amount of the current non-cash subsidy is not directly connected to audience need, appropriate delivery mechanisms or the public's willingness to pay. In the light of the analysis outlined in the previous section, the BBC believes it is more appropriate to discuss the most effective and efficient way of delivering PSB outcomes and then, in the light of that analysis, explore the necessary funding and funding methods needed to achieve the desired outcomes.

## 6.1 Designing a new model

Ofcom sets out a range of requirements and tests for any future model for PSB: reach and impact, plurality, flexibility, governance, complementarity with the market, distribution and sustainability. The BBC believes that many of these are appropriate tests but that Ofcom should consider some additional criteria that may be even more important. The following table outlines the BBC's comments on Ofcom's criteria and suggests two additional ones.

| **Requirements of a future model** | | |
|---|---|---|
| **Ofcom criterion** | **Ofcom test** | **BBC comment** |
| Reach and Impact | Are providers incentivised to deliver public service content that achieves reach and impact? | • Reach and impact is one of the most important tests for any new model<br>• However, the critical test is not whether providers are incentivised appropriately, but whether the chosen method / model has any chance of delivering reach and impact<br>• Incentives will not be sufficient if the model is unproven, small-scale or unlikely to reach a substantial number of viewers |
| Plurality | Does competition between providers deliver the benefits of plurality? | • We do not support the inclusion of this test: plurality of PSB provision should be considered not as an end in itself but as a means to an end<br>• It should therefore be one of a range of tools and approaches to help achieve Ofcom's overarching objective to 'maintain and strengthen the quality of PSB', not an objective |
| Flexibility | Is the model sufficiently flexible to respond to audience and market changes? | • We agree that flexibility is an important objective<br>• However, we question the link between flexibility and long-term transferable contracts. Contracts are potentially less flexible over time (unless tendered for relatively short periods) than provision of PSB through an effectively governed institution with a broad PSB remit<br>• For instance, it has been easier for Channel 4 to evolve its delivery of learning material over new platforms than Teachers TV, whose original contract specified linear delivery |
| Governance | Do providers have clear remits, independence, transparent accountability arrangements and incentives aligned to public purposes? | • We agree that this is an important test for any new model<br>• However, it will be important to understand the two-way relationship between governance / accountability and strategy-setting / remit – the two are not divisible<br>• Any governance framework will have a direct impact on the incentives and institutional culture of the provider concerned. For instance, imposing a BBC-type framework on Channel 4 runs the serious risk of undermining the very institutional characteristics that are most valued by audiences |

| Ofcom criterion | Ofcom test | BBC comment |
|---|---|---|
| Complementarity | Does it complement, not discourage, market provision? | • We agree that complementing market provision is an important criterion |
| Distribution | Does it embrace the platforms, content forms and services that most effectively meet audience needs? | • We support this criterion, though it is closely related to reach and impact and could be combined<br>• We agree that it is likely to be the use of a mix of platforms, cross-media content initiatives and innovative marketing and cross-promotional activity that will give PSB the greatest chance of success in the digital world |
| Sustainability | Are providers' funding models sustainable? | • We support this criterion, but would note that this does not automatically equate to direct public funding. Non-cash subsidies and cross-subsidies will continue to be important ways to fund PSB in the future. Additionally, Ofcom should recognise that the need for PSB alongside the BBC will itself change further over time. |

| Additional BBC criterion | BBC test | BBC comment |
|---|---|---|
| Value for money | Does the proposed solution represent good value to the public? | • This is a critical criterion for any public intervention and one that must play a key role in the design of any future model. Key questions would include:<br>• Is public funding being well spent?<br>• Is funding being lost unnecessarily through administrative or transaction costs?<br>• Is funding being wasted through substitution effects, with recipients taking the opportunity to decrease their own current funding?<br>• Is money being spent on interventions that are unproven, risky or have little chance of delivering reach and impact? |
| Audience acceptability | Does the proposed solution command audience support? | • As shown in Ofcom and BBC research, public service broadcasting retains strong public support<br>• Any new solution or model will need to demonstrate that it has support from the public and does not undermine other parts of the system that retain support today. |

In short, the BBC believes that the key criteria for choosing between approaches should be:

- *Effectiveness:* can the intervention work? – e.g. by aligning an institution's objectives with public goals or by the use of well-specified contracts

- *Reach and Impact:* can the intervention ensure that content reaches its target audience? – e.g. avoiding risks of fragmentation or the lack of promotional support if PSB is spread among too many providers. Does it use the most effective combination of platforms and media?
- *Sustainability:* can the intervention be relied on to sustain an appropriate level of support over a number of years, in a time of great change?
- *Flexibility:* can the approach be altered as market conditions or audience needs change?
- *Complementarity:* does the model complement provision elsewhere or merely replicate it?
- *Governance:* are there appropriate levels of governance and accountability in place, and does the PSB model take into account the impact of governance on institutional incentives and approaches?
- *Audience acceptability:* does it command audience support?
- *Value for money:* is public funding being well spent?

## 6.2 Delivering effective PSB

The broad choice in designing any approach to PSB is between:

- Contracts with commercial suppliers, like Teachers TV, to deliver specific PSB obligations
- Institutions, like the BBC, set up specifically to deliver PSB (typically with access to public funding or other public support).

Ofcom's four suggested models for PSB incorporate a variety of combinations of these two broad approaches. It is worth examining the pros and cons of both contracts and institutions, before moving on to look at Ofcom's four models in detail.

### 6.2.1 Transferable contracts

Contestability can have a valuable role to play in the allocation of public funding in general, in particular to:

- Help get the best deal (efficient allocation of resources)
- Ensure the best ideas are chosen (creativity and innovation)

There is already a high degree of contestability in the PSB value chain:

- For individual programme commissions – for instance, in 2007 independent producers made around 40% of BBC eligible network television output, including half of all broadcast hours in children's programming and 58% in comedy
- For contracted-out services, such as transmission – the BBC's transmission services have been provided on a contestable contract basis for many years
- For audience approval – by competing through innovative and high-quality programmes.

However, contestability in the delivery of PSB **services** has not been implemented widely in the UK.

***Contracting for PSB in practice***

Contracts (in their broadest sense) for the delivery of PSB have taken a variety of forms in the international broadcasting sector, including:

- For individual programmes placed in the schedules of commercial broadcasters (e.g. NZ On Air)
- For strands of programming (e.g. a children's zone on a particular channel) or for complete services (e.g. Teachers TV)
- Between broadcasters and producers (e.g. for independent production of PSB programmes).

Contracting for individual programmes via contestable funding has been in place in New Zealand (through NZ On Air) since 1988. While the approach has had some success in supporting locally produced content, it has suffered from being reliant on commercially-orientated broadcasters as gatekeepers, which may have led to a focus on programming of more popular appeal and less challenge to audiences. It is also not clear whether the funding was incremental or simply replaced commercial spending. As Ofcom put it "The system encourages 'games playing' by the broadcasters, who aim to get public funding, even for programmes they would have made anyway." Several other organisational problems were apparent with the NZ On Air model and were recognised by Ofcom[19].

The New Zealand experience demonstrates that as long as the objectives of the intervention are relatively simple to specify[20] (e.g. the location of where the content is to be produced) then contestable funding via the market place can succeed. However, once the objectives of the intervention become more complex – such as the delivery of high-quality PSB programming – then contestable funding is less successful. For all these reasons, using contracts to deliver PSB on a programme by programme basis – the so-called 'Arts Council of the Air' – has not been adopted in the UK.

Recognising all these issues, Ofcom proposes in its models 3 and 4 the use of longer-term transferable contracts to secure market interventions in the provision of PSB. However, these have rarely been utilised in the UK, for a number of reasons:

- The concept of public service broadcasting is hard to set down in a readily agreeable framework, especially if it has to address a wide-ranging constituency[21]. The difficulty of identifying and agreeing on the nature of PSB was clearly demonstrated by Ofcom's first Public Service Broadcasting Review, which preferred to establish a system of purposes and characteristics, rather than rely on narrow genre definitions. The identification of PSB, therefore, remains a subjective issue open to debate and individual interpretation
- These complexities have at least two consequences: PSB is difficult to specify in a contract and difficult to monitor and measure, requiring highly complex contracts that are likely to be 'gamed'. Clearly, some characteristics of public service broadcasting are more easily described and assessed than others. If contracts are difficult to specify, they are likely to face opportunism and are unlikely to

[19] Ofcom Review of public service broadcasting (2004) "*Phase 2 – Meeting the digital challenge*"

[20] Mayhew & Bradley-Jones (2005) page 165 and McKinsey (2004), *Review of public service broadcasting around the world*

[21] See for instance, Gavyn Davies ed., *The Future Funding of the BBC: Report of the Independent Review Panel*, July 1999

deliver the desired intervention. Specification difficulties also make it difficult for supervisory bodies to monitor performance and, as a result, contracts are difficult to enforce

- In addition to this 'specification problem', academic analysis[22] identifies a further issue that makes contract enforcement difficult: any performance indicators in use are likely to be approximate at best. Given the subjective nature of the definition of purposes and characteristics for PSB, how does one measure whether a programme is challenging, engaging or innovative? This is a particularly relevant issue in the context of PSB, where any assessment of the public service nature of content – e.g. its quality[23] – can be highly subjective and open to a wide range of interpretations. The ultimate risk is that proxies become the desired outcomes in themselves, missing the nuance that they lack.

Teachers TV is an example of the use of contracts for the delivery of a PSB television service in the UK. This service, it can be argued, has the appropriate characteristics for this kind of intervention, in particular: narrow, clearly specified objectives with a specific – and easily targeted – audience. It seems unlikely, however, that similar characteristics apply to the delivery of PSB to broad audiences across a range of purposes.

### 6.2.2 Institutions

Economic theory suggests that when contracting difficulties arise then there may be advantages in internalising the provision of PSB content into one or more dedicated organisations. Ofcom has recognised the power of dedicated organisations in delivering PSB content: 'social purposes may be more easily achieved when the organisational aims within which commissioners and schedulers work are closely aligned with PSB purposes, rather than potentially in conflict with them'[24].

According to academic research, institutions bring several benefits to the production of PSB programming:

- Institutions can attract people who intrinsically value the pursuit of PSB, e.g. through a combination of below-market level wages combined with a suitable benefit-in-kind (such as relatively bigger programme budgets)[25]
- This can encourage the transfer of creative intangible skills which can often only be communicated through demonstration. Academic research suggests that dedicated organisations may create a virtuous circle of internal reinforcement and shared values, accumulating knowledge and experience[26]
- Dedicated PSB-providing organisations are – potentially – better able to ensure their independence from political interference:

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[22] See for instance, Hargreaves Heap, *Television in Digital Age*, Economic Policy Issue 20(41), 2005

[23] Klein B., Crawford R.G. & Alchian, A.A in *Vertical integration, appropriable rents, and the competitive contracting process* (1978) note the particular difficulty in specifying product quality within a contract: 'the costs of contractually specifying all important elements of quality varies considerably by type of asset. For some assets it may be essentially impossible to effectively specify all elements of quality and therefore vertical integration is more likely.'

