

Public service television broadcasting (PSB) in the UK

Ofcom is the independent regulator for the UK communications industries. At Ofcom, our role is to look after television, radio, telecommunications (telecoms) and wireless communication services.

Under the Communications Act, we must carry out a review of public service broadcasting (PSB) television every five years. This is the first of these reviews, and we have focused on two main questions.

- Are the public service broadcasters (the ‘PSBs’ – BBC, Channel 3 (also known as ITV1), Channel 4, Five, S4C and Teletext) doing the job that’s set out for them in the Communications Act?
- How can the quality of PSB be protected, and improved, in the future?

We have carried out our review in three phases.

- In phase 1, we looked very closely at the performance of the PSBs. Taken as a group, we decided that they were doing a good job in providing unbiased news and a wide range of high-quality programmes made in the UK. However, we also felt there were too many ‘copycat’ programmes (in other words, very similar format and content to existing programmes), and those that

were new and creative were often shown outside of peak viewing times. Phase 1 also set out why PSB should have a role in the digital broadcasting world of the future. We also proposed a new definition of PSB, built around a set of four ‘purposes’ and ‘characteristics’. We explain these later.

- In phase 2, we looked to the future. As broadcasting moves towards an all-digital world, we found that the PSB system would face problems if it stayed as it was. Some of the money that supports it now would drain away, and programmes such as:
 - investigative current affairs;
 - programmes for the UK’s nations (England, Wales, Northern Ireland and Scotland) and regions;
 - high-quality drama; and
 - cutting-edge comedy;would all be at risk.

We also found that the public wants PSB to continue to receive the money it does now, with several broadcasters making a range of different programmes.

- In this final report – phase 3 – we assess all our earlier work, and the

feedback we've received, to set out the future for a strong PSB system. We can now propose a framework for the future, and the steps that need to be taken. Work needs to start now. The countdown to a fully digital world has already begun, and the building blocks of the new PSB system will take time to design and put in place. This review, as well as the Government's BBC Charter Review, is a perfect opportunity to protect and improve public service broadcasting for years to come.

The end of the old system

The current system has served us well. For over 50 years, PSB has brought a wide choice of high-quality programmes to viewers in the UK. Our research shows that the public generally likes the choice on offer – it's widely available, free, and comes from a range of programme makers. The mix of institutions, funding and regulation seems to have worked well.

However, the system is now breaking down. The PSBs that compete for advertising know that public service programmes don't always get the audience numbers that advertisers want. Along with this, the value of the analogue spectrum that PSBs use – which they

were given in return for meeting expensive PSB duties – is now falling. At some stage, as digital opportunities open up, analogue licences won't be worth keeping. This means that once the switch to digital is complete, we can't just assume that commercial PSBs will continue to make, for example, regional programming.

Despite being a not-for-profit broadcaster, Channel 4 still faces the pressures that affect Channel 3 and Five. They will all find it harder to produce a wide range of PSB content. Even the BBC, whose money comes directly from the public through the licence fee, may come under pressure. Licence-fee payers may start to ask themselves how much they're prepared to pay, when there's more choice available and they're already choosing to pay for other TV services.

For these reasons, we decided that a new system was needed for PSB, to tackle its problems now and to give it a realistic future. This new system would need public funding, as well as new PSB providers alongside those we have now. We also found that new technologies and services could play an important role. Most of the people who replied to phase 2 of our review agreed with our view of the challenges. Now we set out our new approach to meet them.

A framework for the future

The future for viewers in the UK is exciting. We will have more choice than ever before, provided in more convenient ways and using new technologies to bring it to us. Broadband has the potential to transform the experience of watching programmes, while personal video recorders and developments in electronic programme guides (EPGs) will give us much more control over what we watch – as well as how, when and where we watch it. (Personal video recorders are similar to VCRs but, instead of using video tape, they use a built-in hard drive to digitally record programmes and offer you the option of pausing live television.) At the same time, we have a unique chance to make sure that PSB is strong and flexible enough to keep pace, both with new technologies and the changing needs of the public. This report sets out how we think this future can be achieved.

