

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.