[24] Ofcom, *Is Television Special?*, 2004

[25] See Hargreaves Heap, op. cit. and also *Special report on entertainment industry*, The Economist, 18 January 2003.

[26] Schlesinger, *Do institutions matter for Public Service Broadcasting?*, 2004

*The BBC's sense of self, and of its place in the world, enables it to attract talent it might not otherwise attract; to demand commitments that other broadcasters may not be able to demand; and to reinforce confidence to withstand outside criticism.*[27]

- Institutions can create room to innovate. There is a risk that commercially driven organisations facing short-term financial market pressures will not be in the same position as a not-for-profit or publicly funded organisation to adopt forward-looking innovation projects and will instead rely on 'tried and tested' formulaic programming. However, it is worth noting that unlike many other public organisations, the dedicated not-for-profit broadcasters in the UK operate in a highly competitive and innovative sector which provides them with incentives to innovate
- Dedicated institutions potentially offer scale that can aid the successful delivery of the purposes and characteristics of PSB. There are a number of reasons why the scale and scope of a dedicated PSB organisation make it more effective at delivering PSB purposes:
    - Broadcasting faces high fixed costs and relatively low variable costs – both in content production and in content distribution. A dedicated PSB organisation has the opportunity to realise significant economies of scale and scope efficiencies, e.g. from spreading its content over a number of projects and outlets
    - Scale and scope aids reach and impact, as content becomes more widely available on a variety of outlets and media and takes up a sufficient share of viewing to influence and inform
    - Scale facilitates the creation of a brand – a trusted place – where the quality of any particular experience good can be signalled in advance by past experience. Schlesinger suggests that this is, arguably, evidence of the wider value effects of organisations: '*having a publicly recognised socio-cultural map of this kind is much broader in import than each channel achieving brand recognition. It implies that the present television architecture is well understood as linked to a range of specific purposes and social values*.' This was also clear from the BBC's deliberative research, where audiences expressed the feeling that they 'knew what to expect' from each of the PSB channels and brands
    - Scale provides a counterweight to fragmentation of audiences and offers a single place for national experience. There is a high risk that this opportunity would be lost in a world where the PSB offering was more fragmented
    - Scale facilitates market conditioning. An organisation with scale is more likely to make an impact on viewers' expectations and condition them to value content with PSB characteristics more highly. Commercial broadcasters (with no PSB obligations) will react accordingly and increase their provision of content with PSB characteristics to attract viewers and advertisers. The relatively large scale of the UK's PSB-producing organisations has influenced the value judgements of the UK television sector as a whole; for instance through a continual flow of staff between those organisations and other broadcasters[28].

There has historically been a role in PSB provision for hybrid institutions like ITV and Five – commercial organisations but with PSB obligations funded through implicit subsidies. To an extent, the public service ethos of these institutions pervades beyond these obligations and is partly derived from the institutional heritage of each broadcaster. It affects many of the wider range of programmes that they make, which are

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[27] Lipsey, *In Defence of Public Service Broadcasting*, 2002

[28] Schlesinger, op. cit., cites correspondence with the director of the Research Centre for Television and Interactivity. According to her, those trained by the BBC constitute a significant part of the freelance sector and take values with them.

held to the same quality and innovation standards of dedicated PSB institutions like the BBC. While the traditional non-cash subsidy benefits are eroding, the incentives to match benchmarks set by the BBC and by public expectations are not. It therefore remains possible to maintain PSB obligations that are aligned with each institution's heritage and brand values. Similarly, Channel 4's unique commercially funded, not-for-profit institutional structure has blended these elements in a different way and brought fresh approaches and innovation to the provision of PSB.

However, institutions do, of course, have drawbacks. For example, one issue is how to ensure that a dedicated PSB producer has formal PSB objectives and, more importantly, sticks to them. As Schlesinger notes:

> *There are inherent risks in all institutions of becoming complacent and inward looking, of believing that there is no alternative to present ways of doing things and that external criticism can be disregarded. In short, while institutional cultures can confer identities and build confidence, they can also stultify and are not necessarily virtuous.*[29]

The risks that Schlesinger describes can be mitigated, including:

- By internal change and challenge through periodic changes in senior management
- Through structural changes, such as the introduction of the independent quota and then the WoCC within the BBC
- Through governance structures, external scrutiny and accountability mechanisms[30]
- Through internal organisational incentives and priorities, for instance by regular re-examination and redefinition of PSB purposes and characteristics. Organisations are arguably able to respond more swiftly to changes in the interpretation of PSB purposes and characteristics than a contract-based system
- Dedicated PSB-producing organisations are also kept on their toes by the market-place in which they operate. The dedicated PSB organisations in the television sector today (BBC, Channel 4, S4C) face daily direct competition from a range of other suppliers, with the scale of commercial funds now clearly surpassing public money in the broadcasting sector.

Hybrid models such as ITV and Five may face increasing tensions between their commercial objectives and their PSB aims and values. The same is true for Channel 4, although mitigated to an extent by its public not-for-profit status. However, there still seems to be a willingness from ITV and Five to remain within the PSB landscape. Using commercial broadcasters like ITV to deliver PSB should not therefore be ignored at least in the short to medium term. Indeed, there is real value in maintaining different institutional and funding approaches that add to the rich mix of PSB available in the UK and provide benchmarks of quality and efficiency. In many ways this notion of institutional plurality, which can be extended to include wholly private companies, is more significant for future policy than any analysis of genre-based plurality.

[29] Schlesinger, op. cit.

[30] It is worth noting that a dedicated PSB-producing organisation may make governance structures more efficient by spreading their largely fixed cost over a large volume of PSB. In other words, it may be more cost-effective to regulate large volumes of transactions within a single organisation rather than a similar volume of transactions across many suppliers in the market-place. Familiarity with a brand also facilitates engagement with audiences which is essential to ensuring accountability.

### 6.2.3 Analysis of Ofcom's four models

The analysis in the previous section would show that, to satisfy the tests described earlier, the most important aspects of any new model would include:

- A focus on institutional delivery for any PSB provision where its most valued aspects are less easily definable qualities: e.g. innovative, high-quality, 'serious', 'in-depth', 'reflective of UK society'
- A preference for a range of PSB institutions with different funding and governance models, but which can provide common benchmarks and yardsticks.

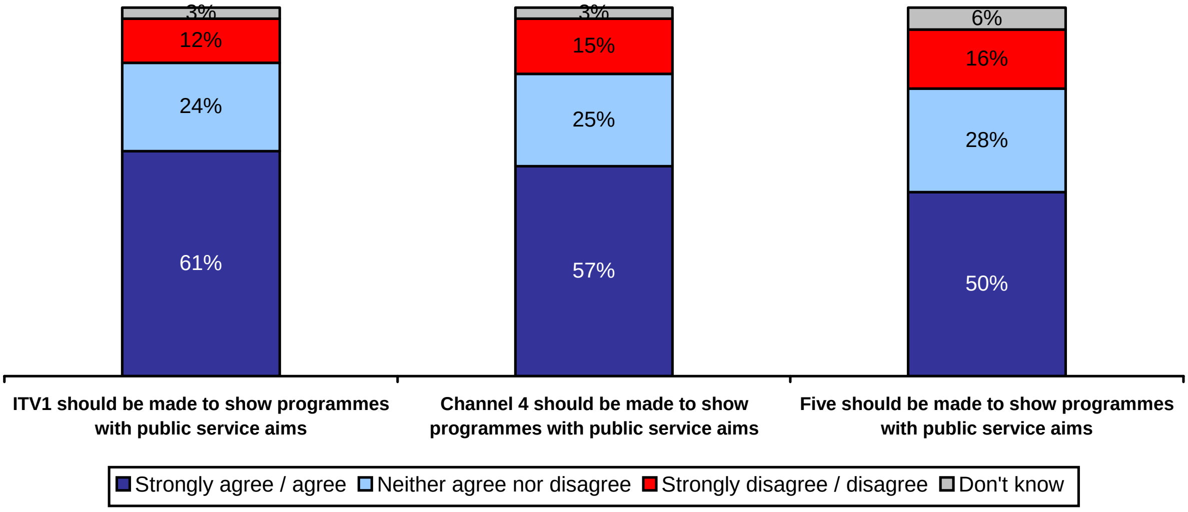
In addition, a careful use of contestable, transferable contracts might be considered for those more limited areas within PSB purposes where they can be used, and where the balance of advantage outweighs the proven benefits of institutional delivery.

Using this analysis, it is possible to evaluate Ofcom's four models for future PSB delivery and reach conclusions around their likely impact:

- Model 1 (Evolution) offers the broadest range of institutional approaches and would have the greatest chance of achieving significant reach and impact. PSB obligations would need to be balanced against residual PSB benefits, but on the balance of the analysis in the previous chapter, this is likely to be achievable if realistic aims are adopted and priorities established clearly. The role of Channel 4 would need to be clarified, in its purposes, remit and financing
- Model 2 (BBC only) would carry the least risk to value for money and would guarantee the majority of current PSB provision. However, it would incorporate the smallest range of institutional approaches and therefore would lack the kind of diversity of approach that has characterised PSB provision to date
- Model 3 (BBC, Channel 4 + possible contestable funding) would have the advantage of retaining two PSB institutions alongside a fully commercial sector. However, the loss of ITV and Five from the PSB family would reduce institutional plurality and jeopardise reach and impact. It is not clear that there are many providers who could – on a contestable basis – supply the kind of PSB programming, reach and impact that ITV, in particular, has delivered
- Model 4 (broad competitive funding) is the least attractive of all the options. It reduces institutional plurality drastically and even the BBC is significantly smaller. A range of contestable contracts may provide a range of new PSB material, but it is likely that this output will fail to have reach and impact and it is unlikely to provide value for money. Contestability on this scale is unproven and would lack audience acceptability.