A more competitive market

Our starting point is to promote more choice and competition. In phase 1 of our review, we explained how the switch-over to digital will mean the UK television industry can deliver what viewers want and are able to pay for. Problems in the past – due to a shortage of broadcast frequencies, ways to pay and

good information for viewers – will steadily fade away.

We fully support the way the market is changing, and we will:

- continue our work to see a successful switch-over to digital broadcasting, and the roll-out of high-bandwidth broadband services; and
- as we set out in our 2005-2006 Annual Plan, be launching a new review of competition in broadcasting markets, including a study of the programme-making industry.

A new definition of PSB

Some things, however, cannot be left to the market alone. No matter how well the broadcasting markets work, there are certain types of broadcasting that need to be encouraged – programming which is important to our society, and which should be available to all. When you also consider the sheer power of television to reach and influence large numbers of people, it is only right to protect PSB, even in a fully digital world.

But what is ‘PSB’, exactly? We have set out a new definition of PSB, described in terms of what it’s for (its ‘purposes’) and what it’s like (its ‘characteristics’). This definition should still apply in the future, even when new technologies and media

add to, or eventually replace, the existing broadcast channels.

A small number of people replying to our consultation thought that these purposes and characteristics were too broad. However, we think that the benefits of a broad definition outweigh the possible drawbacks.

PSB Purposes

- To inform ourselves, and others, and to increase our understanding of the world through news, information and analysis of current events and ideas.
- To encourage our interest and knowledge of arts, science, history and other topics through understandable programmes that can also encourage informal learning (such as learning at home).
- To reflect and strengthen our cultural identity through original programming at UK, national and regional levels, occasionally bringing audiences together for shared experiences.
- To make us aware of different cultures and other points of view, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere.

PSB Characteristics

- High quality – well funded and well produced.
- Original – new ‘home-grown’ UK content, rather than repeats or programmes that are bought in from abroad, such as the USA.
- Innovative – introducing new ideas or re-inventing exciting formats, rather than copying old ones.
- Challenging – making viewers think.
- Engaging – remaining accessible and enjoyed by viewers.
- Widely available – if content is publicly funded, a large majority of the public should have the chance to watch it.

Public money, and where it could come from

From our research we know that the public appreciates the amount and choice of PSB. Viewers are enjoying the benefits, such as plenty of original UK production shown during peak viewing hours, and there are large audiences for different types of PSB programmes. The public also wants to see the same investment in PSB in the future. This means that as investment in PSB starts to decrease, new money will be needed to fill the gap.

So, we need to keep up the current level of public funding, as far as possible, until the switch-over to digital is complete. After that, it is possible that market providers may make up for a fall in public support, but we should review this from time to time.

In phase 2, we set out the options for how PSB could be directly funded, along with the strengths and weaknesses of these options. Many thought that the licence-fee system was best, although there was support for all the other options we suggested, including:

- direct grants;
- an industry fee; and

- revenues from spectrum-related activities (such as charges for the use of broadcasting frequencies).

It is the Government, not us, that will make a final decision on how PSB should be funded. So, we suggest that:

- the Government looks closely at the case for giving PSB more support, to make up for funding it will lose – this should include the possibility of support paid for out of tax revenues;
- the Government considers how the licence-fee system could support a range of different PSB providers; and
- our future reviews of PSB should look at the level of public funding of television, as well as its effectiveness and value for money.

The new PSB system

PSB comes from a variety of sources, and serves a wide range of different people and tastes. We're therefore proposing a new system that encourages a range of PSB providers, with different roles, sources of income and cultures. Each provider has a vital role to play in keeping up the overall quality, range and choice of PSB.

- The BBC, funded by the licence fee, should continue to be the cornerstone

of PSB. It should have a special duty to invest in distinctive programmes that meet public-service purposes and characteristics.

- Channel 3 should focus on its strengths – news broadcasting and making high-quality original programmes from around the UK. We also think it should start work now on preparing for the future of digital broadcasting.
- Channel 4 should continue as a not-for-profit, commercially funded broadcaster, with the specific goal of being innovative.
- Five should be a mainly commercial business that competes in the market, while meeting its PSB responsibilities by making new programmes in the UK.
- There should be a new service, the Public Service Publisher (PSP). This would be paid for with public money, and would have the task of using new media to bring different, high-quality programmes to the public.
- Other commercial digital channels can contribute to a healthy PSB system. They should be encouraged to invest in, and broadcast, high-quality

programmes made in the UK. In return, they may be given some kind of PSB status. We'll be working over the next few months on what this might be and the benefits it could bring.

