



## Ofcom's Second Public Service Broadcasting Review

# Putting Viewers First

Statement

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## One page overview

In this review we have focused on how to ensure the delivery of content which fulfils public purposes and meets the interests of citizens and consumers throughout the UK. Our aim has been to make recommendations that respond to the huge changes brought about by the transition to the digital era.

The central question is how a historically strong and successful public service broadcasting system can navigate from its analogue form to a new digital model. We need to sustain its quality and creative spirit while also capturing the opportunities of broadband distribution, mobility and interactivity.

Our recommendations are based on detailed audience research, a wide range of views from stakeholders within industry and our own analysis. The recommendations we present to government and Parliament set out what we believe is required to fulfil a vision of diverse, vibrant and engaging public service content enjoyed across a range of digital media, which complements a flourishing and expansive market sector. In summary, we believe that the four top priorities are:

- To **maintain the BBC's role and funding** for its programmes and services at the heart of the overall system.
- To support investment in and wide availability of high quality original programming and UK and international news, by positioning the **Channel 3 and Channel 5 services as commercial networks with a limited public service commitment**, with modest licence benefits balanced by appropriate obligations on a sustainable basis.
- To plan now to ensure the supply of **a choice of high quality news alongside the BBC in the devolved nations and English regions**. This should include developing proposals for a new approach based on independently funded news consortia.
- To ensure there is a financially robust **alternative provider of public service content alongside the BBC**, with Channel 4 at its heart, preferably based on partnerships, joint ventures or mergers, with the scale necessary to sustain effective delivery of public purposes across digital media. A new remit, governance and accountability will be essential.

We recognise also the value of choice in public service content for children and in the devolved nations. If these needs cannot be met sufficiently by these recommendations then:

- Government should consider **funding specifically for children's content**, and the case for **specific approaches in each of the devolved nations for the delivery of public service content other than news**.

Decisions on many of these matters are needed within the next year, as the current model of commercial public service broadcasting is clearly no longer sustainable.

We recognise that difficult choices will need to be made about the use of scarce resources. These priorities will need to be considered alongside other potential requirements to fulfil the interests of citizens and consumers in the digital age. These include promoting the availability and take-up of broadband.

## Section 1

# Executive summary

## Introduction

- 1.1 Ofcom's duties include the responsibility to report at least every five years on the extent to which the public service broadcasters have fulfilled the purposes of public service broadcasting and how best to maintain and strengthen its quality in the future.
- 1.2 We brought forward our second review of public service broadcasting as a result of increasing pressures in the commercial broadcasting sector. This is the final statement in which we set out our recommendations to government and Parliament.
- 1.3 In this review, we have focused on how to ensure the delivery of content which fulfils the public purposes and meets the needs and interests of consumers and citizens throughout the UK. Our aim has been to make recommendations that respond to and take advantage of the huge changes brought about by the transition to the digital era.
- 1.4 The central challenge that we have been seeking to address is how a historically strong and successful public service broadcasting system can navigate from its analogue form into a digital model. We need to sustain its quality and creative spirit while also capturing the opportunities of broadband distribution, mobility and interactivity.
- 1.5 Our conclusions are based on a detailed programme of audience research, views given to us by representative audience groups as well as many stakeholders from within the industry through the public consultation and our own analysis of the prospects for public service broadcasting.
- 1.6 The recommendations we present to government set out what we believe is required to fulfil a vision of diverse, vibrant and engaging public service content enjoyed across a range of digital media which complements a flourishing and expansive commercial market.

## The growth of digital platforms is creating new opportunities for audiences

- 1.7 The launch of digital television over ten years ago has opened up new choices for viewers. The more recent growth in availability and take-up of broadband internet access is transforming audiences' behaviour even further. An increasing number of consumers will access public service content using broadband over fixed and wireless networks.
- 1.8 Ofcom is working closely with industry to support the development and take-up of these digital media. We are looking at ways that regulation can support investment in super-fast broadband across the country, alongside our programme of spectrum release which will provide a critical input to the development of mobile broadband.
- 1.9 All of these platforms will complement the role of broadcasting, providing audiences with greater choice, flexibility, and opportunities to enjoy public service content.
- 1.10 Public service broadcasting will need to embrace these new digital platforms or risk declining relevance. Linear broadcasting is no longer the only way to achieve reach

and impact amongst audiences, who expect content to be available whenever and wherever they choose. The needs and habits of different audiences should be taken into account to achieve this. An important conclusion from this review is that **public service content should be available across all digital media, not just linear broadcasting.**

### **Audiences value highly content that meets the purposes and characteristics of public service broadcasting**

- 1.11 To respond to this challenge it is essential to root our thinking in the views of audiences – the consumers and citizens of the UK. As the UK grows into a more diverse society the role of public service broadcasting in meeting the public purposes is likely to become even more important.
- 1.12 Our research shows that audiences want a wide range of high quality content which meets the public purposes, providing news, promoting learning, reflecting our culture, and exposing a wide range of views. High quality UK-originated programming plays an essential part in meeting these purposes, and in many areas this is currently only provided by public service broadcasters.
- 1.13 Audiences still strongly support the BBC. But there is also a clear consensus from viewers and stakeholders that they value an alternative to the BBC across a wide range of programming.

### **The transition to the digital era is undermining the current model for delivering public service content outside the BBC**

- 1.14 The BBC's licence fee settlement runs until 2013. This funds the Corporation's ability to invest in content and services across television, radio and online. Alongside cost efficiencies, this settlement gives the organisation a solid and certain financial basis to ensure it can continue to fulfil its public service role effectively in the digital age.
- 1.15 However, beyond the BBC, the opportunities brought about by the growth of digital media also represent significant challenges to the traditional funding model for public service content made by the UK's advertiser funded public service broadcasters (the ITV network, Channel 4 and Five).
- 1.16 These broadcasters face greater competition than ever before and growth in television advertising has stalled as investment moves to the internet. These trends represent irreversible structural changes to the broadcasting market and are significantly exacerbated by current economic conditions.
- 1.17 This means that free-to-air advertising funded broadcasters will face growing pressure to cut back on programming with low or uncertain profitability. Regional news and UK-made children's programmes are both already under severe pressure. Other genres including current affairs, documentaries (especially about international affairs), UK-made factual programmes in areas such as science and history, and less formulaic and higher risk drama and comedy are also under threat.

### **Not responding to these changes will increasingly fail viewers**

- 1.18 The market will continue to provide high quality content in many areas. Multi-channel broadcasters now make a significant contribution to public service purposes in sport, entertainment, archive and acquired programming, and UK and international news.

- 1.19 Digital technologies are creating the potential for new content and services that are more participative, social and interactive than traditional broadcast content. There is now a wide range of innovative services provided both by commercial players and other organisations and individuals. Digital media have also enabled access to an extraordinary range of content from around the world.
- 1.20 However, despite two decades of multi-channel broadcasting, investment in high quality UK content other than in sport is overwhelmingly by the current public service broadcasters. There remain several areas vital to the delivery of public purposes where purely commercial players are unlikely to invest significantly in content for television or other digital platforms, because the returns are too low and the commercial risk is too great.
- 1.21 In phase 2 of our review, we estimated that if audiences are to continue to enjoy the same mix of high quality content they have today, replacement funding of between £145-235 million per year is likely to be required by 2012 (beyond the core licence fee and the residual value of regulatory assets such as privileged access to spectrum).
- 1.22 Beyond 2012, it becomes increasingly difficult to be precise about funding requirements given uncertainty about the wider media environment, although our analysis indicates that they are likely to increase further.
- 1.23 Whilst views on the exact size of the funding gap vary, there is now widespread consensus that the pressures on the commercial public service broadcasters are structural and substantial.
- 1.24 **Unless these pressures are addressed, audiences will come to rely exclusively on the BBC for many areas of public service content. But our research demonstrates clearly that they value highly a choice of provision in these key areas.**

### **The UK needs a new approach to delivering public service content for the digital age**

- 1.25 In the analogue broadcasting market, limited competition ensured the system could sustain significant public contributions from each of the public service broadcasters.
- 1.26 However, this era is now reaching its natural conclusion and the current model of public service broadcasting is no longer sufficient to meet the needs of audiences in the digital age. The scale and urgency of the problems facing commercial public service broadcasting are such that we must establish a new means to ensure audience needs are met in the future.
- 1.27 This needs sufficient flexibility to be able to adapt to the future challenges, opportunities and uncertainties of the digital age. It must enable room for innovation within the market whilst ensuring provision of the core public services for citizens across the UK.
- 1.28 The challenges we are seeing in the free-to-air advertising market highlight a significant and growing tension between a commercially owned public service broadcaster's incentives to maintain a profitable business model and to invest in public service content.

- 1.29 Given the increasing difficulty of aligning these incentives and the broader pressures on free-to-air advertising, it has been suggested by some that we should move away from reliance on designated commercial public service broadcasters and move towards a fully competitive funding model, alongside the BBC.
- 1.30 But our analysis, research and consultation responses show that in an ever more fragmented market for digital content, such institutions can continue to deliver public service content with reach and impact through recognised brands, organisational capability and a significant presence across digital media.
- 1.31 We believe that the UK needs a new approach to sustaining delivery of public service content, which embraces the opportunities created by the digital revolution and recognises the structural changes in the commercial sector. This new approach must ensure sufficient resources are available to support investment in public service content and create the right incentives to deliver it effectively.
- 1.32 **This is best achieved by re-balancing public service obligations across the sector:**
- **Securing the economic future of strong institutions which have public purposes at their heart**
  - **Freeing up commercial networks, while retaining a modest but important public service commitment consistent with shareholder objectives.**
- 1.33 These interventions should complement a thriving, competitive and innovative commercial market for content across digital media.

**A strong BBC with funding to deliver its core services across digital platforms should remain the heart of the public service system**

- 1.34 Audiences place a high value on the BBC and the breadth of services it provides across television and other digital media. They also support the role it plays in serving the needs of different audiences groups, at a national, regional and local level.
- 1.35 In our view it is essential that the BBC remains the main focus of public intervention to sustain the purposes of public service broadcasting. It should continue to be properly funded so that it can continue to provide its portfolio of services, with the room to innovate and develop in a fully digital world.
- 1.36 The BBC can also help to pioneer the development and take-up of content across new digital platforms, as it has done imaginatively with the iPlayer.