As part of the BBC's audience research to support the PSB Review, we asked audiences for their views on the continued delivery of PSB via existing institutional providers. Audiences were keen that all the current commercial PSBs continue to provide PSB output – particularly ITV and Channel 4, with at least half of audiences agreeing or strongly agreeing that they should continue to show PSB programmes:

*To what extent do you agree or disagree that each of these broadcasters should continue to be made to show programmes with public service aims, alongside the BBC, in the future?*




*Source: Ipsos MORI quantitative survey; base = 4,577*

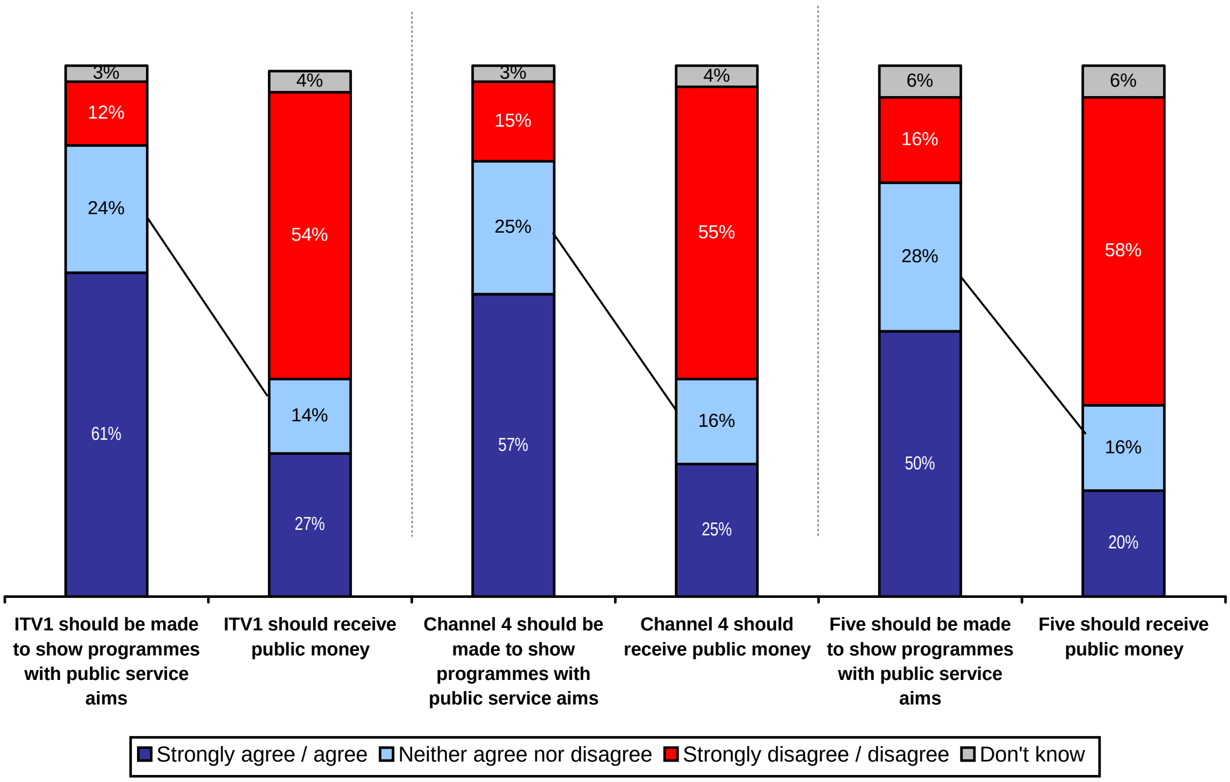
However, the research also demonstrated that audiences intuitively understood that different broadcasters had different funding mechanisms and objectives, and this led to different expectations of them. There was much less support for the notion that public money should be used to support the future public service commitments of commercially funded broadcasters. In the deliberative research:

> *Many participants thought that high quality programming should be capable of earning sufficient advertising revenue and that, as commercial businesses, they should stand on their own feet. Participants expressed concern at what they perceived to be a subsidy for commercial businesses; in addition, many worried about imposing costs on other people, even if they themselves could afford it; finally, some participants objected to the principle of paying more on top of the Licence Fee and pay TV subscriptions.*[31]

These opinions were reflected in the generally low scores given to the idea of using public money to fund commercial broadcasters in the quantitative survey, even though respondents had been made aware of the genres that might be reduced on ITV1, Channel 4 and Five without this. Over half of all audiences disagreed or strongly disagreed with this, despite the much higher scores given to their general support for PSB on those channels:

[31] Human Capital, *Public service broadcasting now and in the future - audience attitudes*, June 2008

*To what extent do you agree or disagree that each of these broadcasters should receive public money so that they can show programmes with public service aims, alongside the BBC, in the future?*




*Source: Ipsos MORI quantitative survey; base = 4,577*

This apparent reluctance to provide direct public money to commercially funded PSBs is also reflected in the audience research around Ofcom's funding methods reported in the next section.

## 6.3 Funding level and sources

### 6.3.1 The future level of PSB funding

In its analysis of the overall level of PSB funding, Ofcom focuses on the fall in non-cash PSB subsidies since 2003/4 – put at £335m by 2012. It therefore recommends that 'new funds should be found to replace the current declining implicit subsidy'[32].

However, this analysis raises some important issues, in particular that:

- The fall in value of PSB subsidies is a number that, as Ofcom itself recognises, is subject to a number of uncertainties and may not prove a strong enough basis on which to scope future public intervention

[32] Ofcom, *The Digital Opportunity*, April 2008

- It is not connected to audience need and, for instance, does not include the contribution made to UK production by non-PSB channels which is estimated by Ofcom at £268m in 2007[33]. It also does not include the contribution made by non-UK output. We agree with Ofcom that acquired programming may not contribute to all PSB purposes directly, but there is no doubt that it contributes to some and adds vital diversity, quality and plurality to the PSB landscape
- It does not include the contribution to the public purposes made by commercially viable PSB output
- It does not take into account the public's willingness to pay for PSB in the context of a hugely changed media landscape.

The BBC believes that the future scale of PSB and its funding is an important issue. To an extent the long-term level of PSB need will depend on which market scenario emerges. As outlined in section 3, market developments and the viability of commercial PSB is subject to a range of possible outcomes and is affected by a number of uncertainties that cannot be fully evaluated at this moment.

Given these uncertainties, a strong case can be made for the current broad levels of funding to be maintained over the ten-year time horizon of Ofcom's Review, though any quantification of this level of funding should include content which serves PSB purposes and PSB characteristics from whatever source. Given the continuing importance of PSB, audience support, and uncertainties about future market developments, it would be unwise to risk cutting back. Some aspects of PSB are likely to incur increased costs: the need to spend more on marketing and promotion, the need to maintain different distribution platforms and the need to invest in higher production values to keep pace with global competition. On the other hand, new media developments may increase or decrease the need for PSB – for example, if less but better content can be made available on demand, then overall expenditure on PSB might be able to fall, while still delivering high public value. However, market and technological developments are too uncertain to be definitive today.

### 6.3.2 PSB funding sources

Discussion of PSB models should not be separated from the debate about funding sources. It would be pointless to choose a preferred model, only to find that the way of paying for it is through the least preferred funding method. A range of funding sources has been suggested by Ofcom to replace that funding lost through the declining value of the non-cash PSB subsidies:

- Direct public funding (taxation or hypothecated spectrum proceeds)
- The licence fee (including retaining the licence fee funding currently ring-fenced for the Digital Switchover Help Scheme, opening up core licence fee funding to other providers, or using BBC assets to support other providers)
- Regulatory assets (e.g. access to spectrum, revised advertising rules)
- Industry funding (e.g. levies as proposed in France).

There are strong benefits and disadvantages to each method, some of which Ofcom outlines in section 7 of its consultation. The BBC's views on each method are set out below:

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[33] Ofcom, *The Digital Opportunity*, April 2008

| Category | Funding method | BBC comment |
| --- | --- | --- |
| Direct Public Funding | Grant-in-aid / other government grants | • Direct government grants are preferred by economists as being least distortionary and can be assessed against other calls on public funds<br>• They are currently in use for PSB delivered by BBC World Service, S4C, GMS and Teachers TV<br>• However, this method of funding may pose a risk to the recipient's independence – it is notable that all of the above have characteristics or mechanisms to mitigate this: BBC World Service is focused on global issues; S4C and GMS both rely on a news service produced by the BBC; Teachers TV has a limited remit and reach<br>• There is always a risk that 'soft' cultural investments may lose out in spending reviews to 'hard' investments in, for example, health<br>• Lottery funding might be quite limited and would prompt claims that other organisations were having funding reduced. However, it appears to be acceptable to audiences (see below) |
| | Hypothecated spectrum proceeds | • This would share similar pros and cons to the direct funding above. While attractive in many ways, funding from this source may vary unpredictably from time to time and might not be reliable in the long term |
| Licence Fee | Currently ring-fenced licence fee | • The BBC believes the risks and drawbacks greatly outweigh the benefits: see below in section 6.3.3 |
| | Core licence fee | |
| | BBC assets, e.g. BBC Worldwide | |
| Regulatory assets | Access to spectrum | • These are two of the more attractive of Ofcom's options – see BBC analysis below |
| | Revised ad minutage rules | |
| | PSB status for other channels | • This is an option worth exploring further, and might be used in conjunction with other methods to increase the likelihood of PSB content achieving reach and impact through better EPG positioning<br>• However, as a funding method it is unlikely to raise significant amounts |
| Industry levies | Various | • Specific taxes on broadcasters or other organisations are likely to affect investment, reduce commercial output, and may be politically difficult to introduce. There is also the risk of off-shoring. |

Of the funding options, our analysis suggests that provision of regulatory assets – in particular access to spectrum at lower than market prices – offers the most promising funding option to support PSB on commercial broadcasters, for it is a tried and tested way of delivering PSB output on commercial broadcasters and has been a key support for the PSB ecology so far. It would avoid all the difficulties associated with the direct public funding of output on commercial channels. It is possible that the value of this spectrum could be substantial and other benefits (such as EPG listing regulations for Five) also retain significant value – in Ofcom's analysis, overall, around £200m[34].

Ofcom aims to introduce spectrum prices for broadcasters, including PSBs, and has suggested these will be based on opportunity costs to broadcasters. If these prices are based on the value of the spectrum to any user, including mobile telephony, they could be much higher – making it difficult for any broadcaster to make a reasonable return on the spectrum used.

In any event, to take full advantage of the opportunity to use the value of spectrum in return for PSB, Ofcom could maximise the value to PSBs of access to DTT spectrum. Even this on its own could, for example, on Ofcom's current analysis, yield a value of £45m per year for ITV, suggesting a total value for PSB in excess of £100m a year.