It's also important to look at the programme makers themselves, as they make a major contribution to a mixed and varied PSB system. A competitive production industry, with a broad range of suppliers, can be good for creativity as well as growth in the industry. In phase 2, we proposed a further review of the programme-production sector in September 2005. By that time, the new codes of practice should have had time to work, and the BBC should have set out new proposals for how it uses in-house and independent producers.

We have now seen an outline of these proposals and we welcome the BBC's general direction. However, we have heard that some independent producers are worried about how the new ideas would work in practice. More generally, people who we have consulted suggested that we should begin our review of the production industry as soon as possible. As a result, we are currently preparing for the review, which will also be a more wide-ranging study than we'd first thought.

The BBC

We see the BBC at the heart of PSB in the digital age, as it has been in the past. But, phase 2 again raised concerns about the unique character of the BBC's mission in the future. There were also worries about relying on the licence fee as the BBC's main source of income, and any competition problems caused by its activities in the broadcasting market.

So, we repeat the following proposals.

- The BBC should make sure that all its programmes (and not just its services) reflect the PSB purposes and characteristics to some extent.
- The BBC should be properly funded, using the TV licence fee for the period of the next Royal Charter (from 2007 to 2016). However, we recommend that the Government should carry out a Charter review halfway through, to assess the BBC's performance and funding, and to ask them to look at whether money from subscriptions should be raised to help future expansion.
- The BBC's review of its commercial activities, and the plans that come from it, should be studied in detail by an

independent authority. This would be part of the Charter Review, along with the proposed level of the licence fee.

We're glad to see that the BBC generally agrees with many of our earlier proposals, and has made efforts to deal with many of the programming concerns raised in our phase 1 research. We also support the BBC's proposal for a new test to assess the 'public value' of their services, which it has promised to apply to the services it offers now, and to new ideas such as local and community television services.

We agree with people who argued that the BBC's new services can sometimes harm the growth of the broadcasting sector as a whole, particularly in new and specialist services. So, we're looking forward to sharing ideas with the BBC on how they will carry out the public-value test, and an agreed way to measure the effects the BBC is having.

The role of Channel 4

Most agree that a not-for-profit, commercially funded Channel 4 is an important part of PSB, both in the run-up to the digital switch-over and beyond. So, we're glad to see the importance that Channel 4 puts on PSB. However,

pressure from their competition may prevent them from meeting all their PSB commitments. Looking at the responses to our consultations, opinions vary about when this might be.

We have carefully studied Channel 4's own estimates of their income, and have found that even small changes in circumstances can make a big difference. A smaller growth than expected in net advertising revenue (NAR), and other risks, could mean that Channel 4 needs £100 million by 2009, if not more. However, if you apply another (and equally possible) set of outcomes, that shortfall disappears completely. This is why we think it's too early to consider giving public money to Channel 4.

In the short to medium term, we think Channel 4 should develop their plans to help themselves, including making cost savings and creating new business schemes and partnerships. The Government should also consider giving help with the one-off costs due when Channel 4 goes digital.

At the same time, we will consider Channel 4's requests for help from us, including:

- giving them special PSB status across a wider range of their activities, with possible benefits for their position in electronic programme guides (EPGs), and rights agreements;
- giving them more broadcasting frequencies; and
- excusing them from the fees that might be charged for using the radio broadcasting spectrum.

Even with our help, Channel 4 may still be heading for financial problems. So, we will track their performance and carry out a full review in 2006-2007. We will also work closely with them on their longer-term challenges. The main options are to give them:

- direct public funding;
- indirect support (for example, through access to more frequencies); and
- a relationship with the proposed PSP.

Although public money might help Channel 4 to protect their PSB programmes, it would also raise many questions about the risks that come with it. A move towards public money:

- might change Channel 4's culture and values, and so make the network less independent;
- would need a complicated regulatory framework;
- might make it difficult to measure whether the money was being spent wisely; and
- raises concerns about state aid.