**A second institution with clear public purpose goals and a sustainable economic model will help to ensure wide availability of public service content**

- 1.37 It is clear that audiences care about having a public service alternative beyond the BBC, particularly in those areas where the market may not be able to provide. We believe, therefore, that it is important to maintain a second organisation with public purposes at its heart alongside the BBC, which:
- has strong incentives to commission UK content in the areas where the market is unlikely to invest;

- has the scale to operate independently of the BBC; and
  - can help to ensure choice and diversity of content amongst audiences.
- 1.38 Since our focus is on an alternative voice to the BBC, our objective is not on sustaining Channel 4 as an end in itself.
- 1.39 But our audience research has demonstrated the important role that Channel 4 has played in providing a public service alternative to the BBC. It is valued by audiences because of its diverse range of innovative and high quality programming, reaching specific audiences across digital media.
- 1.40 However, whilst Channel 4's incentive is to maximise its public service contribution ahead of profit, its current commercial model is no longer sustainable. This is already compromising its ability to invest in many important areas of public service content.
- 1.41 Direct public funding could help to sustain Channel 4's ongoing public service role. However, it is not clear that this represents the most stable economic model for Channel 4, potentially increasing its reliance on public support as pressures on the free-to-air model grow over time and presents the risk of skewed incentives.
- 1.42 The move from the analogue to digital world is likely to require a more ambitious solution. A more attractive option may, therefore, be to establish a second organisation alongside the BBC, with a sustainable economic model and with a strong public service role embedded at its core, **based on partnerships, joint ventures or even mergers between Channel 4 and other organisations.**
- 1.43 Such structural relationships have the potential to deliver greater scale, a more diversified revenue base, cost efficiencies, synergies and to ensure the new organisation retains the ability to offer substantial investment in public service content.
- 1.44 BBC Worldwide and Channel 4 have already established that there is potential value from collaboration between the two organisations. It is possible that this could be extended to a deeper and more integrated partnership with opportunities for future growth.
- 1.45 Alternatively, a partnership with another commercially owned broadcaster, such as Five, would also offer potential cost savings and synergies but this may raise immediate competition concerns and would crucially depend on the control and incentives of any merged entity.
- 1.46 Any proposed structural relationship needs to pass five tests if it is to deliver the underlying public purposes:
- **Sustainability** – is the funding model economically robust, is there a clear strategic rationale and do the parties believe there are mutual benefits?
  - **Governance** – does the partnership have clear and effective accountability arrangements, and are its incentives aligned to public purposes?
  - **Plurality** – does it help to deliver an alternative to the BBC in provision of public service content?
  - **Complementarity** – does it complement market provision?

- **Competition** – is it consistent with fair and effective competition?
- 1.47 For any relationship of this nature to work effectively, the interests of the respective organisations need to be aligned to deliver the benefits of the relationship.
- 1.48 It may be that a one-off allocation of funding to Channel 4 could help to facilitate structural relationships, although this would be subject to broader competition policy issues.
- 1.49 Any new entity is also likely to be a broader enterprise with a more diversified approach to rights exploitation across digital media than Channel 4 has currently. This will inevitably raise the issue of Channel 4's existing publisher/broadcaster status and the current Terms of Trade with independent producers. Independent of this, many respondents to our consultation argued that this be reconsidered in the wake of this review.
- 1.50 In any scenario in which a new entity with Channel 4 at its heart retains a strong public role, there is no doubt that there will be a need to reassess its public service remit.
- 1.51 In addition to engaging audiences across a range of content, this might include a more explicit commitment to news and current affairs, additional responsibilities to older children, a much more significant commitment to programming made outside of London and in the devolved nations, and a pivotal role in delivering public service content in digital media. It will also require a new governance and accountability framework to ensure effective delivery of this remit.
- 1.52 We recommend that structural relationship options involving Channel 4 should be explored in more detail immediately. However, we recognise that this is an ambitious, challenging and complex proposition and that structural relationships are likely to carry significant risks and may prove challenging to achieve.
- 1.53 If this turns out to be the case, we should be clear about the other options for Channel 4's future. There are essentially three:
- the use of one or other form of direct public funding (as set out below);
  - relieving Channel 4 of its special remit, repositioning it as a commercial network similar to Channel 3 and Channel 5 and probably thereafter privatisation; and
  - managed decline, in which its remit and status is retained but the ability to deliver steadily erodes.

**We want to see sustainable commercially owned networks which retain a modest but important public service commitment**

- 1.54 Most responses to our consultation favoured ITV plc remaining a public service broadcaster. However, given the substantial economic pressures on the ITV network, there is a fundamental tension between ITV plc's desire to reduce regulatory burdens so as to maximise profits, and its ongoing ability to maintain investment in public service programming. This tension is becoming far more acute as switchover completes and digital distribution becomes widespread.
- 1.55 This is demonstrated by ITV plc's requests for wholesale regulatory relief across a number of decisions which fall to Ofcom, to other competition authorities or

government and which it is not possible to agree and implement at this stage. If ITV plc believes its regulatory obligations exceed the value of its licence, it is possible that it may choose not to remain a public service broadcaster. This would have profound implications for:

- the viability of the ITV network model;
- the economic stability of the other Channel 3 licensees;
- the provision of regional news and programming across the UK, and
- it could also affect national news supply from ITN to other channels.

1.56 We want to see strong free-to-air commercial networks remain a central feature of the public service broadcasting system in the UK.

1.57 These networks can continue to play an important public role through sustaining a substantial investment in high quality UK programming, providing competition to the BBC, Channel 4 and the digital market. However, it is essential that we establish a model which balances benefits and service obligations for the ITV network on a sustainable basis for the digital age.

1.58 Therefore we are making immediate reductions to the obligations on the Channel 3 licences that will create a more sustainable model in the short-term (set out in the accompanying document).

1.59 Looking further forward to the point of digital switchover and beyond it is essential to be clear about the role of Channel 3. **We believe it should be an essentially commercial network, with a modest but important public service commitment to UK originations and to UK and international news, available free-to-air across the whole of the UK.**

1.60 By 2014 a more effective use of public resource may be to redistribute some of the remaining value in the Channel 3 licences, by charging a market rate to Channel 3 licensees for access to DTT capacity with universal reach (in line with Channel 5 in 2012). In addition it would be possible to reassign ownership of the remaining Channel 3 DTT capacity to other providers of public service content.

1.61 The public service obligations for the Channel 5 service are far more limited than those of Channel 3 and Five is already paying a market related rate for its DTT capacity rather than just a share of costs. The inherent tension in the Channel 5 licence is, therefore, not as great.

1.62 Five wishes to retain its public service broadcasting status. We believe this model should be maintained and the service should focus on UK original programming and national news, consistent with the proposed obligations on the Channel 3 licences.

### **Sustaining choice in news for the regions and devolved nations is a priority for audiences**

1.63 Whether ITV plc chooses to remain a public service broadcaster on the basis set out above, or to give up its public service licences, the current ITV networking model looks increasingly unsustainable.

- 1.64 Any changes to the ITV network arrangements are likely to have significant implications for programming made specifically for the regions and devolved nations, within which news is the most important priority for audiences.
- 1.65 Amongst its partnership proposals, the BBC has set out opportunities to co-operate with ITV plc on news infrastructure and picture access. Both parties believe this could achieve significant efficiencies in the costs of providing regional news and this is an important development.
- 1.66 Alongside the revisions to ITV plc's existing licence obligations, this may help to underpin its ability to continue with its regional news services. We will be considering the detail of the proposals from the BBC and ITV plc on regional news, including whether they raise any editorial or competition policy implications and their conditionality on ITV plc's requests for wholesale regulatory relief.
- 1.67 It will also be important to examine whether the proposals can represent a sustainable basis to provide regional news in the longer-term. Even with the BBC partnership, there will be continued pressures on ITV plc to reduce its investment in regional news and rely increasingly on BBC resources. This may present risks to the quality of output and also to the choice of news provision which is valued by viewers and important for our democracy.
- 1.68 **Given these considerable risks and uncertainties, we believe government needs in parallel to plan for an alternative model of news for the devolved nations and the English regions.**
- 1.69 This could be based on the establishment of independently funded consortia to provide an alternative source of news to the BBC in the devolved nations and English regions. This would require replacement funding, administered either centrally or on a devolved basis. Total funding required could be £30 to £50 million per annum.
- 1.70 This funding would be required to support the production of news programming in each region and devolved nation. This could be secured through a competitive tender amongst any potential news provider/s, which could include the Channel 3 licensees themselves or third party bidders. A number of established news organisations have already expressed interest in such an approach.
- 1.71 To ensure the wide distribution of this regional news output we should consider requiring a public service broadcaster other than the BBC to provide slots within its schedule for regular regional news programming. This is most likely to be the relevant Channel 3 licensee in each devolved nation and English region.
- 1.72 If ITV plc chose not to remain a public service broadcaster, then regional news could be provided on a similar basis through the replacement Channel 3 licence holder, through Channel 4's schedule or by using a new dedicated service within each nation, available across television and other digital media.
- 1.73 In all such cases we would envisage provision being not only broadcast but across various digital media to enhance both content and distribution

### **Options for the delivery of public service content other than news should be considered in the devolved nations**

- 1.74 During the past ten years, the devolved nations and their respective Parliaments and Assemblies have established their individual political, public service and cultural

agendas. In this respect, Ofcom recognises the heightened role of public service content and the need to sustain choice for citizens.

- 1.75 Responses to Ofcom's consultation have reinforced our view that there is unlikely to be a single solution to the future of public service broadcasting that equally meets the needs of all three devolved nations.
- 1.76 Audience research shows the most important priority in the devolved nations and English regions is to ensure provision of regional news beyond the BBC.
- 1.77 However, audiences in the devolved nations also value a wider range of programming about their nation. Some broader approaches have been suggested which would provide an even greater public service contribution in the devolved nations though we recognise a strong desire amongst viewers in all of them for increased public service provision.
- 1.78 In Northern Ireland, there is emerging support for a competitive funding model to complement the BBC. In Wales, we believe S4C should continue to play a key role, delivering programming to Welsh speakers with secure funding from the government. There have also been proposals for the introduction of a new funding agency. In Scotland, a new dedicated channel has been recommended by the Scottish Broadcasting Commission, which could include both news and other public service output made in and for the nation. An alternative would be for the network to be a competitive fund which would support a series of interconnected initiatives in Scotland e.g. Scotland wide television, local television, online and radio services.
- 1.79 **In our view, if these needs cannot be met sufficiently by earlier recommendations, then government should consider funding specific approaches in each of the devolved nations for the delivery of public service content other than news. These should be assessed against competing priorities.**

### **There may be opportunities for more local services**

- 1.80 In addition to new models in the devolved nations, provision of more local services also attracts some public support. However, there continue to be questions about the economic model for delivery of more localised services that will achieve high quality and impact.
- 1.81 Ofcom is creating more opportunities for local television than have ever existed before in the UK by releasing geographically targeted interleaved spectrum. Alternatively, reserved capacity on a public service digital terrestrial multiplex could be allocated to support local television, which could deliver universal coverage for new services in England or UK-wide. However, this would be a relatively significant intervention.
- 1.82 It may be that alternative distribution for local content such as broadband internet will be more effective, although this still depends on further progress towards more widespread availability and in particular take-up. **We believe the potential for broadcasting spectrum to support local television should be kept open for further consideration.**

## **The government should consider specific funding for children's programming**

- 1.83 Alongside provision of news for the devolved nations and English regions there are also other areas of public service content where provision beyond the BBC is already under severe pressure. UK programming for school age children is one area of particular concern.
- 1.84 Beyond the role that a second public institution could play in investing in this area, additional funding could be made available on a competitive funding basis if resources permitted. This model was supported by many stakeholders, who noted its flexibility in delivering content across different platforms.