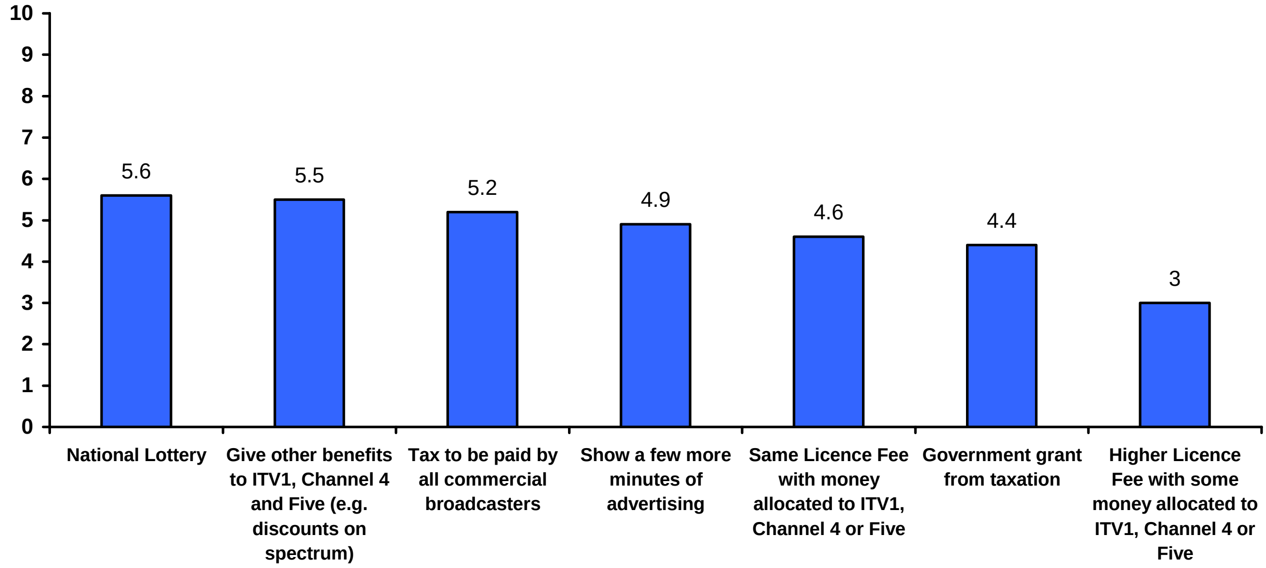
In the light of this, the BBC would suggest that Ofcom confirms that it is prepared to waive spectrum pricing for PSBs. Further work could be done to produce a more detailed and definitive view of the value of gifted capacity to all commercial PSBs, and the extent to which it could be used to fund key PSB obligations. While the worth of spectrum may remain uncertain at this point, it looks likely to retain significant value that could be used in this way. Ofcom's PSB review also suggests increasing advertising minutage and there could be value here for the traditional PSB channels.

Beyond regulatory assets, there are no uniquely attractive options as they all carry different but real risks. On behalf of the BBC, Ipsos MORI explained to audiences the trade-offs involved in these decisions – including the genres of programming that might be reduced on broadcasters outside the BBC – and then, in the course of a questionnaire, asked which of Ofcom's methods of funding might be the best way to secure PSB provision outside the BBC. None of the proposed options received a high score, with all achieving a mean score well under 6 out of 10.

[34] Ofcom, *The Digital Opportunity*, April 2008

*How do you feel about the different possible ways in which funding could be provided to ITV1, Channel 4 and Five in the future so that they can show programmes with public service aims?*

*(Scale: 1 = extremely unfavourable; 10 = extremely favourable)*




*Source: Ipsos MORI quantitative survey; base = 4,577*

A fair assessment of audience reaction would conclude that none of these funding options has much public support, warranting a critical examination of the need for additional public funding in the first place. In the research that the BBC has carried out, indirect funding methods are more popular than direct ones, supporting the argument that when asked to pay directly to maintain plurality, audiences are unenthusiastic.

### 6.3.3 Licence fee funding

Given the significance of this question to the BBC, we have explored in more detail the implications of using the licence fee for other broadcasters. Ofcom identifies three possible sources of funding from the licence fee:

- Core licence fee
- That part of the licence fee currently used to support digital switchover
- The use of BBC assets, e.g. BBC Worldwide, to support other providers.

***Core Licence Fee***

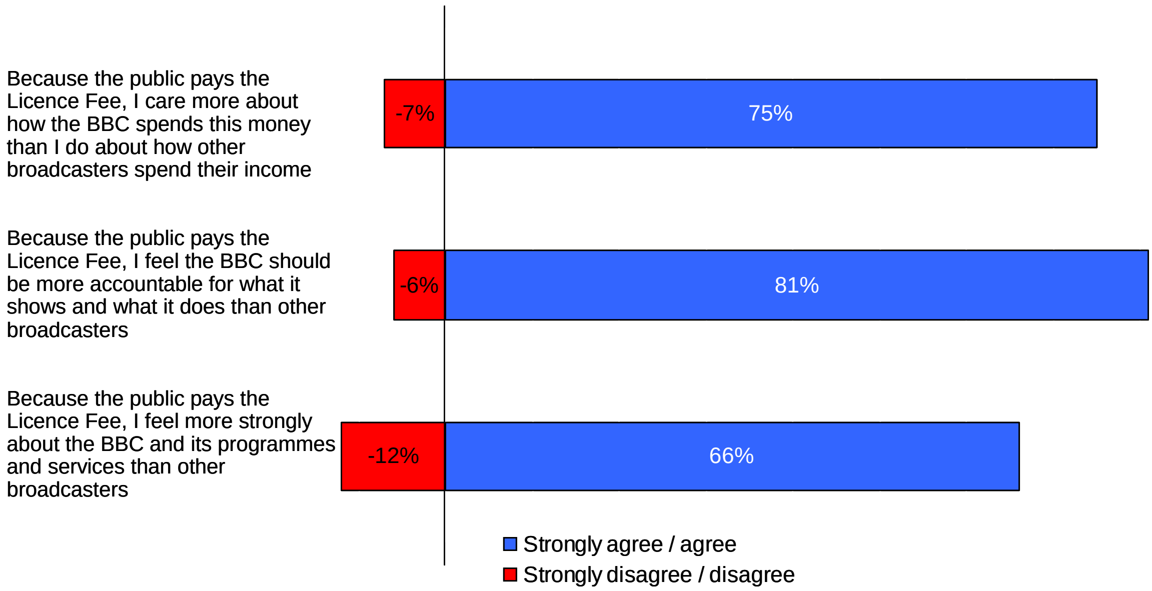
Ofcom mentions a few of the possible risks of using licence fee funds beyond the BBC. The BBC believes that there are a number of reasons why the use of the licence fee to fund programming on other broadcasters would risk significant damage to both the BBC and public service broadcasting in general. It would:

- End the unique link between the licence fee payer and the BBC
- Require new accountability mechanisms to be put in place for any new recipients
- Risk further upward pressure on the licence fee by giving scope for powerful and continuing lobbying in future, in turn risking the continual erosion of funding available to the BBC
- Reduce, if given to commercial broadcasters, the total amount of money spent on PSB: by running the risk of subsidising programmes that might have been made anyway and by wasting money on new mechanisms
- Mix advertising revenue and public funding at a UK level for the first time, potentially weakening commercial incentives and advantaging some commercially funded broadcasters over others.

In more detail:

- Our audience research shows that licence fee payers widely and intuitively understand the link between the licence fee and the BBC. This makes them feel more strongly about the BBC, its services, its accountability and the way it spends its money. Ipsos MORI research shows that audiences see a clear link between paying the licence fee and their attitudes towards the BBC; Human Capital concluded that: 'the quantitative research strongly suggests the licence fee plays an important role in shaping the audience's link to the BBC'[35]:

*Attitudes towards the Licence Fee and the BBC*



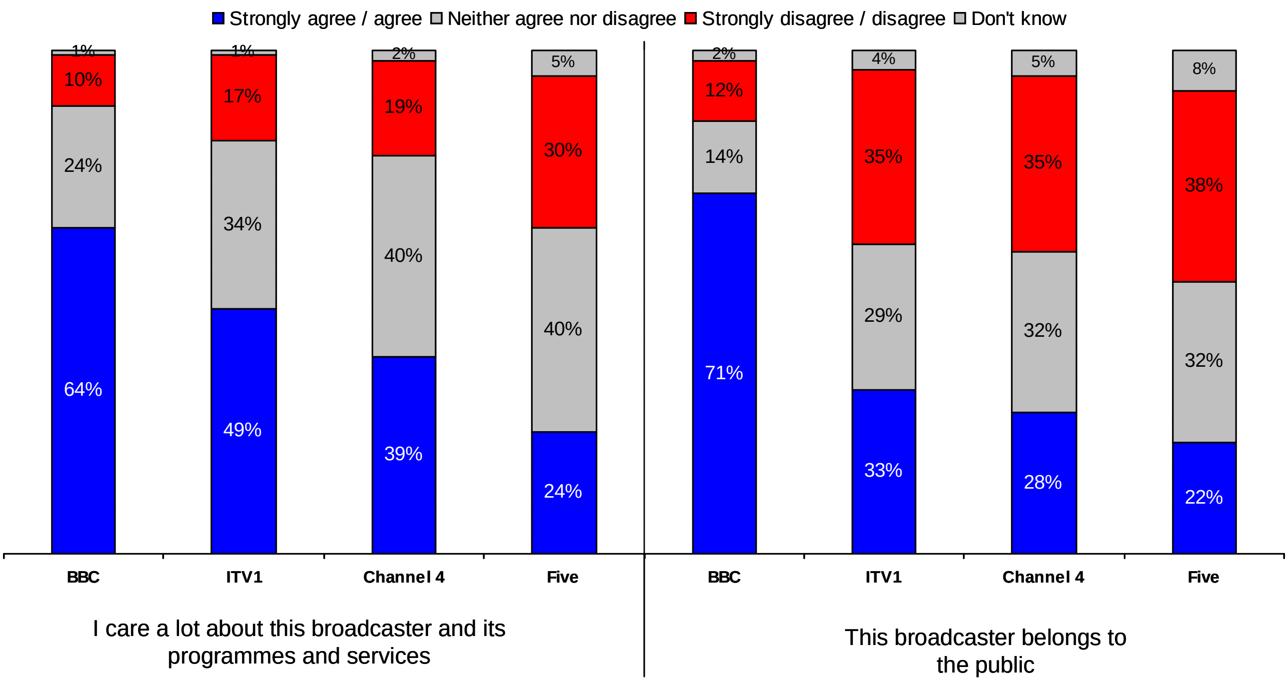

*Source: Ipsos MORI quantitative survey; base = 4,577; 'Neither agree nor disagree' 12%-20%, DK 2%*

- Top-slicing would weaken this link by spreading responsibility for what the licence fee is spent on beyond the BBC. If given to commercial broadcasters, audiences would not know which programmes were licence-fee funded and which were commercially funded. It is clear from audience research that

[35] Human Capital, *Public service broadcasting now and in the future - audience attitudes*, June 2008

licence fee payers have different opinions and expectations of the BBC versus other broadcasters. As such, spreading the licence fee among commercial PSBs could confuse this relationship:

*Attitudes towards the BBC, ITV1, Channel 4 and Five*




*Source: Ipsos MORI quantitative survey; base = 4,577*

- Distributing the licence fee to other providers would give scope for powerful and continuing lobbying for more licence fee in future from all those who stand to get it, placing significant upward pressure on the overall amount needed. It is clear that a significantly higher licence fee would be unpopular with most audiences. In our quantitative research, a top-sliced higher licence fee was the least popular funding option amongst audiences, achieving a mean score of 3 out of 10
- Giving direct public funding to commercial broadcasters may reduce the total amount of money spent on PSB, by running the risk of subsidising programmes that might have been made anyway. It would also take money away from PSB through the need to set up new structures and mechanisms for its distribution. It would also require new accountability mechanisms to be put in place for any recipients
- Giving direct public funding to commercial broadcasters could mix advertising revenue and direct public funding at a UK level for the first time and could have a detrimental effect on other commercial players. At the moment, at a UK level, the BBC competes for audiences with the other broadcasters but not for revenues. Public money handed to commercial players would be funding programming that would also be attracting UK advertising money, potentially distorting the market.