For these reasons, we continue to believe that this is not an easy solution to the challenges faced by Channel 4.

ITV1 and Five

ITV1 and Five both have important, but also developing, roles in UK broadcasting. We expect they will concentrate on producing content with high production values and original ideas, across a range of programme types. When it comes to quality, they will compete with the BBC and Channel 4. Our aim is to make sure that, unlike in many other countries, the lives of people from all over the country are fully reflected by our mainstream commercial television networks. We also

expect them to provide independent and unbiased news, adding to the choice available on the main networks.

ITV1 also has a special duty to provide regional news, current affairs and other regional programming. We set out our proposals for these areas later in this summary. For both ITV1 and Five, though, we need to set out what we expect from them in terms of PSB while keeping the changing conditions of the market firmly in mind. Our proposals are designed to help broadcasters focus on the types of PSB that are high on the public's list of importance, and which types these networks are in a good position to provide.

Reflecting life around the UK

One of the toughest challenges will be to provide good PSB for the nations, regions and local areas of the UK. For the commercial networks, this is where PSB gets expensive and, as a result, is most at risk from business pressures. Viewers tell us that their priorities are regional news and current affairs, delivered by more than one broadcaster. Many go further and want news that's even more local than they get now, and they would also

like to see their own nation or region reflected on network television. We have also identified a marked difference between nations and regions. The unique character of the devolved nations (Scotland and Wales) has led to the need for more specialised programming, and a greater range, than in the English regions.

A longer-term framework

As we approach the digital switch-over, we see a unique opportunity to reshape national, regional and local television in a way that not only meets the needs of the viewer, but also recognises the economic realities of the PSB system. We think the priorities are as follows.

- An increasingly important role for the BBC, providing news and a range of other programmes for the nations and the English regions.
- A role for ITV1, focused on regional news and high-quality original productions for the main network from the nations and regions.
- More programme-making to take place outside London, for both the ITV network and the BBC.

- Out-of-London production from a wider range of areas, including more in the nations (England, Scotland, Wales and Northern Ireland).
- Looking into imaginative new forms of local television news, information and entertainment, delivered through digital television and broadband.
- Providing specific programme services for national languages such as Welsh and Gaelic.
- A possible role for the PSP in providing local, regional and national programmes.

Our specific proposals to achieve these goals are as follows.

- As part of its Charter Review, the BBC should develop new proposals for local and regional programming which go beyond the ideas they set out in their ‘Building Public Value’ document. They should help to provide a greater amount of well-funded television programming for the English regions, to support their ambitious plans for the nations.
- The Channel 3 companies will need to provide regional news and current

affairs. This duty is included in all Channel 3 licences.

- We will expect ITV1 to increase to 50% the amount of productions they make outside London – both in terms of the number of programmes, and their value. This will mean an extra £40 million being spent outside London each year, from 2006 onwards.
- We will work with ITV plc to improve the range of production centres around the UK that are represented on the ITV1 network. This will include introducing a new production partnership fund, to help increase capacity outside London.
- As part of the follow-up to the Charter Review, we will talk to the BBC about increasing their productions outside London. They have already made a good start, and we think it's reasonable to expect they could be level with ITV within a few years.
- We will work with the Government and others to explore the options for local digital television. This will include a closer look at whether broadcasting frequencies are available, the economic prospects and what audiences would like from this kind of service.

- We have set out a range of options to provide native language services.
- In Wales, a clearer relationship between the BBC and S4C, and more focused commitments by the BBC. In the future, the BBC and S4C should also consider a competitive tendering process for providing Welsh-language services.
- In Scotland, the possibility of an all-Gaelic service. In the early days, this would be delivered by digital satellite, providing more content and a richer range than is currently available on mainstream channels.
- In Northern Ireland, putting in place the proposals of the Good Friday Agreement.

Managing the move to digital

On the way to the full switch-over to digital, the change for ITV1 regional programming (other than regional news) needs to be carefully planned. We propose a two-stage approach, with an initial change to happen immediately, and a further adjustment at the start of the regional switch-over timetable (currently expected to be in 2008). Under the terms of their licences, the Channel 3

companies will still be responsible for regional news and current affairs.