## **As the value of analogue spectrum declines, models of replacement funding will be required to meet audience needs**

- 1.85 As implicit funding from privileged access to spectrum reduces, if we are to transfer a historically strong and successful public service broadcasting system from its analogue form into a digital model, then the question of resources cannot be avoided.
- 1.86 The BBC, funded by the licence fee, will remain the main public intervention to support public service content. It is essential that action is not taken which jeopardises the ability of the BBC to meet its purposes.
- 1.87 Existing government funding should continue for other public service broadcasters (S4C and BBC Alba) in the devolved nations, to ensure they can continue to fulfil their public roles.
- 1.88 Privileged access to broadcasting spectrum and other regulatory assets associated with the commercial broadcasters' licences will continue to have value in funding the delivery of public service content. Part or all of these could be reassigned at the end of the current licences, to ensure the value of these public assets is being maximised.
- 1.89 The BBC has recently set out a number of proposed partnerships with the other public service broadcasters to help address the commercial pressures they face. These are welcome initiatives.
- 1.90 These proposals could make an important contribution to supporting investment in public service content and ensuring its availability across digital platforms. However, it is important that they are transparent, genuinely sustain a range of providers and editorial independence, and that the potential implications for competition in the broader market do not outweigh the public benefits.
- 1.91 We have not had the opportunity to assess fully these proposals but from what we know today the immediate financial benefits of the BBC's proposals seem relatively limited. The substantial benefits predicted by the BBC for 2012 and beyond are somewhat uncertain and dependent on wider market factors.
- 1.92 Existing public resources, as currently configured, are therefore still likely to fall short of addressing the funding gap in public service content. In this light the next step must be to identify any other means that could ensure the delivery of public service goals in the future. Our proposal to pursue the opportunity of cost efficiencies and synergies through deeper partnerships or combinations is one means to meet this objective.

- 1.93 Beyond this the government has a range of options to replace the value lost through the declining value of spectrum. Any unused funds currently allocated towards digital switchover before 2012 and the Licence Fee switchover surplus after 2012 (if retained) are both credible funding options.
- 1.94 This funding was identified specifically for assisting digital switchover. It is therefore clear that this source of funds could be used in the future for a range of purposes without in any way affecting the BBC's programmes and services.
- 1.95 While this is not without risk, it is important for it to be retained as an option. In contrast, we do not believe that the top-slicing of funding for the BBC's programmes and services should be considered.
- 1.96 In addition, the model of direct government funding which is already used for public service broadcasting in the BBC World Service and S4C could be extended further. Alternatively funds could be raised through a new industry levy, as used in some other countries.
- 1.97 It is important to recognise that resources are constrained, particularly in the current economic environment. There are competing demands for funding, which could also include supporting more extensive roll-out and take-up of digital infrastructure, such as current generation broadband, super fast broadband or DAB digital radio.
- 1.98 Difficult choices are inevitable. However, the evidence clearly highlights that without replacement funding, the mix of UK public service content will continue to weaken over time.

### **There is an opportunity for government to establish a healthy public service system for the future**

- 1.99 Audiences have told us that they value public service content, that they want it sustained and also that they think it important that there is a choice beyond the BBC. These views are echoed by many of the stakeholders who have contributed to this review.
- 1.100 By acting now, government and Parliament have the opportunity to secure a future that can be at least as strong for the next decade as it has been for the last.
- 1.101 This report sets out our recommendations to ensure that the interests of citizens and consumers can continue to be fulfilled through ongoing production and availability of a choice of content that delivers the purposes of public service broadcasting.
- 1.102 In addition, Ofcom will take forward work in a number of areas including:
- Implementing the decisions in the short-term in relation to licence conditions set out in the document published alongside this report.
  - Further analysis and evaluation of the BBC's partnership proposals.
  - More detailed analysis of the issues regarding provision of public service content at a local level across all media including radio.
  - Working with government and its Digital Britain project across a range of issues including the options and implications of new partnership models involving Channel 4.

- Releasing spectrum and promoting superfast broadband to spread the benefits of greater availability and take-up of connectivity across the UK.
- 1.103 The sheer pace of change brought about by new digital technologies makes it increasingly difficult to predict the future with any certainty. It is possible that the recommendations set out here may not be sufficient to secure a sustainable model for investment in public service content beyond digital switchover.
- 1.104 If the pressures on commercial broadcasting are even greater than expected and the transition to digital more dramatic, it may be that more radical options will be required to secure public service content in the future. This might include a more comprehensive approach to the distribution of funding which creates a fundamentally more flexible and accountable system.
- 1.105 Ofcom's next Public Service Broadcasting Review will occur around the conclusion of digital switchover and towards the end of the current digital broadcast licences. This will be an important point to assess whether changes to the public service broadcasting system in the UK have been successful in navigating the transition from analogue to digital and most fundamentally, in meeting the needs of audiences throughout the UK.
- 1.106 These are our recommendations to government and Parliament on maintaining and strengthening public service broadcasting in line with our duties. It is now in the hands of government and ultimately Parliament to make the decisions which will secure the future of this crucial part of the UK economy and society.

## Section 2

# The story so far

### Introduction

- 2.1 This section sets out a brief overview of the main findings from the first two phases of the review, explains the purpose of this final statement and outlines the key issues covered in this final statement.

#### **The key points covered in this section are:**

- Ofcom's role in undertaking this review is set out in the Communications Act.
- We have engaged with a wide range of stakeholders and conducted extensive original analysis and research.
- In phase 1 we reported on the current state of public service broadcasting provision, identified the issues and proposed four potential models.
- In phase 2 we developed our analysis and models, building on consultation responses and new research.
- We have also conducted new analysis in a number of areas.
- The purpose of this statement is to set out our recommendations.

### **Ofcom's role in undertaking this review is set out in the Communications Act**

- 2.2 Ofcom is required to secure in carrying out its duties under the Communications Act (2003):
- the availability throughout the United Kingdom of a wide range of television and radio services which (taken as a whole) are both of high quality and calculated to appeal to a variety of tastes and interests and;
  - the maintenance of a sufficient plurality of providers of different television and radio services;
- 2.3 The Act also calls upon Ofcom to conduct a review of public service broadcasting and report on it at least once every five years. Ofcom's duty in conducting this review is:
- to review the extent to which the public service broadcasters have delivered the purposes of public service television broadcasting; and
  - to report on it with a view to maintaining and strengthening the quality of public service broadcasting in the future<sup>1</sup>.

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<sup>1</sup> In carrying out a review, Ofcom is required to: consider any changes that have occurred in the extent to which the purposes of public service broadcasting have been satisfied and the manner in which they have been fulfilled; consider the costs to broadcasters of fulfilling the public service purposes set out in Section 264 of the Act and the sources of income available to them for meeting these costs;

- 2.4 We began our second review of public service broadcasting in September 2007. Phase 1 of the review was published on 10 April 2008 and the second phase was published on 25 September 2008.
- 2.5 In the first phase of our review we reported on the extent to which the public service broadcasters have, during the period since Ofcom's last public service broadcasting review, fulfilled the purposes of public service broadcasting in the United Kingdom. Overall, the evidence suggests that the purposes of public service broadcasting remain highly valued by audiences and that the public service broadcasters continue to deliver those purposes in most areas. However, there are a number of areas where audiences are less satisfied, particularly with programming from the devolved nations and the English regions. Our findings on this were set out in section 3 of the phase 1 document which can be found at: [http://www.ofcom.org.uk/consult/condocs/psb2\\_1](http://www.ofcom.org.uk/consult/condocs/psb2_1)
- 2.6 In this third phase statement we have focused on setting out our report and recommendations for the future in relation to maintaining and strengthening the quality of public service broadcasting.

### **We have engaged with a wide range of stakeholders and conducted extensive original analysis and research**

- 2.7 Over the course of the review we have engaged with members of the public and a wide range of stakeholders including public service broadcasters, platform providers, trade organisations, consumer groups, public bodies and MPs. We also acknowledge the House of Commons Culture, Media and Sport Select Committee's report into Public Service Content of November 2007 as a valuable contribution to the debate.
- 2.8 We received around 270 formal responses to our phase 1 consultation document and around 13,000 individually signed postcards supporting Border TV's *Lookaround* news programme, as well as around 2,500 postcards and 700 emails objecting to sharing the licence fee with broadcasters. Additionally we received around 250 responses to our phase 2 consultation document and about 700 identical emails from members of Equity arguing in favour of having a range of broadcasters producing UK-made public service content and against "top-slicing" the BBC licence fee. The non-confidential responses have been published at:
- [http://www.ofcom.org.uk/consult/condocs/psb2\\_1/responses/](http://www.ofcom.org.uk/consult/condocs/psb2_1/responses/); and
  - [http://www.ofcom.org.uk/consult/condocs/psb2\\_phase2/responses/](http://www.ofcom.org.uk/consult/condocs/psb2_phase2/responses/)
- 2.9 Since beginning our second review of public service broadcasting in September 2007 we have undertaken and commissioned extensive analysis including economic modelling, an investigation into market failure, research into business models and incentives for delivering public service content and forecasting future delivery.
- 2.10 We have also drawn on extensive audience research, from Ofcom's own tracking studies as well as both quantitative and deliberative research into audience perceptions and attitudes to a range of issues across public service broadcasting. This research is set out in the appendices to our phase 1 and phase 2 documents at: [http://www.ofcom.org.uk/tv/psb\\_review/](http://www.ofcom.org.uk/tv/psb_review/)

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and set out Ofcom's conclusions on the state of public service broadcasting in the UK and our findings

- 2.11 Our recommendations are aimed at maintaining and strengthening the delivery of public service broadcasting in the long-term to ensure that it achieves reach and impact amongst all people across the UK.
- 2.12 This section sets out a brief overview of the main findings from the first two phases of the review and outlines the key issues covered in the final statement.