### *Ring-fenced Licence Fee*

Ofcom refers to the BBC income spent on digital switchover as an 'excess' that could be top-sliced. This income is not 'excess', however, but fully allocated to the BBC's sixth purpose of 'delivering the benefits of emerging technologies'. The role of the BBC in driving new technology and bridging digital divides is a long-standing one and has been acknowledged by successive Secretaries of State – long before the

BBC's sixth purpose was formalised. It was on the basis of this role, for example, that approval was given for the development of bbc.co.uk, for the BBC's digital radio and television channels, and for its participation in Freeview. In fact, the BBC's role in inventing and investing in new technology was specifically acknowledged in its very first Charter of 1927[36].

Although the need to spend money on Digital UK and DSHS will indeed end around the time of digital switchover, the general purpose which these investments support has been a core part of the BBC's mission for over eighty years and will not end in 2012. With digital television switchover far from complete; with DAB requiring further support; with the 'digital divide' set on current trends to remain well beyond 2012 – it is too soon to talk of taking investment out of promoting digital Britain.

***BBC Assets***

Ofcom also proposes that BBC assets could be used to support other providers: e.g. Channel 4 granted a stake in BBC Worldwide. However, Ofcom also suggests that 'parallels [for this option] include content provided by BBC for S4C and Gaelic Media Service'[37]. However, it is important to recognise that:

- The BBC supplies content to S4C, not funding. BBC content on S4C is editorially controlled and commissioned by the BBC; it is also branded as BBC content so that audiences know clearly where the programme has come from and how it was funded. The new Gaelic Digital Service is a BBC-licensed channel, taking output funded by the BBC licence fee and branding it as such on screen
- Ofcom's proposals appear to imply no such accountability and transparency. BBC Worldwide exists to exploit the intellectual property the BBC has created to the benefit of licence fee payers – generating profits that reduce the call on the licence fee and maximise value for money. While preserving the unitary receipt of the licence fee by the BBC, the proposal to share BBC Worldwide assets would still not increase the overall amount of public money being invested into programmes and would potentially involve costly and bureaucratic systems of governance and accountability. It is likely that there are more productive ways of using the global reach of BBC Worldwide for the benefit of all PSBs, and the BBC is actively exploring these.

In addition to the audience research already cited, the BBC has carried out research into the opinions of the creative community, to understand their views around the current health of public service broadcasting, and on what should be done to secure its future delivery. Contributors represented a variety of independent company sizes, regions and programming genres. Of those consulted who believed Channel 4 had a future PSB role, the majority were against the idea of top-slicing the licence fee, despite the fact that this might be seen to be in the commercial interests of independent producers:

> *People thought the BBC was incredibly important. They were often concerned about its future, and eager that the broadcaster – and PSB – be protected. Many of those in opposition to top-slicing, both inside and outside the BBC, worried that the BBC would become weak if it lost its scale, and public service provision would suffer seriously as a result*

[36] Article 3(g) referred to using and developing patents in 'any invention in relation to any device or machine serving or calculated to serve any useful purpose in connection with any objects of the Corporation'
[37] Ofcom, *The Digital Opportunity*, April 2008

*in terms of the amount, genres, quality and innovation of its programming. With the BBC functioning as a standard-setter for commercial broadcasters in PSB areas, this would have serious ramifications on the whole market.*

*A few respondents argued that public support for the Licence Fee, critical to the PSB ecology, is dependent on the public's understanding of what they are getting in return. This link is clear with the BBC. They argue that giving some money to a commercially funded organisation would evoke public confusion over where their money was spent, and in doing so undermine loyalty to the very idea of PSB provision.38*

In conclusion, top-slicing is unpopular with audiences, risks the long-term future of the BBC and was supported by very few of those from the industry interviewed in Human Capital's creative community research. As a funding option, it appears that any possible benefits are strongly outweighed by the drawbacks and the risks.

[38] Human Capital, *Creative Perspective*, June 2008

# 7 The way forward

In the preceding sections we have outlined a number of issues to be tackled in the design of any new settlement for PSB:

- There are many challenges ahead for commercially funded broadcasters, which will require adjustments to their PSB obligations and a focus on what is most important to audiences. However, the high level of uncertainty around potential outcomes cautions against a radical reshaping of the current system
- The benefits of plurality are likely in most cases to be delivered by the market-place; the case for some of the posited benefits of plurality is not strong enough to justify substantial public intervention beyond a few, limited areas
- Institutions offer the most effective method of delivery for PSB and are more likely to deliver value for money (itself a crucial criterion) than other methods. Maintaining a plurality of institutions, public and private, should be an important policy objective, for from this will flow a more efficient and sustainable form of diversity and competition than from more detailed interventions like contestability
- None of Ofcom's proposed funding methods is without significant risk. However, the use of regulatory assets is feasible; within Ofcom's gift; acceptable to audiences; and likely to raise sufficient funds to cover priority public intervention beyond the BBC.

It is unrealistic to try to design a highly managed new PSB ecology in such a swiftly changing environment. In place of the carefully calibrated PSB ecology of old, the BBC believes it more important to build on the strengths of existing public institutions – to secure reach and impact, help support investment in UK programming by a thriving commercial sector and, where possible, address any significant output gaps. It is likely that no one institution can do this alone and we will need to find solutions for the sector that involve the whole sector. In order to retain the best parts of the old system while strengthening it for the future, we would suggest the following aims:

- A redefinition of PSB to cover digital media as adoption rates allow, with changes to purposes and characteristics
- Changes to the PSB system that encompass ideas around distribution, PSBs working together, bridging the digital divide and access to rights and distribution
- A healthy and focused BBC, with a more open approach to collaborations, partnerships, and diversity of voice
- A dynamic commercial UK media sector benefiting from regulatory easement where appropriate, focused on its natural strengths and encouraged to invest in UK mainstream content
- A distinctive Channel 4 that complements the BBC, is commercially funded, and has the right flexibility and incentives to prosper
- The case is still to be made for additional PSB interventions, directly funded, where there is a real and justified need to provide alternative perspectives alongside the BBC. This could be a possible solution in the long term if it did not undermine PSB provision elsewhere.

## 7.1 Changes to purposes and characteristics

Public service broadcasting has public purposes that cover its breadth and range and that focus on important citizenship benefits which would be under-supplied by the market. Audiences broadly support the current purposes: the BBC's deliberative and quantitative research found all received high scores[39]. We agree with Ofcom that the existing purposes and characteristics remain valid as a framework for the delivery of PSB, though we would suggest some amendments and extensions to be considered as part of the Review.

### 7.1.1 Purposes across digital media

To ensure that public service broadcasting can rise to the challenge of a fully digital media future, the BBC believes it is important that it is made explicit that the purposes apply to new media as well as old. Otherwise there is a danger that the potential social benefits of digital media – e.g. enhanced delivery of learning, providing a civilised and balanced platform for debate etc. – may fail to be realised. Within this aim, citizen empowerment would be a key theme: to help people find content of value, understand and interpret new media, and be properly equipped to make informed choices about the content they would like to access. The PSBs can play an important role here as trusted brands with strong reputations for accuracy, impartiality and fairness.

As outlined above, in some areas digital media may very shortly become more effective at delivering the public purposes than conventional media. Audiences appreciate the distinctive role that the BBC – and other PSBs – could play in the digital media environment, and this should be recognised in the application of the purposes.

### 7.1.2 Potential additional purposes

Within the BBC's purpose to 'represent the UK and its Nations, regions and communities' is the commitment to provide licence fee payers with 'the opportunity to share the same experiences with other people (like major events, live events and popular programmes)'. We believe that this theme could be broadened across the PSBs to encapsulate the concept of social cohesion. PSB programming has played a role in supporting a sense of shared values for many decades – this role is one of the reasons why audiences still feel that public service broadcasting plays such an influential role in their lives. Helping to support and communicate the values of civil society could be an important explicit future goal of PSBs.

As the BBC Trust's work on social trends has found, there is likely to be a greater role for PSB to play in contributing to social cohesion in the future. As well as rapid changes in technology, there have been important changes in areas such as national identity, the democratic process, and family life, as well as greater diversity of background, belief, lifestyle and experience for UK citizens. These all point to an enhanced role for public service broadcasting, to contribute to an understanding of these issues, as well as promoting shared values and cultural reference points.

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[39] Participants were invited to comment on six public service aims, based on Ofcom's PSB purposes and the BBC's purposes

### 7.1.3 Potential additional characteristics

Ofcom's purposes are supported by six characteristics which PSB programmes should display: high-quality, original UK content, innovative, challenging, engaging and widely available. In the BBC's research for the review, audiences were asked whether they believed these characteristics were important, and further concepts were added to be tested: 'providing programmes / content about the different regions of the UK', 'fair and balanced' and 'to be trustworthy'. All characteristics were found to be relatively important, with mean scores of well over 7 out of 10. However, the single most important characteristic was one of the additional ones: 'trustworthy', with eight out of ten respondents rating this highly important[40].

There is little doubt that the high score for trust is related to the recent controversies relating to fairness in the conduct of phone-ins and competitions among broadcasters. However, it would appear from this research that the predominant reaction among audiences is one of belief in the necessity of trust as a characteristic of public service broadcasters, rather than a view that it has been fatally compromised. As a result, the BBC suggests that Ofcom should consider adding 'trustworthy' as a formal characteristic.

## 7.2 Remits and responsibilities

Securing the future of PSB may need changes in the way it works across the system and in the remit, responsibilities and behaviours of individual PSB institutions. This section outlines, in headline terms, some possible changes, solutions and ideas which the BBC believes Ofcom should consider as part of phase 2 of the Review. They include a set of ambitious proposals from the BBC to help support the whole PSB sector.

Across the system:

- Broadcasters, regulators and the communications sector should work together to ensure that all users have a reasonable quality of access at a fair price to public service content over the internet. We would support the EU taking a proactive role by bringing together regulators and stakeholders in the interest of transparency, best practice and effective enforcement of existing rules. This could include the establishment of a monitoring forum at EU level, involving EU, national regulators (NRAs) and industry stakeholders, to monitor developments, exchange best practice and support effective rules enforcement
- IP and rights policy should be revisited to ensure effective exploitation of content across media and platforms, while ensuring a fair return to producers and creators. Allowing better rights management for digital content online would be a key part of extending the new media reach of public service content and therefore the wider potential for online content to contribute to PSB.