ITV1's non-news programming for Scotland, Wales and Northern Ireland

We propose that licence holders in the nations broadcast at least four hours of non-news programmes each week. This is higher than that in the English regions although, as in the past, many will probably broadcast even more. This level of non-news programming will apply until the first UK region switches over to digital. In Scotland some, but not all, of the Scottish non-news content would be shared, creating an all-Scotland service for the first time on ITV1.

When the first UK region has switched over to digital, we propose to reduce the level of non-news programming to a minimum of three hours a week. All reductions will be outside peak hours, which are 6.30pm to 10.30pm.

We also plan to review the ITV networking arrangements, to make sure the national licence holders do not pay for network programming they don't actually broadcast (during the periods when they 'opt out' of the network schedule to show dedicated non-news programmes). The ITV Network Centre will also need to take into account the

higher level of opt-outs in the three nations when working out its network schedule.

We have included these proposals for discussion, before we publish our final decisions later in 2005.

ITV1's non-news programming for the English regions

In our phase 2 report, we proposed reducing ITV1's responsibility for regional non-news programming from three hours a week to 1.5 hours a week in 2005. The reductions would all be made in off-peak hours.

Although there were arguments against making this change now, we didn't think there were any good reasons to change our mind. Viewers are less concerned about non-news programmes, so it would be difficult to argue that ITV should increase their investment in it. In fact, as the switch-over approaches, ITV will not be able to continue with its non-news programming. We believe it is better to move to a more realistic approach now, and so ITV should invest more in high-quality production from the regions rather than continue providing low-budget programmes that fewer people watch. So, we will press ahead with our regional proposals as quickly as possible. The new level of 1.5 hours a week of non-news regional programming –

including at least 45 minutes during peak hours and a further 30 minutes close to peak hours – will continue until the first UK region switches over to digital. When the switch-over takes place, we propose to reduce the level to 30 minutes a week. Parliamentary coverage and current affairs will be part of this continuing duty.

Alongside these moves, there will be important changes to where the programmes are actually made. Our proposals call for more production outside of London, with targets for ITV1 and the BBC, and a much wider spread of production in the nations and regions. In money terms, this will mean extra ITV1 spending of around £17 million on production outside London in 2005, rising to £40 million in 2006 – a major boost to programme producers in the UK's nations and regions.

The Public Service Publisher (PSP)

The way we watch programmes is changing, as new technologies become available and, with them, new types of programme content. Over time, the traditional channels won't be as successful in reaching certain kinds of viewers. New media, such as broadband and

personal video recorders, will make programmes even more exciting and useful. Imagine, for example, news, sport and music when we want it, and education content we can interact with (in other words, 'press the red button' and choose what we want to watch).

We think it is important that PSB sees these trends approaching, and reacts to them. To do this, we have proposed creating a dynamic new Public Service Publisher, with the specific task of developing new services and content that make the most of new technologies.

We have seen before how newcomers to the industry have had a huge effect on UK broadcasting. In the same way, there's a real opportunity now for a PSP to be a major creative force. From day one, it would have the advantage of being able to focus on content for a broadband world. As well as digital television, its programmes could be distributed on a range of different digital and 'on-demand' platforms (such as using broadband internet). At the moment, only the BBC has this capacity. A new PSP can provide the kind of competition that encourages quality, in the same way that new producers of PSB television have done in the past.

The remit of the PSP

We received several suggestions about what the PSP's remit ('job description') should be. We've considered these suggestions and believe the best way forward may be in combining a number of ideas. Two particular themes were suggested.

- 1 The new PSP should be a free-to-view service providing high-quality, ground-breaking drama, comedy and factual programmes, designed to take full advantage of the potential of broadband. This should satisfy the public's appetite for fresh, innovative programme content, and it makes up for the danger that this kind of programming could be rare in a fully digital world. The new PSP could be challenged to find new formats for traditional programme types, and design them especially for interactive, on-demand viewing. This kind of service should reflect the whole of the UK, not just London. It could also be based outside the capital, and help to boost production centres in the nations and regions.
- 2 Local and community services.
The public values local news,

information and other content that is focused on their own local area. Digital television and broadband provide new opportunities to serve these local needs more effectively. Broadband allows smaller communities to be better served, by bringing together people with similar interests from across the UK. With the right support, it could also encourage the growth of services allowing consumers to share content with each other, and encourage viewers to get more involved in what they watch.