**In phase 1 we reported on the current state of public service broadcasting provision, identified the issues and proposed four potential models.**

- 2.13 In Ofcom's first Public Service Broadcasting Review we defined public service broadcasting by its purposes and characteristics<sup>2</sup>. Our research for phase 1 of this review shows that audiences continue to believe that these purposes and characteristics are vitally important.
- 2.14 Phase 1 found that programming made in and about the UK is vital to delivering the purposes and that competition to the BBC in the provision of public service content is critically important.
- 2.15 We also established that audiences are benefiting from the opportunities presented by digital media and are increasingly accessing public service content through new platforms and services. However, new digital media are currently a complement to - rather than a substitute for - public service content on television. To this end, we introduced the concept of public service content as a broader category that included public service broadcasting, but also captured the contribution made to public purposes by content distributed over other platforms, principally the internet.
- 2.16 Based on audience priorities we set out a vision for public service content in the digital age. This vision recognised the huge opportunities presented by the transition to digital and was broadly accepted by respondents to the phase 1 consultation. The vision was for a system which:
- delivers high levels of new UK content meeting the purposes of public service broadcasting;
  - provides public service content which is innovative, original, challenging, engaging and of consistently high quality;
  - is available in a form, and on a range of platforms to achieve maximum reach and impact;
  - exploits the distinctive benefits of different delivery platforms; and
  - supplies diverse content which meets the needs of different communities in the UK.
- 2.17 We identified that public service broadcasting in the UK is at a crossroads. Audiences value an alternative to the BBC, but commercial broadcasters are finding it increasingly difficult to sustain their output of public service obligations and the costs of being a public service broadcaster will soon outweigh the benefits for some licensees.

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<sup>2</sup> The purposes and characteristics are set out in full in Section 3

- 2.18 Our analysis showed that, while broadcasters in many areas have fulfilled the purposes of public service broadcasting (though with some areas of weakness such as children's programming, content for the nations and innovative programming), the existing model for commercial provision of public service content lacks the flexibility to adapt to audiences' evolving needs. Without additional funding there is a risk that, beyond the BBC, the public purposes will not be provided to the same degree in the future.
- 2.19 Economic modelling identified a range of possible scenarios for how the market may develop in the future. The BBC is likely to continue to make a strong contribution to public service broadcasting. However, there is much less certainty about how far commercial public service broadcasters will be able to fulfil public service purposes as, for some licensees the costs of being a public service broadcaster will soon outweigh the benefits. We argued that all commercial public service broadcasters would need certainty about their long-term roles by 2011 at the very latest.
- 2.20 In our analysis we outlined the weakness of the existing model of public service broadcasting and set out four potential models for delivering public service broadcasting in the future: Evolution; BBC only; BBC/Channel 4 plus limited competitive funding; and broad competitive funding.

### **In phase 2 we developed our analysis and models, building on consultation responses and new research**

- 2.21 In phase 2 we built upon the analysis and research undertaken for the first phase and on the responses we received to the first consultation. We found that in order to maintain delivery of public service programming from a range of providers and to meet audience needs, the total level of investment by commercial public service broadcasters could be somewhere between £330 million to £420 million depending on trends in the advertising market, audience fragmentation and market provision. We therefore estimated that an additional £145-£235 million of public funding would be needed by 2012 in addition to the residual value in the current system, estimated at £185 million.
- 2.22 For most Channel 3 licensees the costs of their public service licences will outweigh the benefits before 2012. However, Five will continue to derive modest benefits from its licence beyond digital switchover in 2012.
- 2.23 We identified potential shortfalls relevant to what audiences currently need in eight areas of programming which are important for delivering the public purposes: regional news, news from the nations, UK children's programming, current affairs, other programming in the devolved nations, UK drama, UK comedy and education. Our analysis indicated that if Channel 4 were to sustain its current investment in public service content it would need additional funding, of between £60-£100 million per annum by 2012, Channel 4 believed it would require a further £50 million per annum if its responsibilities were expanded to deliver the multiplatform vision it set out in *Next on 4*.
- 2.24 There was consensus that the BBC should remain the cornerstone of public service broadcasting. But, there was virtually no support – from either stakeholders or audiences - for a "BBC only" model. The remaining models all had some support
- 2.25 Therefore, in phase 2 we did not pursue the BBC only model and we set out three more refined models for delivering public service content. These models drew upon our analysis, audience research and feedback to our consultation, and are

summarised below. We stated that a new settlement might draw on aspects of all three models:

- Enhanced evolution model - the BBC, Channel 3, Channel 4 and Five continue to have public service obligations. Channel 3's obligations would focus on content made in the UK and international news. Additional funding would be required for it to provide news for the devolved nations and the English regions. Channel 4 would have an extended remit to innovate and provide distinctive public service content across platforms, with additional funding. Five's role would focus on broadcasting programmes made in the UK, in particular children's programming and news.
- Refined BBC/Channel 4 model - the BBC and Channel 4 receive public funding and regulatory assets. Channel 3 licensees and Five lose their public service broadcasting status and benefits. Funding to provide content for the nations and regions and potentially local news and children's content would be open to a wide range of potential providers.
- Refined competitive funding model - the BBC would remain the cornerstone of public service broadcasting provision. Channel 3 would lose its status and benefits. Funding to provide public service content beyond the BBC would be allocated on a competitive basis. Existing providers, such as Channel 3, Channel 4 and Five and new providers such as new media organisations and multi-channel broadcasters would be eligible to bid for funding. Tender awards would take into account a provider's ability to deliver the purposes of public service broadcasting and to deliver the appropriate reach and impact.

2.26 We also investigated several possible sources of funding for public service broadcasting. The main choices include: direct public funding, the digital switchover surplus, licence fee funded assets through partnerships of transfer of assets privileged access to the airwaves, and industry levies.

2.27 The consultation period for phase 2 of our review ended on 4 December 2008. Both our short-term and long-term proposals drew significant and extensive comment from stakeholders ranging from public service broadcasters and platform providers, to trade organisations, consumer and advisory groups, public bodies, Members of Parliament and individuals. These responses are summarised in Annex 2.

2.28 We also engaged extensively with a range of stakeholders and organised – or participated in – a series of consultation events and public engagements across the UK.

### **We have also conducted new analysis in a number of areas**

2.29 In response to changes in the current economic climate and to help understand risks to the potential future models for delivery, we have assessed the short and long-term prospects for free-to-air television as a source of revenue and funding for commercial broadcasters.

2.30 To help assess the merits of different proposals of additional funding for Channel 4, we have analysed the structure, benefits, complexities and likely value of a relationship between Channel 4 and BBC Worldwide.

2.31 Additionally, we have conducted a preliminary assessment of the BBC's recently announced partnership proposals.

- 2.32 We have also commissioned economic analysis on the economic sustainability of different types of local television services in order to consider in more detail the issues in relation to local television.

**The purpose of this statement is to set out our recommendations**

- 2.33 This statement sets out our recommendations for maintaining and strengthening the quality of public service delivery in the long-term, to 2014 and beyond.
- 2.34 Short-term regulatory decisions by Ofcom regarding the commercial public service broadcasters' regulatory requirements, which are to be implemented in 2009 and 2010 are being dealt with in a separate document, the statement on short-term regulatory decisions, which is published online alongside this document at [http://www.ofcom.org.uk/consult/condocs/psb2\\_phase2/statement](http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement)
- 2.35 This document is supported by a set of annexes. Annex 1: Glossary is published with this report. The following annexes are published online at: [http://www.ofcom.org.uk/consult/condocs/psb2\\_phase2/statement](http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement):
- Annex 2: Summary of phase 2 consultation responses (long-term);
  - Annex 3: The networking arrangements and their impact on Channel 3 licences;
  - Annex 4: The sustainability of local commercial television.
- 2.36 In this statement we draw on the research and analysis that we have conducted throughout the review and the feedback and additional evidence that we have received from stakeholders to put forward practical options for the future delivery of public service broadcasting.
- 2.37 Exactly what the system should be and how it should be funded are decisions for government and Parliament. This final statement of the review is intended to act as a guide for government and Parliament in developing their policies for the future delivery and funding of public service broadcasting in the UK. Ofcom's findings and analysis will feed into the government's Digital Britain Report.

## Section 3

# What audiences think about public service content

## Introduction

- 3.1 The future delivery of public service content is driven by the ongoing needs of audiences. Ofcom has undertaken an extensive programme of research over the course of this review to understand audiences' views on public service content as both consumers and citizens. This section details the key findings from this research and sets out a vision upon which future decisions about public service broadcasting can be made.

### The key points covered in this section are:

- Public service broadcasting and its purposes remain important to audiences.
- UK origination plays a vital role in delivering the purposes.
- Each of the main channels is valued, with the BBC perceived as the cornerstone of public service provision.
- Viewers want the full range of public service content, widely available and from more than one provider.
- Audiences are open to the idea of public service content being provided online.
- Audiences are broadly satisfied with the delivery of public purposes, but less so in a number of important areas including in the devolved nations.
- Based on our research we have a clear idea of what audiences' views about public service content are.

## Public service broadcasting and its purposes remain important to audiences

- 3.2 In Ofcom's first Public Service Broadcasting Review we set out the four purposes of public service broadcasting, alongside its characteristics. These reflect the statutory definition of public service broadcasting laid out in the Act. The purposes encapsulate the role that public service broadcasting plays in people's lives and the characteristics describe how the purposes need to be delivered in order to achieve sufficient reach and impact. Our research in the first review showed that audiences believe that the purposes and characteristics are important.

## Figure 1: The purposes and characteristics of public service broadcasting

### Public service broadcasting: purposes

- **Informing our understanding of the world** - to inform ourselves and others, to increase understanding of world through news, information, analysis of current events and ideas;
- **Stimulating knowledge and learning** - to stimulate our interest in and knowledge of arts, science, history and other topics, through content that is accessible and can encourage informal learning;
- **Reflecting UK cultural identity** - to reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences; and
- **Representing diversity and alternative viewpoints** - to make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere.

### Public service broadcasting: characteristics

- **High quality** - well-funded and well-produced;
- **Original** - new UK content rather than repeats or acquisitions;
- **Innovative** - breaking new ideas or re-inventing exciting approaches, rather than copying old ones;
- **Challenging** - making viewers think;
- **Engaging** - remaining accessible and attractive to viewers; and
- **Widely available** - if content is publicly funded, large majority of citizens need chance to watch it.

3.3 Our latest research into consumers' views on the public service purposes and characteristics shows that audiences of all types continue to find each of these purposes and characteristics important. Purpose 1 (informing our understanding of the world) is regarded as the most important purpose, followed by Purpose 3 (reflecting UK cultural identity). Of the characteristics, high quality and engaging are regarded as the most important.

