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.