Some people have also suggested that the PSP could become a kind of public-service guide by helping people to find their way through the huge amount of content available on all the digital platforms. The PSP might also work with organisations such as museums, galleries and educational institutions to open up a much wider range of publicly-funded content. These are interesting ideas, and we want to encourage more thinking and research into possible roles for the PSP.

It would be possible to have a single PSP operator to provide these services – for example, with a partnership containing a premium (high-quality) content provider with access to regional production bases,

and a network of local service providers. However, it could be more effective to award two or more separate contracts for different roles. The different PSPs may also have different levels of funding – for example, the local and community services may only need money at the start to help set them up.

How it might work

Ideally, the PSP should be up and running before the digital switch-over is complete. Bearing in mind that new legislation would be needed, development work and public feedback needs to take place in good time.

In phase 2 we suggested that the PSP might need around £300 million a year. We believed this would give it enough to invest in content that could reach a wide audience and have a real effect. The feedback we received tended to agree this was a reasonable figure, since the proposed PSP would not be a typical 24-hour broadcast channel. Instead, it would concentrate on a limited quantity of high-quality material, well-publicised and widely distributed.

The PSP (or PSPs) would be the winner (or winners) of a bidding process. To win a contract and receive public money, bidders would have to put

forward imaginative proposals covering programming, distribution and management. This competitive process would:

- encourage new ideas;
- create better value for money; and
- help new programme makers to enter the industry.

We want the bidding process to attract the widest possible range of potential bidders, so along with broadcasters we hope to see other media, telecoms and production companies. Only the BBC would be excluded, because one of the main aims is to create more choice in PSB.

Channel 4 and the PSP

Several replies we had to our consultation suggested that Channel 4 could have a close relationship with the PSP, mainly because it could provide an immediate broadcast outlet, and promote some of the PSP's content. We have considered three main ways in which Channel 4 might get involved with the PSP.

- Channel 4 could bid alongside others for the PSP contracts.
- Channel 4 could be given a substantial share in the PSP, and would need to bring in partners to help run it. This would guarantee a role for Channel 4,

and give it a starting point from which to develop a much broader range of PSB content, particularly in new media.

- The winner or short-listed bidders for the PSP could have to reach an agreement with Channel 4 – for example, for access to Channel 4 airtime and promotion.

On balance, the first two options are worth looking at more closely. The first would create much more competition for new approaches and ideas. The second would give Channel 4 a way to widen and improve its PSB work. Even so, we would need to study both options carefully, including looking into any effects they might have on competition. We believe that the third option would be hard to make work, and in any case may not deliver any great benefit.

PSB regulation, accountability and governance

The final element for a strong new PSB system is the framework of how it is regulated and run. In phase 2, we suggested to Government and to the BBC that the separate roles of ‘governance’ (how the BBC is run) and regulation (the rules the BBC follows) needed to be made

clearer. Our consultation process has shown that these are important issues, and has raised wider questions about PSB as a whole, not just about the BBC. Since then, the Burns Panel (advising the Department for Culture, Media and Sport on the Charter Review) has published its proposals for a new Public Service Broadcasting Commission.

We strongly support the Burns Panel’s suggestion that management and compliance (following the rules) are one thing, and regulation and accountability (being answerable for your actions) are another. In fact, our analysis suggests that there are three important parts to successful governance and regulation:

- **external regulation across the industry** – rules that apply to everyone in the television market;
- **accountability** – effective control, on behalf of the public, over how public money is spent on PSB; and
- **internal or corporate governance** – how the various organisations that make up the system are run.