### 7.2.1 The BBC

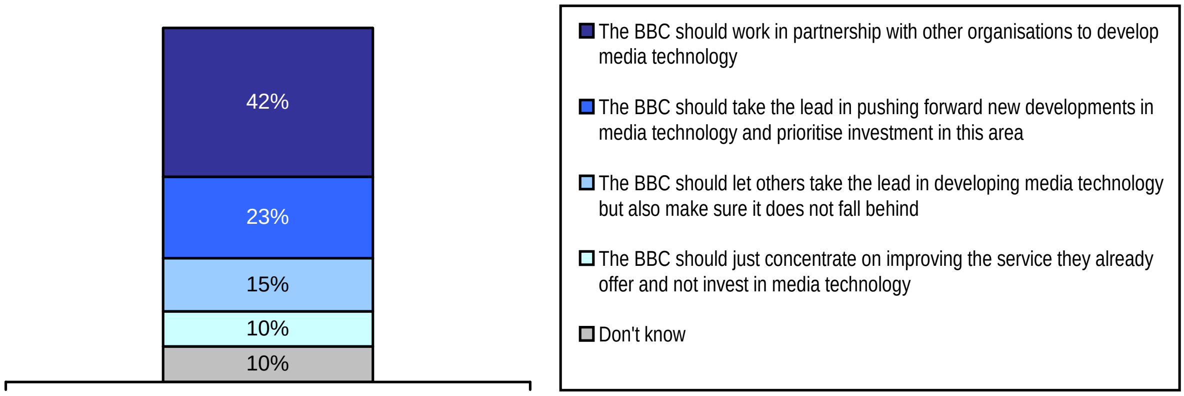
The new PSB framework should build on the strengths of the BBC, not put them at risk. A BBC of sufficient scale and scope will help sustain PSB's wide reach and appeal, and will continue to play a key

[40] Source: Ipsos MORI quantitative survey; base = 4,577

role in conditioning the rest of the market. A BBC of sufficient scale will also be needed to respond to some of the important competitive pressures from large global players.

However, the BBC itself must evolve to enhance the PSB market. We believe there are a number of ways in which the BBC can play a role in delivering the digital opportunity and securing PSB provision across a range of institutions in the long term, as already outlined in section 1. It is clear that there is support among the audience for this partnership role for the BBC in the area of new technology:

*In your view which of the following best describes what the BBC should do in developing media technology?*




*Source: YouGov survey; base = 5,097; data weighted to online adults*

The BBC Executive has proposed partnership ideas across a number of areas. Emerging ideas include:

- *The digital production revolution*: The BBC is spending over £100million by 2012 investing in a revolution in digital production. The vision across all media is for 100% total digital production so that all content is 'born digital and stays digital'. The BBC is backing this revolution for two reasons: first because it is the only way of fully exploiting the incredible creative opportunities that 360˚ media offers to content creators and audiences; second because this revolution is the only way in which the BBC can fully meet its own daunting productivity and efficiency targets – targets which, by 2012, imply a 20% like-for-like saving in in-house and independent TV production. If the BBC shared its knowledge and expertise with producers, broadcasters, publishers and manufacturers of broadcast and production equipment, much of this opportunity could be unlocked across the industry. Other broadcasters – and in particular other PSBs – could migrate more easily onto the new digital platforms and the adoption of common technology standards could have significant benefits for the UK as a whole. If other PSBs could achieve savings comparable to the BBC's, then their linear content budgets could go further. As a result, their ability to continue to support PSB could be significantly improved
- *Research & Innovation:* The BBC has an active research and development department (BBC Research & Innovation) that supports its core needs as a traditional broadcaster, as well as providing technological solutions for the BBC's digital media offering. The BBC already shares innovation related to broadcast technologies widely with the UK and global industry, and has made a central

contribution to collaborative initiatives such as Freeview, Freesat, HD and DIRAC video compression technology. In new media, there is scope to increase the BBC's wider contribution to the industry, working more extensively with developers and others on open-source standards and approaches

- *Enhancing findability*: Ofcom identifies the wealth of public service content already on the internet – from museums, galleries and many others – but concludes that it is often too hard to find and aggregate. To enhance the findability of such content, the BBC could work with cultural and creative partners to explore the possibility of sharing content, navigation systems and other resources so that audiences can find the best UK public service content online
- *Helping make regional news sustainable beyond the BBC*: The BBC remains fully committed to comprehensive regional and local newsgathering across the UK. Mindful of the potential for market distortion, we are exploring ways of making some of the BBC’s regional and local news materials available to other news outlets for repurposing and rebroadcast in ways which support the economics of regional news provision beyond the BBC
- *Exploring global opportunities with the independent sector and other PSBs*: BBC Worldwide has already begun to explore ways of using its global scale and leverage to deliver stronger global revenues to other UK PSBs, and looks to take this idea further through open discussion within the sector.

There is a further important field for potential partnership which, while not affecting the immediate economics of other broadcasters, might nonetheless help to play an important and valuable role in the future of electronic media in the UK, extending the public value delivered by traditional PSB in a fully digital age.

- *The challenges facing DAB*: Some tough choices had to be made at the time of the BBC’s six year plan about the funding available for DAB. However, beyond its current commitments, the BBC could support a bold set of measures to develop DAB on behalf of the whole industry, including extending the coverage of the BBC’s national multiplex beyond 90% of the UK population; developing a plan for extending the coverage of the BBC’s Nations radio stations; and initiating a stronger marketing effort co-ordinated across the industry
- *Closing the digital divide*: Around 20% of the population is still expected not to be connected to the internet by 2012. By working in cooperation with Government, PSBs, ISPs and other partners, the BBC could play an important content-led role in helping bridge this divide – using outstanding content, comprehensive public information, and pan-industry coordination to encourage the last cohorts of British households to join the broadband revolution
- *IPTV*: There is an opportunity for the BBC and other PSBs to work with ISPs and the wider industry to set a simple, open standard to deliver internet television to TV sets. IPTV could play an important part in delivering the ultimate goal of universal broadband access, with all of the wider consumer and citizen benefits that would bring.

The BBC Executive will explore these and other ideas over the coming months in discussion with the industry, and will submit fully developed proposals to the BBC Trust for its formal consideration later in the year.

### 7.2.2 ITV

We believe that ITV has a vital and enduring role to play in public service broadcasting. Among commercial PSBs, it has unmatched reach and impact and continues to invest in high-quality programming across a range of popular genres that delivers Ofcom's purposes and characteristics. In a market conditioned by the BBC, ITV will still need a strong UK programming schedule to win audiences and revenues. However, we believe that, as a commercial player, it should have more flexibility to respond to forces shaping the market.

We would like to suggest some specific proposals around core areas identified by Ofcom:

- We agree with Ofcom that national news will remain commercially viable for ITV, and ITV will continue to provide healthy competition for the BBC. There are good reasons for existing commercial PSB channels to continue delivering national and international news – even in the absence of obligations. The indirect benefits, not reflected in advertising income, which stem from the provision of news are significant: extending reach and attracting valuable demographics; providing anchor points for nightly viewing; and delivering status and brand credibility.

  Work undertaken for the BBC by Human Capital on the sustainability of network news for commercial PSBs concluded that news, given its relatively lower costs per hour, is the most efficient genre for ITV1 in terms of converting programme investment into advertising impacts, while for Channel 4 news is average compared to other genres. This efficiency 'cushion' is particularly significant at a time of audience fragmentation[41]. This analysis helps to explain why all the networks in the US (apart from Fox), Canada and Australia show peak-time news even though they are under no regulatory requirement to do so
- It is clear that audiences continue to place a high citizen value on Nations and Regions news, which remains the key element of Nations and Regions provision. As outlined in section 5, maintaining a diversity of news provision is likely to remain important. In order to maintain reach and audience impact, we believe that N&R news – along with network news and UK originations – should be a primary public service obligation for ITV. It is part of their institutional heritage and their audiences are least likely to switch to other providers, particularly if that content is provided on the internet
- We accept that the economics of Nations and Regions news for ITV is challenging, owing to the high cost of producing simultaneous news programmes across the network. We therefore suggest that ITV's commitment should be evolved and modernised in the light of digital opportunities and can see merit in its recently reshaped proposals in this regard. The commercial benefits to ITV of PSB status after switchover, particularly reserved capacity on DTT spectrum, may offset, to a large extent, the reduced opportunity costs of its restructured news provision[42]

[41] Human Capital, *Future of News on the Commercial PSBs*, June 2007

[42] Ofcom estimates that the opportunity cost to ITV of its current nations and regions news requirement is around £50million per year. The value to ITV of PSB benefits (i.e. DTT spectrum) after switchover is estimated by Ofcom at around £45million per annum.

- In light of the fast changing market-place, it would be sensible to build greater flexibility into licensing for ITV as a continuing PSB. Over time, it may be appropriate to allow the transfer of some of ITV's N&R news obligations to new delivery platforms such as broadband, in line with the migration of audiences. In addition, the Secretary of State for Culture, Media and Sport has suggested that the BBC's regional news facilities could be shared with other broadcasters to reduce the costs of sustaining a plurality of provision. The BBC is prepared to look at the viability of this option in certain areas, though we are also exploring ways of making some of the BBC's regional and local news materials available to other news outlets for repurposing and rebroadcast
- Ofcom suggests that action is likely to be required in Scotland ahead of other parts of the UK. Given the devolved nature of government in Scotland, high-quality TV news is important to complement national press and radio provision. For the reasons outlined above, news should remain the core part of the main commercial broadcaster's (STV) commitments – at least until the current licences end – in order to maintain TV news plurality and audience reach. It is not clear from Ofcom's analysis why the provision of TV news is less commercially sustainable in Scotland, with its comparatively strong media market, than in the other two devolved Nations, Wales and Northern Ireland. If this is due to networking arrangements and merger undertakings, Ofcom should consider the scope to address any significant concerns in its regular review of ITV networking arrangements
- As outlined above, Ofcom should consider all the potential areas of support that lie within the current regulatory framework. It may also be sensible to consider re-drawing the regional map within Scotland to move to a single Channel 3 licence; this would be in line with the current position in the other two devolved Nations. Separate licences in Scotland increase the cost of regulatory obligations without necessarily providing the means to fund them.

### 7.2.3 Channel 4

Channel 4 should be encouraged to continue and develop its distinctive approach to PSB – taking risks that the BBC might not, reaching particular audiences, and taking advantage of its brand and audience loyalty.

We broadly welcome Channel 4's new vision as outlined in *Next on Four*. In particular:

- We support their commitment to children's programming and would encourage this to be developed further to fill the gap that might be left by ITV (see later in this section)
- We welcome Channel 4's strong commitment to current affairs, serious factual, UK drama and comedy – other genres highlighted by Ofcom as potential plurality gaps
- We welcome Channel 4's initiatives to invest in new, young talent, maintain spend on film and invest in public service content online
- Channel 4's commitment to invest more in the Nations mirrors the BBC's commitment of a few years ago; the two broadcasters could work more closely together to maximise the impact of this
- We will continue to explore options for the future of digital radio with Channel 4 and the rest of the industry. The BBC notes that Channel 4 invested in digital radio on commercial grounds, saying that: 'It has to be a sensible commercial venture ... We will go ahead if we can still make money from it. It

is not our job to fix the commercial radio industry'[43]. Channel 4's commitments to digital radio, either now or in the future, ought not therefore to be a part of their call for additional public support.

We believe that self-help must play a key role in addressing Channel 4's funding issues, including exploring the potential to apply a standard public sector efficiency target. There are also other ways to help Channel 4, such as the value of spectrum, changes to advertising rules and reviewing its spend on ventures. We believe any funding solution for Channel 4 should protect its distinctive and valuable institutional culture, as well as its commercial incentive.