**Figure 2: The public's attitude towards public service purposes and characteristics**



Source: PSB Annual Tracker, 5,357 UK adults aged 16+. Amalgamated data January 07, April 07, July 07, October 07. Statements about children's programmes asked only of parents/carers of children in household. \*\* "Trust", "Children's" and "Aside from news..." began to be asked from July 07.

3.4 A wide range of content contributes to public service purposes and characteristics. In this chapter we focus specifically on programme genres, but we recognise that different genres are relevant and appropriate to different purposes, and some genres can relate to a range of purposes.

### UK origination plays a vital role in delivering the purposes

3.5 UK content is vital to delivering public service purposes – they could not be delivered without it. While audiences also tell us that a range of imported programmes can add to the delivery of public purposes, viewers value programmes that reflect UK cultures, values and identities. Over four-fifths (83%) of people think “it is important for the main television channels to provide programmes that are made in UK and reflect life in the UK”<sup>3</sup>. Our phase 1 deliberative study revealed that participants feel they identify more readily with UK programmes and there is concern that, with much less UK content, the UK’s cultural identity could be eroded. With the perceived increase in social fragmentation, participants think the importance of UK content also increases by catering for different groups in UK society while acting as an expression of common cultural identity.

3.6 Audiences see the most important purposes for UK origination to be informing our understanding of the world and stimulating knowledge and learning. Among parents, children’s content is also a priority. Audiences are least concerned that arts, classical music or religious programmes are made in the UK.

<sup>3</sup> Source: PSB Review phase 1 annex 5, quantitative survey 2007

## Each of the main channels is valued, with the BBC perceived as the cornerstone of public service provision

- 3.7 Television and the public service channels in particular, are seen to play an essential role in delivering the purposes of public service broadcasting. Our research identifies that each of the main public service channels is valued, with the BBC seen as the cornerstone of public service content across the UK.
- 3.8 The main channels are perceived to cater for different audiences and/or interests:
- Among regular viewers<sup>4</sup>, the BBC channels perform particularly strongly across many elements of public service broadcasting.
  - The ITV network is rated highly for its news, nations/regions news, and high quality dramas and soap. It is also valued for its role in portraying different parts of the UK<sup>5</sup>.
  - Channel 4 is appreciated for its innovative content and representation of diversity and alternative viewpoints; and its younger viewers are more likely to rate it higher on a number of elements, as are ethnic minority audiences<sup>6</sup>.
  - Overall, Five's programming is not as highly appreciated by its regular viewers across the range of public service purposes and characteristics, perhaps reflecting the size of its audience and the nature of the channel<sup>7</sup>. Nevertheless, a small majority think Five should continue to show public service content<sup>8</sup>.
  - Ofcom's Public Service Broadcasting Annual Tracker and Review surveys also show there are high levels of support for S4C among people in Wales.
- 3.9 The Teletext service is also valued among its loyal user base. Across the analogue and digital service just over a third (36%) of people with access claim to use it, with a large majority of these (70%) using it at least once a week. In their consultation response the RNID highlighted the important role of Teletext for its members.
- 3.10 The five main channels remain key destinations for many viewers because of a strong sense of familiarity, trust and expectations of high standards. Audiences also appreciate the main channels' 'power of serendipity' which helps them to stumble across a programme that subsequently becomes of interest. By aggregating large audiences and reflecting communities to each other, the five main channels are seen to have a social role in bringing people and communities together, although this role is becoming less relevant among some audiences, particularly ethnic minority groups, where the five main channels account for a minority of viewing.

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<sup>4</sup> Source: PSB annual tracker report 2008

<sup>5</sup> In the PSB Review survey 2007, when asked about the importance of ITV1 showing programmes that "are made in a variety of different parts of the UK", 70% agreed, with responses higher in the devolved nations than in England

<sup>6</sup> Source: PSB Review phase 1 deliberative research 2007

<sup>7</sup> Source: PSB annual tracker report 2008

<sup>8</sup> Source: PSB Review phase 1, annex 5, quantitative survey 2007

## Viewers want the full range of public service content, widely available and from more than one provider

- 3.11 The majority of people of all ages, socio-economic groups and ethnicity think it important to show a range of programmes across the full range of public purposes on the main channels<sup>9</sup>. UK news, current affairs, specialist factual, and nations/regions news are seen to be the most important programme areas to be shown on more than one of the main public service channels<sup>10</sup>. The only areas where a majority of the audience did not mind if programming were not available on more than one public service channel were religious programmes, schools programming and arts and classical music. (See Figure 3 below). In their responses to our consultation the Arts Council and the Church of England stressed the importance of arts programming and religious programming respectively. But our audience research is clear that viewers consider that a range of provision of this type of programming is a lower priority.
- 3.12 A clear majority of parents (76%) also believe that children's programming should be shown on more than one of the main channels. Our children's television review research identified that parents think the public services purposes and characteristics are important for children's programming as a whole, and a choice of provider of UK content is valued in order to offer different viewpoints and perspectives, cater for children's varying tastes and interests and maximise reach.
- 3.13 There are high levels of support for nations and regions news to be shown on more than one of the main channels across audiences in the UK, especially among older people aged 55+ and people in each devolved nation<sup>11</sup>. Respondents in the English regions and devolved nations do not believe that nations and regions news can be left solely to the BBC<sup>12</sup>. However our deliberative research suggests differences in attachment to the ITV network; audiences in the devolved nations want to guarantee the continuation of stv, UTV and ITV Wales in their current forms, which have symbolic value beyond their public service provision. They are seen to represent national identity in ways which other television channels do not, whereas audiences in the English regions value supply on more than one channel but appear less wedded to ITV1 being its source<sup>13</sup>.
- 3.14 Nations/regions current affairs and other non-news programmes are of less importance to audiences than nations/regions news. However there is some variation in importance by nation; people in Northern Ireland are more likely to value current affairs both overall and in terms of provision on more than one of the main television channels. For other non-news programming, views on importance are more positive in the devolved nations than in England, with deliberative research showing that dedicated programmes in the nations play a strong cultural role. Programming in indigenous languages, is valued among people in the devolved nations and unsurprisingly the perceived importance of provision rises among speakers of each language<sup>14</sup>.

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<sup>9</sup> Source: PSB Review phase 1, annex 5, quantitative survey 2007

<sup>10</sup> The main channels were described as BBC One, BBC Two, ITV1, Channel 4 and Five

<sup>11</sup> Source: PSB Review phase one annex 5, quantitative survey 2007

<sup>12</sup> Source: PSB Review phase two, annex 16, ITV1 nations/regions news survey, 2008

<sup>13</sup> Source: PSB Review phase two, annex 5, deliberative workshops in Aberdeen, Londonderry/Derry, Swansea, Croydon, Nottingham and Beverley, annex 5, 2008

<sup>14</sup> Source: PSB Review phase one survey identified that 69% of people in Wales believe that provision in Welsh is important; 53% of people in Scotland believe Gaelic provision is important, in Northern Ireland 29% think provision of Irish language programming is important and 20% think provision of Ulster Scots programming important

**Figure 3: Audience attitudes towards provision by more than one provider**

	Importance to be on main PSB channels	Importance that on more than 1 of main PSB channels	Importance to be on main PSB channels in the future
<b>Purpose 1 - Informing our understanding of the world</b>			
UK-wide news	93%	86%	92%
UK-wide current affairs	85%	77%	74%
Nations news	89% Wales, 90% Scotland, 88% NI	Over 90% in each nation agree needs to be on ITV1 & BBC	65% Wales, 76% Scotland, 85% NI
Nations current affairs	86% Wales, 86% Scotland, 87% NI	74% Wales, 73% Scotland, 82% NI	unknown
English regions news	88%	82% on ITV1 & BBC	74%
English regions current affairs	83%	72%	unknown
<b>Purpose 2 - Stimulating knowledge and learning</b>			
Specialist factual	82%	73%	62%
Religious programmes	49%	41%	37%
Schools/Formal education	Deliberative research (DR) indicates important.	DR indicates important overall but plurality less so.	53%
Arts and classical music	DR indicates lower than other genres	DR indicates low.	42% - DR indicates can be on digital platforms
<b>Purpose 3 - Reflecting UK cultural identity</b>			
Nations non-news	82% Wales, 83% Scotland, 81% NI	71% Wales; 73% Scotland, 78% NI	unknown
Regions news	88%	82% on ITV1 & BBC	74%
Regions current affairs	83%	72%	unknown
Regions non-news	73%	63%	unknown
UK drama	75%	68%	65%
UK comedy	72%	64%	DR can be on mix of main channels/digital platforms
UK children's (among parents)	85%	76%	70%. DR indicates can be on digital platforms in future.
<b>Purpose 4 - Representing diversity and alternative viewpoints</b>			
Programmes that appeal to wide range of cultural tastes	64%	57%	DR indicates can be on digital platforms
Programmes including EMGs	59%	52%	DR indicates people think main channels play vital role in building societal cohesion
Portrayal of different parts of UK	76%	64%	DR indicates people think main channels play vital role in building societal cohesion.

Source: Public Service Broadcasting Review phase 1 quantitative survey. Results show % of people who answered very important/quite important to the questions 'How important is it that X programme genre is shown on the main channels as a whole/on more than 1 of the main channels?' Third column shows % of people who agree each genre needs to be shown on main channels when asked 'In the future, does X genre need to be on the main channels or can it be provided via digital channels or internet?' In column 2 for nations and regions news, people were asked to what extent they agree with the statement 'It is important ITV1 as well as the BBC to provide nations/regions news' Results show % who agree strongly/agree.

- 3.15 Audiences perceive religious and arts programmes to be of relatively less importance both as a whole, and in terms of being shown on more than one of the main channels, even though they are considered key in their own right by some groups of people. This is reinforced by new quantitative research undertaken by the BBC<sup>15</sup>.
- 3.16 Audiences believe that competition for the BBC in provision of public service content is critically important. Audiences in our deliberative research in phase 1 and 2 tell us they value that competition, as it:
- guarantees access to a range of voices and perspectives;
  - enhances reach and impact of public service content and helps to cater for different tastes; and
  - acts as a competitive spur, helping to ensure public service broadcasting remains relevant, of high quality, accountable, and focused on meeting audience needs.
- 3.17 The BBC's own research also supports the view that audiences value a range of providers beyond the BBC.
- 3.18 In Ofcom's quantitative research, three quarters of audiences (78%) were willing to pay for public service provision on ITV1, Channel 4 and Five in addition to the licence fee for the BBC, with consumers willing to pay on average up to £3.50 per month<sup>16</sup>. The recent BBC research also shows willingness to pay for 'at risk' genres on the commercial public service channels, and while the figure arrived at based on the BBC's research is lower than Ofcom's figure, it is still higher than the current level of subsidy those channels receive.