Replies to our consultation argued that there are several reasons why the present system isn’t working. The BBC Governors have not been separate enough from the

BBC's managers, with the risk that this weakens the way the BBC is run, and that the public interest isn't being properly served. There are some areas, such as the need to be accurate and unbiased, where the BBC falls outside the rules that govern the rest of the industry. People also had real worries about the BBC's effect on the wider broadcasting marketplace, and the lack of independent tests to measure these effects. People argued that issues concerning competition should be handled in the same way, right across the industry.

There are also issues concerning governance that need to be dealt with. Our tasks include a mixture of regulating and governing duties that could conflict with each other. These include appointing non-executive directors of Channel 4 and the Board of the Gaelic Media Service, and running the Community Radio Fund. S4C is governed in a different way.

We don't believe that the answer is for us to govern and supervise the BBC. This would only confuse a set of relationships that are already far from ideal.

Instead, we believe that the three separate roles of **regulation, internal governance** and **accountability** should be made clearer.

First, there are some sensible steps towards better, more consistent regulation of PSB. (At the moment, the system is complicated and is looking more and more fragile.) We propose the following steps.

- The approach to competition issues should be the same for everyone. This would mean that we can get involved quickly if necessary, and apply the same rules for all. The BBC would then become clearly responsible for obeying the rules, and we would be clearly responsible for applying them.
- Where the BBC is proposing new services, we should carry out 'impact assessments' to weigh up the possible effects of these new services on the market (not advisers brought in by the BBC's Governors). The people responsible for the accountability and supervision of the BBC would then publish and use these results. In any case, we look forward to working with the BBC to help develop a common approach to impact assessments.
- 'Tier 2' quotas relate to matters such as production outside London, and from independent production companies. All 'Tier 2' quotas, which are currently supervised by the BBC

Governors, should in future be regulated by us. As things stand, our powers in relation to Tier 2 are limited in some areas.

Second, we need to look at more ways to manage the internal governance of the BBC and the accountability and supervision of how public money is spent. There are two broad options.

- First, the BBC's suggestion, which recognises many of the problems of the old system, and goes some way to setting up an improved approach.
- Second, the option proposed by the Burns Panel, to create a new independent organisation – a Public Service Broadcasting Commission – which would collect the licence fee, make sure the BBC spends its money well, and delivers good value for the public.

The BBC's suggestion would have the immediate advantage of giving their own proposed changes time to work. But the Burns Panel's idea may be more flexible when it comes to future changes, and could also help to pick out things that aren't consistent across the industry.

The proposed new Public Service Broadcasting Commission could have

several roles, such as overseeing the proposed PSP, or any other authority that gets public money. The new commission could also take over some of our duties, such as sharing out the Community Radio Fund.

We believe there are advantages and disadvantages to both approaches. In our view, the main point is that any system must bring a clear approach to regulation, accountability and governance.

Next steps

As we move into the digital age, this report is about protecting the quality of PSB, and making it even stronger. We now need to put words into action.

- **At Ofcom: we will now:**
 - put in place the planned rule changes for ITV1 and other licence holders;
 - move forward with our work on local television;
 - watch the position of Channel 4;
 - consider the role of multi-channel broadcasters in the PSB system;
 - review the production sector; and
 - look at the bigger picture of PSB and competition in broadcasting.

- **More widely:** this report also has a number of recommendations for the Government to consider, in the BBC Charter Review and elsewhere. For instance, proposals on governance and regulation, and on possible next steps for the PSP.
- **Launching a new consultation:** for the first time, this report sets out our proposals for PSB in the nations. So, we are opening a formal consultation on this set of proposals.
- **The next PSB review:** we will hold another review of public service television broadcasting within five years of this one, as set out by statute. Again, we will weigh up how effectively the public service broadcasters have met the purposes of PSB. Similarly, we will make recommendations for maintaining and strengthening the quality of PSB, taking into account the costs of providing it, and the sources of income available at that time.

Our aim now is to put in place a new system that reflects the changing wants and needs of the public and consumers, as they take advantage of new technologies and media. The new PSB system should:

- be a competitive marketplace with many different providers;
- use existing and new technologies;
- create competition for commissioning and distributing high-quality content;
- have a lively and varied production sector;
- be properly funded;
- offer value for money;
- serve and reflect all of the UK, not just London and the South East; and
- allow the market to work as effectively as it can, while covering areas that are at risk.