The BBC's consultation with the creative community showed that of those who said Channel 4 should continue as a PSB, the majority were against any form of direct public funding, giving two main justifications:

- Many respondents thought that public money would also place unwelcome obligations on Channel 4. Many contributors argued that Channel 4 makes a critical contribution by challenging the norm and providing an alternative approach to the BBC. They worried that public funding and the persistent scrutiny it entails would fundamentally alter Channel 4's character and impede its ability to carry on doing these things
- A few respondents believed that Channel 4 would be an inappropriate recipient of public funding, with public money being inconsistent with its overall proposition and brand.

Channel 4 is the way it is, in part, because of the way it is funded and governed. A well-meaning regulatory intervention that turned Channel 4 into a mini-BBC would be counter-productive and damaging to institutional diversity. We believe there are better ways to support Channel 4 in the delivery of its public service remit, and the partnership suggestions that the BBC has put forward in this submission could play a role in this respect.

#### 7.2.4 Five

Five plays an important role in the PSB ecology and adds diversity to news and current affairs coverage as well as providing a different tone and approach to other kinds of programming. Recently, it has made a particularly valuable contribution to children's programming with *Milkshake* and to specialist factual output. Indeed, Five is the only one of the commercial PSBs to increase its output of serious factual in peak-time from 2003 to 2007, an increase of around 60% over the period[44].

On balance, we believe the PSB ecology would be the poorer without Five's contribution. As Ofcom suggests, the residual value of PSB privileges is likely to exceed Five's current obligations. Given this, there may be a case for extending Five's official remit to cater for younger children and we note that it has already volunteered to change its Tier 3 commitments to children's output into Tier 2.

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[43] Andy Duncan, March 2008, quoted in http://www.guardian.co.uk/media/2008/mar/17/channel4.digitaltvradio1

[44] Source: BARB/TRP

### 7.2.5 Children's output

In its consultation, Ofcom argues that UK-originated PSB content for children is under threat, with less TV programming being made overall, with a lack of drama and factual available for older children, and a lack of content for young teens. This has led to less plurality in the provision of children's PSB in the UK and Ofcom identifies a £30m funding gap to be filled[45].

However, Ofcom's evidence shows that while the volume and range of PSB television content has declined, the broader story is one of significant growth in content available to children across multiple platforms. There has been very significant growth in children's programming on digital TV (there are now 25 dedicated children's channels compared to 6 in 1998); hours of children's programming were 20,328 in 1998 and reached 112,685 in 2006.

Ofcom is right to highlight that, within this increase, the volume of UK origination on PSB channels is declining, but this is after huge growth between 2001 and 2002. Levels of PSB first run originations are only 13% lower than in 2001[46]. What these figures also do not show is the major investment that is being made by the PSBs across platforms other than television – platforms that children in particular are using heavily. The BBC will be increasing its investment in children's online content to £8m a year, with an additional c£10m in BBC Switch content for young teens across TV, radio and online. In conjunction with Channel 4's announcement of an investment of £10m over two years, just this by itself closes most of Ofcom's identified £30m gap in this area.

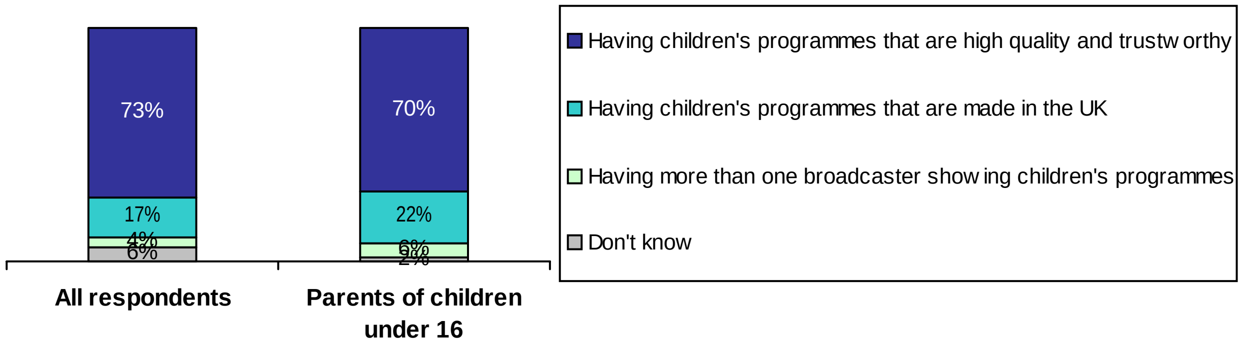
Ofcom highlights a perceived lack of range in drama and factual. However, its own output analysis shows that the overall supply of drama and factual from all children's channels is higher than it has ever been and that PSB provision is currently relatively well balanced between the genres. Ofcom's analysis does also not take into account the broader viewing habits of children: for instance, other BBC channels are providing content with a strong appeal for this audience, ranging from family drama on BBC One (*Doctor Who*, *Robin Hood*) as well as output which appeals to older children via Switch and BBC Three.

We note that Ofcom's analysis on the desirability of an additional provider of children's PSB was based on a straw poll of 137 parents within the Children's Review. The BBC's research, based on c5,000 respondents, suggests that when audiences are required to identify the single most important attribute for children's output, the primary focus for all audiences and for parents is high-quality, trustworthy programming:

[45] Ofcom, *The Digital Opportunity*, April 2008

[46] Source: Ofcom

*Which of these do you think is most important in children's programming?*




*Source: YouGov; base = 5,097; data weighted to all adults*

In this context, it is important to note that a lower level of competition from other PSBs does not appear to have affected the BBC's reputation for quality. Quality perceptions of the BBC's output are very strong: approval for CBBC and CBeebies (amongst adults) is higher than any other TV channel, and they both perform more highly than any other children's TV channel in 'Best for children's' scores[47]. Amongst children, 73% say that they love CBBC or think it is 'quite good'; the score is 87% for CBeebies.

Ofcom's research amongst parents does suggest that more could be done to provide diversity of voice in children's PSB. However, the BBC's own research (including amongst children) suggests that the audience think that range and diversity is already strong on BBC and on other channels. CBBC scores particularly highly on scores relating to different types of programmes and diversity across the UK. The BBC's own strategy will aim to enhance this range and diversity through encouraging even greater diversity of supply from across the UK. Salford – the new home of BBC Children's from 2011 – will play a key role in stimulating the creative community in the English regions and Glasgow will continue to be a key supplier of output from Scotland. The WoCC is already an important competitive opportunity for both in-house and independent producers. The Trust is currently conducting a review of the WoCC, but early experience suggests that independents have been particularly successful in securing commissions through the WoCC in children's. In addition, BBC editorial strategy supports range and diversity: in drama, refresh rates are kept as high as possible, with 2008/09 plans showing that two-thirds of dramas are new, compared to half in 2004/05.

In summary, plurality in UK-produced children's output may not be as important to audiences as Ofcom has suggested and its supposed outcomes and benefits do not appear to be under threat.

In future, the BBC's strategy is to maintain the diversity of the offer on TV and use the supply strategy to sustain and enhance diversity (Salford, Glasgow, WoCC). To further underpin the BBC's commitment in this area, the BBC Trust has recently tripled the guaranteed minimum volume of children's output on BBC One and Two, to 1,500 hours per year. The BBC has also recently announced new investment in children's of £15m over five years, to be directed towards online and TV origination. As part of its

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[47] Source: PBTS

*Delivering Creative Future* strategy, the BBC announced new investment in a multiplatform content offer for teens under the brand BBC Switch. This investment amounts to £7-10m per annum in television, online and radio content investment that the market would not provide. Finally, and subject to regulatory approval, the BBC intends to extend the transmission hours of its channel for older children, CBBC, to 9pm.

The BBC Trust is currently reviewing the performance of, and strategy for, children's output by the BBC (including investment plans) and will be carrying out a further review of the BBC's provision for younger audiences later this year. The Trust will be consulting licence fee payers and other stakeholders as well as carrying out further audience research with a view to publishing its findings on children's output this winter and on provision for younger audiences in 2009.

Beyond the BBC:

- Any future strategy for PSB provision should acknowledge the important roles played by Five and S4C: both institutions should be encouraged to continue and develop their children's output
- ITV continues to commission original output for children and CITV is a highly valued channel with significant reach and share among older children. However, children's output no longer sits well within the ITV1 schedule and it might make sense to adjust this particular obligation
- Channel 4's proposals in this area would seem to suggest that they are an appropriate alternative provider. We welcome Channel 4's stated strategy of provision for older children and there appears to be a close fit with Channel 4's brand. Weekly reach to Channel 4 and E4 among children is high at 52.8% and has been increasing over recent years[48]. It is also striking that the target audience of young teenagers is strongly attracted to Channel 4's late afternoon and early evening schedule, with five out of the top twenty shows – and two out of the top three – among 10-15 year-olds appearing on Channel 4 at this time. This suggests that to achieve reach and impact, Channel 4 (possibly in combination with E4) would appear to be the channel best suited to meeting this emerging need.

#### 7.2.6 N&R issues

Ofcom identifies some key Nations and Regions issues in its Review. The BBC believes it can strengthen its role as the broadcaster for the whole UK by taking advantage of its historic heavy investment in infrastructure and facilities. The BBC's commitment here covers a broader range of services and production than any other broadcaster, from local radio and Nations / regional television, through network production from across the UK, through to its long history of supporting minority indigenous languages. However, the BBC can do more here to develop its role and strengthen media clusters around the country. In doing so, it can address many of Ofcom's issues:

- The BBC is fully committed to its Nations and Regions news services, which remain the most popular news programmes in the UK[49]. While reach has been declining over recent years, older viewers continue to be loyal viewers and the programmes and bulletins are highly valued

[48] Source: BARB

[49] Source: BARB

- However, two fundamental changes are affecting audience attitudes towards traditional regional television news: an increased interest in ‘local’ and the long-term shift from linear to on-demand news consumption, as broadband penetration rises and video becomes increasingly common online. Because of these shifts, the BBC Executive has developed proposals to modernise its portfolio of Nations and regional news services and provide distinctive, high-quality and relevant broadband video news to local communities across the UK, when they want, and how they want it. These proposals are currently under consideration by the BBC Trust and Ofcom under a Public Value Test
- The BBC remains committed to a broad range of Nations and Regions non-news output. In line with the BBC’s overall strategy, its current proposals are to focus on the range of non-News opt out programming produced by the Nations which is distinctive and innovative and is valued by audiences, while reducing less valued content. This ‘fewer but better’ strategy may result in reduced volumes of output but will have higher impact. Investment in the Nations will also lay down the foundations for making local audiovisual content fit for purpose in the digital age by creating Nations on-demand content for bbc.co.uk
- In its output and services, the BBC will continue to support the UK’s main indigenous minority languages: Gaelic, Welsh, Irish and Ulster Scots:
  - Radio nan Gàidheal broadcasts in Gaelic to the whole of Scotland, and the new Gaelic Digital Service will be available on digital television platforms every day across the UK. BBC Two in Scotland will continue to provide Gaelic output on weekday mornings for pre-school children and will offer a range of Gaelic programmes within its schedule until at least 2010
  - In Wales, there is a new strategic partnership in place with S4C, and the BBC will continue to work with S4C to provide Welsh language television content. Radio Cymru and the online service BBC Cymru will continue to serve Welsh-language audiences effectively
  - We agree with Ofcom that the remaining issues around indigenous languages are focused in Northern Ireland. BBC Northern Ireland is committed to increasing the range, impact, volume and value of its programming in Irish and Ulster Scots. Online provision will form an important part of the strategy, with language programming for local television audiences scheduled on BBC Two. Radio output will address the needs of language speakers and learners and will benefit from the significant enhancement of associated web support.