### **Audiences are open to the idea of public service content being provided online**

- 3.19 Research conducted in phase 1 shows that provision of online content by the main channels is seen to be important by half of the public, rising to 7 in 10 among those aged 16–24 and those with access to broadband. Our research also shows that most people (75%) think the internet is a valuable source of information and learning, rising to 92% among internet users<sup>17</sup>. And audiences are already using the internet for public service content<sup>18</sup>. Audiences recognise that the marketplace and media habits are changing and that any new public service provision needs to be flexible to future changes and audiences, particularly younger people, who are most open to content being provided in new ways in the future.
- 3.20 However, not all audiences currently benefit from access to online services, whether by choice or by exclusion. One third does not have access to the internet, and these

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<sup>15</sup> Source: BBC consultation response, quantitative survey of 4,577 adults, reported by Human Capital, December 2008

<sup>16</sup> Source: PSB Review phase two annex 6: Assessing the value of public service programming on ITV1, Channel 4 and Five, 2008

<sup>17</sup> Source: PSB Review phase 1 annex 5: The audience's view of the future of public service broadcasting, 2007

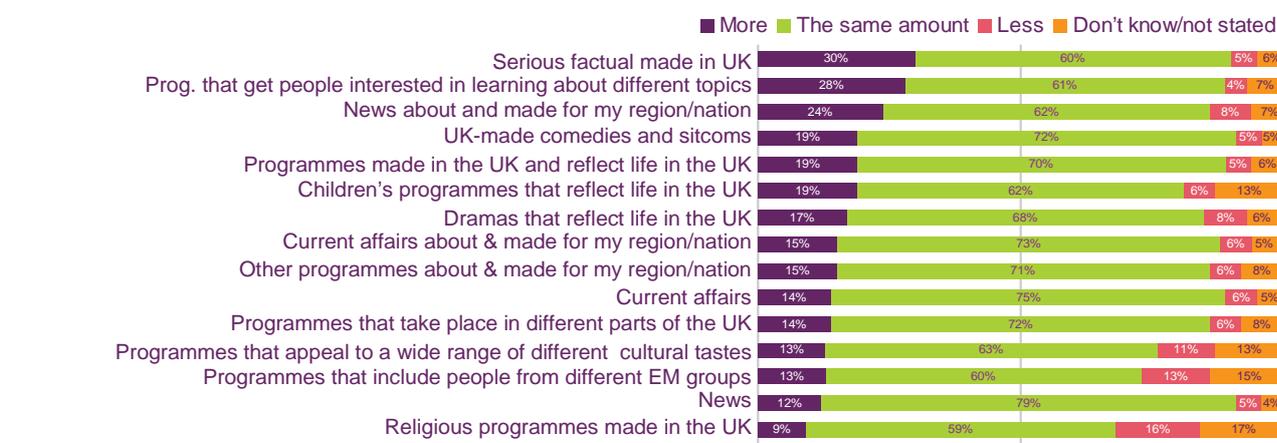
<sup>18</sup> Source: PSB Review phase 2 annex 9: Public service content and the internet. Quantitative omnibus questions among 1002 people aged 16+ in the UK. Public service content was defined as "Content and websites that does one or more of the following: Informs our understanding of the UK or the world, encourages our interests in and knowledge about subjects, brings us together and strengthens our UK culture makes us aware of different opinions or different cultures. This can cover a wide range of areas like news, current affairs, arts, sports, religion, local information, hobbies and interests among other things."

tend to be disproportionately older and less well off. Broadband take-up has also levelled off recently, at 60% of households. Some participants, particularly older people and those without access to multi-channel television or the internet, have concerns about providing public service content on digital platforms<sup>19</sup>. Ensuring easy access to and 'discoverability' of public service content may become increasingly important in a digital age. Our audience research in phase 2 suggested that internet users did feel able to find content they wanted. Their main concerns were about awareness of content and the lack of serendipity in finding unexpected things they valued which is a benefit they enjoy viewing public service channels.

### Audiences are broadly satisfied with the delivery of public purposes, but less so in a number of important areas including in the devolved nations

- 3.21 On balance, the evidence suggests that the public purposes are currently being delivered in many areas. Figure 4 shows there is broad public satisfaction with the amount of public service broadcasting currently available and for nearly all types of programming, at least 60% of adults 16+ feel that the amount is about right.
- 3.22 However, serious factual programmes, programmes which encourage education and learning, and UK comedy are areas where people are more likely to want more than current levels of provision. One in five people<sup>20</sup> want more nations/regions news and UK-made programmes. One in five adults want more UK-made children's programmes and this rises to 24% among parents.

**Figure 4: The public's attitudes towards the amount of public service content on main channels**



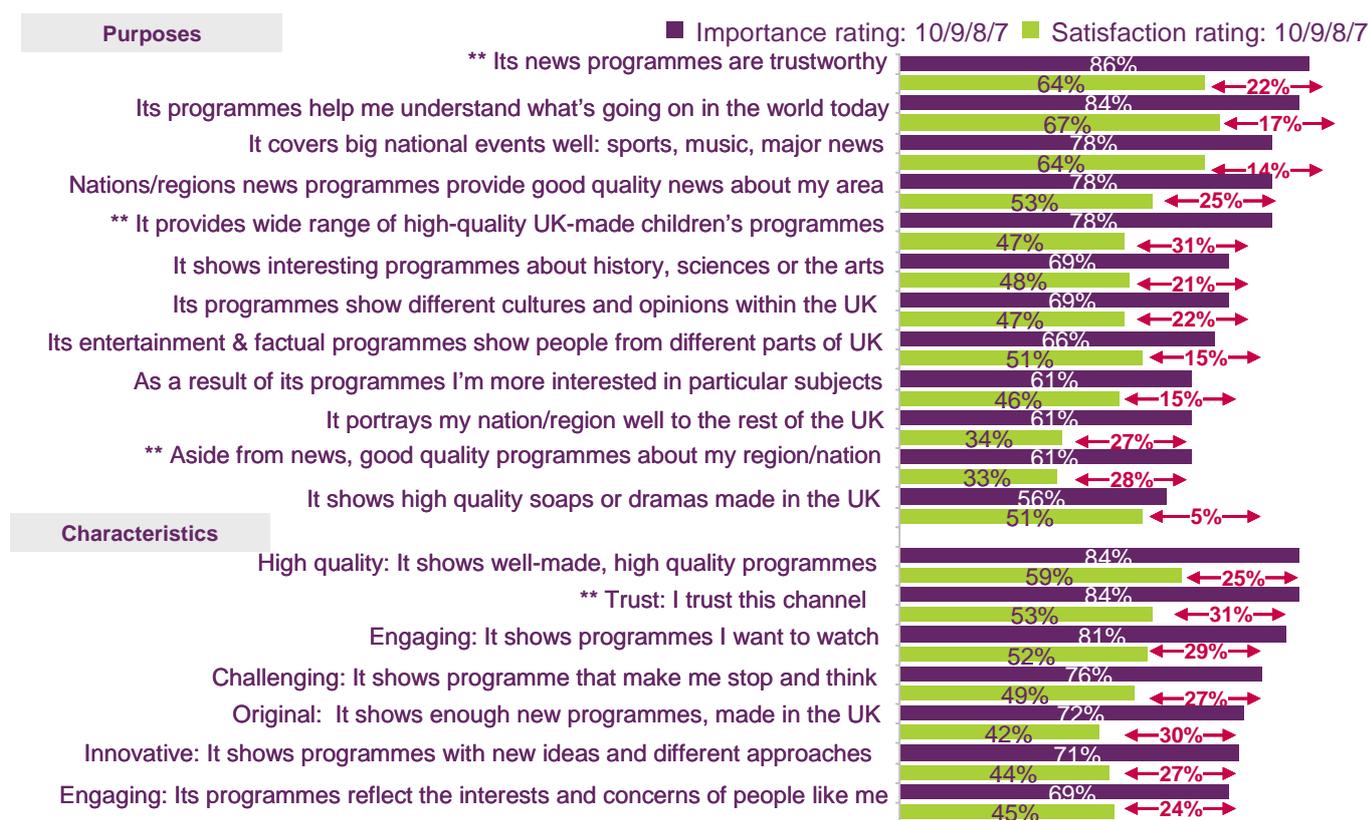
Source: PSB Review phase 1 survey, Q35, 2,260 UK adults 16+, October-December 2007

- 3.23 There are also a number of issues with current delivery of public service broadcasting, with large gaps between the importance of some purposes and characteristics and how well they are delivered by the public service channels as a whole.

<sup>19</sup> Source: PSB Review phase 1 annex 5 and phase two annex 5 deliberative research

<sup>20</sup> This rises significantly to 22% among people in Northern Ireland

**Figure 5: Importance and delivery of public service purposes and characteristics**



Source: PSB Annual Tracker, 5,357 UK adults aged 16+. Amalgamated data January 07, April 07, July 07, October 07. Statements about children's programmes asked only of parents/carers of children in household. \*\*

- 3.24 Audiences are less satisfied with delivery of the amount of new UK-made programming overall and the range of UK-made children's programming in particular, with a gap of 31% between importance and satisfaction with delivery. In deliberative research, parents felt that there was not enough programming aimed at school age children, especially UK-originated drama and factual programmes. School age children themselves feel they have limited choice and availability of UK programming in these programme areas.
- 3.25 Audiences are also concerned with delivery of programming for the nations and regions. These include satisfaction with nations and regions news, non-news and portrayal of the nations and regions to the rest of the UK.
- 3.26 The gap between importance and satisfaction with delivery is 25% for nations / regions news programmes. Our regional news research conducted for phase 2 of the review shows that while satisfaction with overall delivery of both BBC One (67%) and the ITV network (63%) is reasonably high; satisfaction with 'coverage across the region' varies by Channel 3 region, with people in Border and Scotland significantly less satisfied.
- 3.27 For programming other than news in the nations and regions, the gap between importance and delivery is 28%, although this area is seen as being less important than other purposes.

- 3.28 Representation on UK networks is seen as more important by people in each devolved nation compared to people in England (70% in Scotland, 69% in Wales, and 80% in Northern Ireland against 59% in England.) The gap between importance and satisfaction with delivery is greater in the devolved nations.
- 3.29 Audiences from minority ethnic groups spend less time viewing public service channels. The main five channels account for 37% share of minority ethnic viewing in multichannel households against 57% for all audiences. Minority ethnic audiences are also less satisfied with the five main channels against 74% for UK adults as a whole. Minority ethnic audiences also have particular issues around trust in broadcasters, programmes which show different cultures and opinions, and children's programming. In phase 1 we also highlighted that minority ethnic audiences thought each of the purposes and characteristics were important.
- 3.30 Audiences see significant shortfalls between the importance they attached to the public service characteristics and their delivery. This was true of each characteristic, but especially trustworthiness, originality and innovation.

**Based on our research we have a clear idea of what audiences' views about public service content are**

- 3.31 In conclusion, audiences value the purposes and characteristics of public service broadcasting; they believe that UK origination plays a vital role and that the full range of public purposes should be delivered by more than one provider. Any new system of public service content provision should deliver high levels of new UK content meeting public service purposes, ensure competition for the BBC in each public purpose with sufficient scale to achieve reach and impact, and be available in a form and on a range of platforms to achieve maximum reach and impact.
- 3.32 Taking our analysis of different programming genres, audience priorities for UK-originated provision and for provision on more than one of the main channels may be summarised as:
- Informing our understanding of the world: UK and international news and current affairs; news and current affairs in Scotland, Wales and Northern Ireland; regional news in England;
  - Reflecting UK cultural identity: children's programming (particularly among parents); UK drama and comedy; programming other than news in the nations;
  - Stimulating knowledge and learning; serious factual programming.
- 3.33 Audiences believe a range of providers is less important for religious programmes, arts and classical music and formal educational programmes.
- 3.34 Based on this understanding of the audiences' views, the next section examines how the current system of public service broadcasting is likely to deliver against their needs given changes arising from digital developments.

## Section 4

# Challenge and change

## Introduction

- 4.1 The previous chapter set out audience's views on the public purposes and what they value most highly about public service content. This section examines the implications of the transition from an analogue to digital landscape, considering how these changes will affect audiences, and the potential challenges for the current system of public service broadcasting.

### The key points covered in this section are:

- New digital technologies are transforming the media landscape and creating new opportunities for audiences.
- Public service content should be delivered across digital platforms to maximise reach and impact.
- The commercial market can make a growing contribution to delivering against the public purposes.
- However, investment in UK public service content remains overwhelmingly delivered by the public service broadcasters.
- The free-to-air advertising model faces significant pressures which are structural and exacerbated by current economic conditions.
- Advertiser funded broadcasters will face growing pressure to cut back on original programming.
- These pressures will weaken the delivery of the public purposes for audiences.
- A new approach to delivering public service content is required to meet audience priorities.

### **New digital technologies are transforming the media landscape and creating new opportunities for audiences**

- 4.2 We are in the middle of a transition from an analogue world, characterised by scarce spectrum, limited competition and a handful of powerful institutions, to a digital world of choice, connectivity and competition. This has profound implications for audiences in how they consume, interact with and increasingly participate themselves in content and services.
- 4.3 The period since Ofcom's first Public Service Broadcasting Review has been characterised by dramatic change in the sector, opening up increasing choice for viewers. Take-up of multichannel television reached 88% in the third quarter of 2008<sup>21</sup> compared to 54% five years ago. The number of channels available has

<sup>21</sup> See Digital Television Update - 2008 Q3  
[http://www.ofcom.org.uk/research/tv/reports/dtv/dtu\\_2008\\_03/](http://www.ofcom.org.uk/research/tv/reports/dtv/dtu_2008_03/)

doubled since 2002. Broadband take-up has risen from 35% of households in 2005 to 58% last year.

- 4.4 Broadcasters, pay-TV platform operators and network operators are exploiting the opportunities available through ongoing innovation. On-demand services, video on the internet, mobile television and DVRs are all enabling greater consumer choice and flexibility. And the growing access to online services, both at home and on the move, opens up a range of opportunities for new content and services.
- 4.5 This highlights the importance of considering public service content alongside the development and availability of digital networks in the UK. Any intervention in the market must balance the need to secure investment in content, with the need to ensure wide availability of the networks over which it will be accessed. Public service content can also help to support take-up of new technologies, as the digital channels from the public service broadcasters helped to drive the take-up of Freeview.
- 4.6 The award of digital dividend spectrum will create opportunities for new uses including more digital terrestrial television (DTT), local television, high-speed mobile broadband and mobile television. Furthermore, the growing take-up of broadband will enhance the audience experience. Some of the opportunities offered include:
- and the ability to offer audiences greater flexibility in when and where they consume content;
  - a greater ability to serve niche interests; and
  - a greater opportunity for audiences to interact with, and participate in, new content and services.
- 4.7 We are already seeing an increasing number of consumers using today's broadband connections to access audio-visual content. In the third quarter of 2008, 20% of those with broadband watched television over the internet<sup>22</sup>. As the bandwidths supported by today's broadband networks increase, the scope for delivering innovative new services at a high quality will increase. Ofcom recently published a report<sup>23</sup> showing that, on average, typical broadband connections offer consumers speeds of 3.6Mbps, more than sufficient to access video services such as the BBC iPlayer and the BT Vision video on demand service.
- 4.8 Industry has led the way in investing in and marketing current generation broadband services. This has been supported by Ofcom's strategy to promote effective competition in these new services through access to BT's network. However, there remain many consumers who still suffer from relatively low broadband speeds, while others cannot receive broadband services at all. We are looking at ways that regulation and the public sector can secure investment in super-fast broadband across the country, alongside our programme of spectrum release to support new, innovative services to consumers.
- 4.9 We are also witnessing the first investments in higher speed, super-fast broadband services. In December 2008, Virgin Media launched a 50Mbps service to 40% of its network, with plans to extend this coverage to the rest of the 12.6 million homes covered by Virgin Media's fibre optic network by mid-2009. BT is also planning to invest in superfast broadband, aiming to cover 10m homes by 2012. There are also a

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<sup>22</sup> Ofcom Technology Tracker Q3 2008

<sup>23</sup> [http://www.ofcom.org.uk/consult/condocs/nga\\_future\\_broadband/main.pdf](http://www.ofcom.org.uk/consult/condocs/nga_future_broadband/main.pdf)

number of smaller local and municipal schemes across the UK looking to deliver superfast broadband connectivity to homes across the UK.

- 4.10 We are working closely with industry to support these developments and to develop a regulatory environment that will enable the market to deliver superfast broadband services to as many homes as possible. Ofcom consulted on the regulatory approaches for these new networks in September 2008<sup>24</sup>, and will publish a statement on this issue in spring 2009. These developments will continue the current trends started by first generation broadband and will be of fundamental importance to public service broadcasters in the future.

### **Public service content should be delivered across digital platforms to maximise reach and impact**

- 4.11 Our phase 1 research for this review indicates that viewers are open to the idea of public service content being delivered on a range of digital platforms. In their responses to our phase 2 consultation stakeholders also showed a high level of support for extending public service content delivery beyond linear television. For this reason, this review is considering public service content, not just linear public service broadcasting.
- 4.12 Our research in phase 1 shows that most people (75%) think that the internet is a valuable source of information and learning. This rises to 92% among internet users. 62% of internet users claim they have used the internet to access content matching a definition provided of 'public service content. However, not all audiences currently benefit from access to online services, whether by choice or exclusion. One third of the population does not have access to the internet, and those who do not have access tend to be disproportionately older and less well off.
- 4.13 Under the terms of its charter the BBC already delivers its public purposes across a range of digital platforms. In the phase 2 consultation we specifically asked stakeholders whether, Channel 4 should have an extended remit to provide public service content across platforms. Stakeholders such as the Campaign for Press and Broadcasting Freedom, South West Screen, PACT, ACOD and Channel 4 felt there was a need for the broadcaster to deliver content across platforms and for measurement of public service content to be extended accordingly. Others, such as Teachers' TV and Country TV, highlighted the importance of carrying audio-visual content over broadband networks.
- 4.14 However, as we demonstrated in phase 2 we also recognise that for some consumers, discovering public service content on non-terrestrial platforms will be challenging (particularly online). Many respondents to phase 2 argued that existing organisations – such as the BBC and Channel 4 – have an important role to play in promoting the availability of public service content, since they have established brand equity and loyal audiences. Some stakeholders such as the Guardian Media Group and the Satellite Cable Broadcasters Group noted that any future intervention on other platforms must be proportionate and avoid any negative market impact. Furthermore, a small number of stakeholders argued against extending Channel 4's remit across platforms, since this might compromise reach and impact.
- 4.15 Taking into account our audience research and feedback from stakeholders, we believe that public service content's impact will be greatest if it reaches and engages audiences wherever they are and whatever their means of access. All public service

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<sup>24</sup> See [http://www.ofcom.org.uk/consult/condocs/nga\\_future\\_broadband/](http://www.ofcom.org.uk/consult/condocs/nga_future_broadband/)

broadcasters will need to embrace these new digital platforms or risk declining relevance and impact. Linear broadcasting is no longer the only way to deliver public service content with reach and impact for all audiences, who expect it to be available whenever and wherever they choose.

- 4.16 An important conclusion from this review is that public service content will only continue to achieve reach and impact if it is made available across multiple platforms, in a variety of formats, to a range of devices. We recognise that the remits of existing commercial public service broadcasters limit delivery to terrestrial broadcasting, leaving unrecognised the public value of digital and interactive platforms. We think that any new public service framework must therefore ensure that public service content is available across all digital media, not just linear broadcasting.

### **The commercial market can make a growing contribution to delivering against the public purposes**

- 4.17 The multi-channel broadcasters provide content that meets the public service purposes in some areas. In its response to the phase 2 consultation the Satellite and Cable Broadcasters Group (SCBG) maintained that their members provide more than 100 channels of high-quality UK-originated content.
- 4.18 BSkyB argued that multi-channel pay broadcasters have filled the gaps in free-to-air terrestrial content provision in some genres that meet the public service purposes. It cited the provision of news, sports, arts and movies on Sky channels and also noted the contribution made by other multichannel broadcasters such as Discovery UK, National Geographic and UKTV. Discovery UK also drew attention to the fact that a significant portion of its programming is UK-originated. Multi-channel broadcasters can make a significant contribution to public service content in a number of areas including sport, entertainment, archive and acquired programming, and even in UK and international news. The International Broadcasting Trust (IBT) noted the important contribution that international programming, delivered particularly through the multichannel market, makes to the public purposes.
- 4.19 We have already identified the opportunity that digital technologies have for new content and services that are more participative, social and interactive than traditional broadcast content. There is an increasing amount of content and services provided online that fulfil the public service purposes, offered by a diverse and growing range of suppliers from the UK. The internet also offers the potential for consumers to access information and content from an extraordinary range of sources from all over the world.
- 4.20 Digital platforms, including television and online, allow significant potential for commercial providers to offer services that can meet the needs of a particular audience very effectively. Lower costs of distribution enable significant potential for channels and services targeted at a particular community. This is highlighted by the substantial number of digital channels serving particular minority ethnic groups amongst whom take-up of multichannel is particularly high.
- 4.21 In addition to the commercial market, an increasing number of public bodies, such as museums or galleries, are exploiting the potential of digital media to provide online access to content.