- In terms of out of London network production, the BBC has committed to establishing the UK’s largest production centre outside London by 2011. Several strategically important BBC services and departments will be wholly based in Salford: BBC Children's, BBC Sport, Future Media and Technology, Radio Five Live, and Research and Innovation. Development of the site and its production facilities is already well underway
- To address concerns about levels of network production from the Nations, in particular, the BBC Trust has recently asked the BBC Executive to review its supply of network television programming from the three Nations in order to strengthen cultural representation of the whole UK and build sustainability of supply across the country. As a result of that review, the BBC has made fresh commitments to expanding its already substantial role here:
  - It will reach 17% of output produced in the three Nations under Ofcom’s definition by the end of the current Charter period (2016), a nearly three-fold increase from levels of output in 2008
  - Substantial returning business will move or be created in the three Nations to build sustainability and critical mass, guarantee levels of output and even out fluctuations in production volumes

- o A new commissioning strategy will increase levels of cultural representation.

Ofcom identifies a number of other Nations and Regions issues beyond the BBC's provision:

- As already outlined, we will look at helping to make regional news sustainable beyond the BBC by exploring recent suggestions that some of the BBC's regional news capabilities could be leveraged in support of other news outlets
- There is a growing interest in more local content relating to news and information across the UK. New opportunities for delivery, such as local online services and digital local TV, are emerging that will supplement existing services. As outlined above, the BBC proposes to expand its current delivery of local online video content to meet audience demands. At the local level, there is likely to be a variegated model of news provision in different areas, depending on audience demands and market conditions. We are likely to see the emergence of a range of commercial online offers including ITV Local (and equivalent activity from non-ITV plc licensees in Scotland, Northern Ireland and the Channel Islands), newspaper websites, community media and online aggregators. Most local markets in urban areas should be able to support at least one commercial multimedia operator. It is too early to judge whether and how there needs to be further regulatory intervention to deliver local news
- We recognise that non-news programming in the Nations plays a significant incremental role (above and beyond news) in reporting, celebrating and reflecting national life. Some Nations programming (like current affairs series) can add to network share and should remain commercially viable – for instance, ITV1 Wales' current affairs strand *Wales This Week* and the consumer show *The Ferret* are regular high performers for the channel, adding around 3% points of share to ITV1's network performance[50]. However, the cost of maintaining plurality in this area will need to be carefully considered given the lower relative priority ascribed to this provision by audiences, and the potential opportunity cost of sustaining these services
- In Wales, a reformed and modernised set of obligations for ITV could provide plurality alongside the BBC, though across a more limited range of programming. We would encourage Ofcom to look at all the regulatory assets at its disposal – including networking arrangements – to assess the range of output that could be supported in Wales. S4C appears to be healthy and can rely on a range of high-quality programming from the BBC
- In Northern Ireland, we agree that the main issue is around the provision of Irish and Ulster Scots programming. The BBC Trust is focused on increasing BBC provision in this area, and this may prove a sufficient intervention. Carriage of services such as TG4 in Northern Ireland would also increase plurality, though the impact this might have on commercial players in Northern Ireland would need to be assessed
- In Scotland, solutions may be needed to be found within existing structures to secure news plurality. A new national channel for Scotland has been suggested by witnesses to the Scottish Broadcasting Commission. The BBC already partners with similar channels (e.g. S4C, GDS) to provide content and other services. If such a channel were to be established, the BBC would look forward to exploring options for partnering with it
- For network production outside London, the BBC is increasing its commitment significantly and Channel 4 has also made very welcome promises. Given this and by working together to build sustainable production clusters around the UK, we would expect other broadcasters to be able to increase their commissioning from the Nations naturally.

[50] Source: BARB

We recognise that there are complex issues to be resolved across all the Nations and Regions of the UK. The BBC would welcome further opportunities over the coming weeks and months to debate these issues in more detail and explore the role that the BBC itself could play in helping to support PSB provision in each place.

## 7.3 Conclusion

The proposals that the BBC has suggested in this section draw on the substantial audience research we have undertaken as part of the Review. We believe that they form the basis for building on what is best in the current system to produce a vibrant, sustainable future for public service broadcasting – a future rooted in robust and complementary institutions, a thriving commercial sector, high levels of UK production, and audience-focused delivery rather than the micro-management of quotas and output contracts.

This evolution of what is most effective in the current system would, in fact, be the springboard for a radical and fundamental change in the way that PSB is delivered to audiences. The digital opportunity brings great opportunities for public value – we believe that the proposals we have set out indicate a strong way forward to secure that future for all audiences.

# Appendix 1: Responses to consultation questions

Ofcom's consultation document poses a number of questions to which stakeholders are invited to respond. Virtually all the questions have been answered in the course of this submission; however, for ease of reference, this appendix indicates where in the body of the response Ofcom's questions are answered.

*i)* *Do you agree with Ofcom's assessment that television continues to have an essential role in delivering the purposes of public service broadcasting?*
The BBC's substantial research shows strong support for Ofcom's assessment – see section 3.

*ii)* *Do you agree that UK-originated output is fundamental to the delivery of public service broadcasting purposes?*
We agree that UK-originated output is vital to serving the purposes. However, we believe that Ofcom underestimates the value of non-UK produced output, both in its contribution to purposes (e.g. in children's or specialist factual programming) and particularly in its contribution to competition and innovation – see section 5.

*iii)* *Do you agree with Ofcom's conclusions about the way that other digital channels and interactive media contribute towards the public purposes?*
We agree that digital media will play a vital role in the delivery of the public purposes in the future. We believe that making the transition to a fully digital world represents the central challenge for public service broadcasting and securing the quality, reach and impact of public service broadcasting in this new context should play an important part in the next stage of Ofcom's Review. Section 4 contains further analysis.

*iv)* *Do you agree with Ofcom's assessment of the implications of different economic scenarios for the UK TV market for the future prospects for delivery of the public purposes?*
The BBC's own economic modelling is set out in section 4 and at bbc.co.uk/thefuture. Much of our analysis is consonant with Ofcom's, though we believe that Ofcom's most pessimistic scenario is highly unlikely and that Ofcom's model may have underestimated possible revenues from new sources. However, some differences may lie in the nature of the different models themselves. The outcomes discussed can be materially affected by policy decisions taken – for example, sustained support for the BBC will in turn lead to high levels of UK production and influence programme strategies in the commercial sector.

*v)* *Do you agree with Ofcom's analysis of the costs and benefits of PSB status?*
We agree that there are short-term pressures on some licensees. However, we think it extremely unlikely that licensees will hand back licences in the foreseeable future for a variety of reasons. Ultimately, the goal should be to align costs and benefits in a sustainable long-term framework that regulates with the grain of each institution – see section 6.3 for an indicative analysis. In section 7, we indicate how the remaining PSB benefits could be aligned with audience needs.

*vi)* *Do you agree with Ofcom's vision for public service content?*
The BBC's vision for public service content is set out in section 1. It has much in common with Ofcom's vision, but we believe that Ofcom's focus on plurality as the only means to achieving high-quality PSB is overstressed – see analysis in section 5.

vii) *How important are plurality and competition for quality in delivering the purposes of public service broadcasting, and in what areas?*
See analysis in section 5.

viii) *In maximising reach and impact of public service content in the future, what roles can different platforms and services play?*
See analysis in section 4. We think that, if anything, Ofcom underplays the future importance of a cross-media approach by organisations with the scale and scope to reach all audiences.

ix) *Do you agree that the existing model for delivering public service broadcasting will not be sufficient to meet changing needs in future?*
See sections 1, 6 and 7. We agree that adjustments will be needed, but do not necessarily support the conclusion that existing non-cash subsidies need to be fully replaced by new funding.

x) *What are your views of the high-level options for funding public service broadcasting in future?*
See section 6.

xi) *Are the proposed tests of effectiveness for future models for public service broadcasting the right ones?*
We have suggested changes to these tests – see analysis in section 6. In particular, we do not think that plurality should be seen as an end in itself. We also suggest adding value for money and acceptability to audiences as two additional tests.

xii) *Of the four possible models for long term delivery of public service content, which, if any, do you consider the most appropriate and why? Are there any alternative models, or combination of models that could be more appropriate, and why?*
See analysis in section 6. We suggest a future landscape based on the current institutional mix, but with significant changes to PSB obligations for commercial broadcasters, and greater emphasis on the transformative implications of new media for future delivery of PSB. We also describe a new partnership model for the BBC as an essential part of this mix.

xiii) *What do you think is the appropriate public service role for Channel 4 in the short, medium and long term? What do you think of Channel 4's proposed vision?*
See section 7.

xiv) *Which of the options set out for the commercial PSBs do you favour?*
See section 7.

xv) *To what extent do you agree with Ofcom's assessment of the likely future long term issues as they apply to the nations, regions and localities of the UK?*
See section 7.

xvi) *Which model(s) do you think will be most appropriate in each of the nations and in the English regions in the long term, and why?*
Rather than focusing on abstract models, the BBC would prefer to suggest individual solutions for each part of the country that have the strongest chance of delivering the best outcomes for audiences. Section 7 outlines our suggestions.

xvii) *What are your views on short/medium-term issues referred to, including the out-of-London network production quotas?*
See section 7.

xviii) *What are your initial views on the preliminary options set out relating to ITV plc's regional news proposal?*

In general, we see merit in ITV's proposals to change their pattern of regional news provision and believe that it might bring greater diversity to the provision of regional news – see section 7.

xix) *Do you agree with our assessment of the possible short term options available relating to children's programming; are there any other options available?*

We believe that Ofcom has overstated concerns about the amount, range and quality of existing children's provision and underplayed the important role that new media and Five could play in the provision of children's programming. Nevertheless, subject to approvals from the Trust, the BBC is committed to extending and improving its own services and we support the commitment that Channel 4 has made. See section 7 for more detail.

xx) *Do you agree that new legislation will need to be in place by 2011 in order to ensure continued delivery of the public purposes in the medium and long term?*

The BBC agrees that new legislation is likely to be needed around 2011. However, we believe that Ofcom has substantial powers to secure the future delivery of public purposes within current legislation and would encourage it to use those to the full (e.g. around advertising rules and spectrum charging).

The BBC's partnership proposals outlined earlier – while likely to need regulatory approval – are unlikely to need legislation and could therefore be implemented relatively easily.