### **However, investment in UK public service content remains overwhelmingly delivered by the public service broadcasters**

- 4.22 Despite the growth of multichannel and online services, investment in originated UK television content, other than in sport, remains overwhelmingly provided by the public service broadcasters.
- 4.23 Our analysis from phase 1 of the review shows that originated spend by the five main public service channels and the BBC's digital channels reached £2,485 million in 2007, but had declined on average by 3.8% a year since 2004. The public service channels continue to represent over 90% of all spend on original UK television programming in areas other than sport.
- 4.24 Furthermore, there remain several areas vital to the delivery of these public purposes where purely commercial players are unlikely to invest significantly in content for television or other digital platforms, because the commercial risk is too great or the returns often are too low.
- 4.25 The growing amount of online content cannot yet substitute for the investment in public service content from the commercial public service broadcasters. The number of households with access to the internet and to broadband is growing but there remain a significant number of individuals who do not have access to this content. It also does not yet have the reach and impact achieved by public service broadcasting.
- 4.26 Online public service content is currently complementary to public service broadcasting. Our audience research clearly demonstrates that audiences believe that the public service broadcasters will remain key destinations for public service content in the future across all digital media.
- 4.27 Whilst the changes brought about by growth of digital media can create many new and innovative opportunities, the vast majority of investment in original British content that delivers against the public service purposes will continue to be made by the public service broadcasters.

### **The free-to-air advertising model faces significant pressures which are structural and exacerbated by current economic conditions**

- 4.28 The BBC's licence fee settlement runs until 2013. This funds the Corporation's ability to invest in content and services across television, radio and online. This settlement gives the organisation a solid and certain financial basis to ensure it can continue to fulfil its public service role effectively in the digital age.
- 4.29 For much of the last two decades, market conditions have also supported the ability of the advertiser-funded public service broadcasters to sustain high levels of investment in public service content alongside the BBC. The television advertising market has often grown at rates above inflation; the public service broadcasters have maintained a high share of overall viewing; and there has been limited competition from other media that can rival the reach and impact of television.
- 4.30 The commercial public service broadcasters have also been supported by the privileged access they have had to analogue spectrum in exchange for obligations, and since 1998, digital terrestrial spectrum.

- 4.31 However, the economic model of free-to-air advertising funded broadcasting is now facing significant pressure. This is driven by two key factors:
- Structural pressures brought about by the migration to a fully digital market; and
  - The cyclical effect of the current economic downturn.

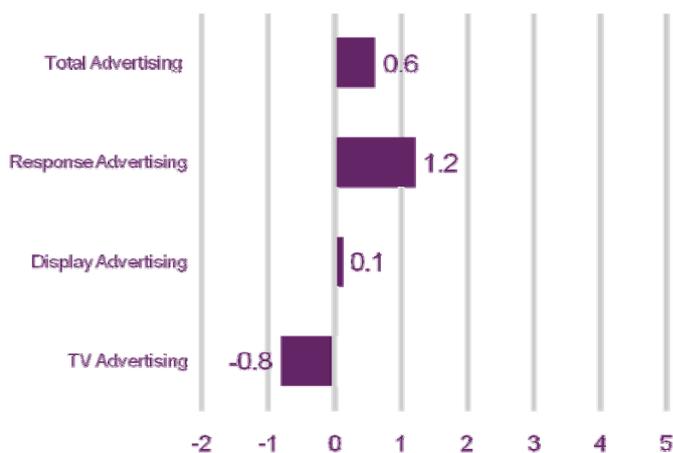
### **Structural change is driving advertising expenditure towards digital media**

- 4.32 The transition to a fully digital market also creates significant structural change for the advertiser funded public service broadcasters, in particular:
- Greater competitive intensity as we move to a fully digital broadcast market;
  - Increasing levels of viewing through on-demand platforms (such as digital video recorders) rather than linear broadcasting; and
  - A migration of advertising expenditure away from broadcasting and towards digital media that offer a greater level of targeting and interactivity.
- 4.33 The advertising market has seen a steady shift from display advertising to response advertising in recent years, driven by the development of search based advertising and online classified advertising through the internet. We expect these trends to continue, putting display advertising's share of all advertising expenditure under pressure.
- 4.34 Within display advertising, the growth of the internet as a display medium is also likely to lead to some decline in television's share. This may be less substantial than the equivalent losses by either print or radio, as television retains a particular ability to provide advertisers with large audiences reached very efficiently.
- 4.35 The shift to on demand delivery of content could offer broadcasters the opportunity to exploit some of the response-based features and better targeting that internet advertising affords. However, it also increases the possibility that advertisers might bypass free-to-air broadcasters and do direct deals with platforms or content owners.
- 4.36 To understand the implications of these market developments on the position of the commercial public service broadcasters, Oliver & Ohlbaum were commissioned to model their likely future revenue and investment in content under different scenarios. Projections for overall growth rates of display advertising relative to response advertising are set out below.

### Figure 6: Change in UK advertising markets

UK advertising spend growth by type, 2008-2020 under gradual transformation scenario

CAGR % change in real terms



Source: Oliver & Ohlbaum projection

- 4.37 Oliver & Ohlbaum's analysis suggests that television advertising revenue may decline sharply, by close to 20% in total in real terms, from 2006 to 2012. Though it is likely to return to moderate growth thereafter, it may well not return in real terms to its previous levels.
- 4.38 The decline in television advertising revenue in the short-term is likely to be greatest for the commercial public service channels, although this will be partly offset by revenues to their portfolio commercial channels which are likely to increase in real terms. In the long-term, the main commercial public service broadcasters seem likely to grow faster than other broadcasters.
- 4.39 Taking into account the above factors, Figure 7 below sets out a projection by Oliver & Ohlbaum for UK television advertising revenues and the licence fee, based on the current settlement.
- 4.40 Over the period, the BBC's licence revenue attributable to its television services is likely to increase moderately in real terms. Under this projection, the BBC's revenue will overtake commercial public service broadcasting revenues in 2009 and increase as a proportion of total revenues to the BBC and commercial public service channels taken together from 46% to 54% by 2020.

## Figure 7: Projection of UK television advertising under gradual transformation scenario

UK TELEVISION ADVERTISING (NAR & SPONSORSHIP) AND LICENCE FEE REVENUE BY CHANNEL TYPE, 2006 to 2020



Source: Oliver & Ohlbaum projection

### These pressures are exacerbated by current economic conditions

- 4.41 These structural changes in the broadcasting sector have been significantly exacerbated by the current economic downturn, putting significant pressure on each of the commercial public service broadcasters. Television advertising revenue (NAR) was in steep decline in the latter half of 2008. This looks set to continue into 2009. Market analysts have forecast television advertising growth in 2009 ranging from -3% to -10%, while ranges for 2010 vary from -5% to +2%.
- 4.42 It seems likely that there will be some recovery in television advertising revenues once the current recession is over, as advertising revenues has tended to be very sensitive to economic pressures. However, most analysts believe we are unlikely to see a return to historic growth rates. As one example, a recent forecast for Enders Analysis suggested that television advertising revenue will not return to 2007 levels until 2017.
- 4.43 In summary, there is likely to be a significant decrease in television advertising revenue for up to three years due to the recession. Thereafter, television advertising is not expected to return to historic levels in real terms, given the structural changes in the sector.

### Advertiser funded broadcasters will face growing pressure to cut back on original programming

- 4.44 How the public service broadcasters respond to this pressure on the free-to-air model will depend on market scenarios, as we set out in phase 1 of the review<sup>25</sup>. The

<sup>25</sup> Oliver & Ohlbaum modeled the development of the broadcasting market under a range of scenarios. See the PSB Review Phase 1: The Digital Opportunity Section 5 at [http://www.ofcom.org.uk/consult/condocs/psb2\\_1/](http://www.ofcom.org.uk/consult/condocs/psb2_1/)

precise impact on total programming spend and total UK-originated spend also depends on the level of competitive intensity in the sector between broadcasters. The scale of programme budgets for each commercial broadcaster will be driven by the relative expenditure of its direct competitors.

- 4.45 The commercial public service broadcasters have already reduced programme budgets in 2007 and 2008 in response to market conditions. Oliver & Ohlbaum's projections indicate that the total amount invested in programming is likely to fall in real terms by between £170 million and £350 million in the six years between 2006 and 2012. Thereafter, in the long-term, programme investment may grow moderately, but is still likely to be less than 2006 levels in real terms in 2015 even in Oliver & Ohlbaum's most optimistic scenario.
- 4.46 In these scenarios investment in original programming is likely to fall faster than total programme spend. In real terms this is forecast to be between £225 million and £375 million by 2012. This is mainly because the commercial public service broadcasters will reduce their investment in UK original programming – vital to meeting the purposes of public service broadcasting – faster than in acquired or repeated programming that tends to be less expensive and represents lower commercial risk. They are also likely to change and narrow the genre mix of originated programming to ensure more dependable financial returns.
- 4.47 Over the long-term Oliver & Ohlbaum's modelling suggests the fully commercial sector is likely to increase investment in original programming only moderately following short-term reductions. Most of any increase in programme investment is likely to be from the BBC driven by increases in licence fee income. But this growth will not fully compensate for reductions in programmes by the commercial market.
- 4.48 Figure 8 sets out projections under different scenarios in the total amount that all broadcasters are likely to invest in content. However, the impact on the delivery of public service programming in either of these circumstances seems relatively clear. The commercial public service broadcasters are likely to reduce investment in original programming made in the UK, vital to the delivery of public purposes.

**Figure 8: Potential impact on programme investment under different scenarios**

Potential change in programme investment from 2006 to 2012 / 15 by scenario in £m (2008 prices)				
	Gradual Transformation		Stagnation	
	2006 - 2012	2006 - 2015	2006 - 2012	2006 - 2015
<b>Original programme spend</b>	<b>-£225m</b>	<b>-£150m</b>	<b>-£375m</b>	<b>-£360m</b>
BBC (all services)	+£20m	+£40m	+£20m	+£40m
Commercial PSBs	-£200m	-£200m	-£350m	-£400m
All other channels (excluding premium channels)	-£45m	+£10m	-£45m	£0m
<b>Total programme spend</b>	<b>-£170m</b>	<b>-£60m</b>	<b>-£350m</b>	<b>-£270m</b>
BBC (all services)	+£30m	+£70m	+£30m	+£70m
Commercial PSBs	-£150m	-£150m	-£300m	-£350m
All other channels (excluding premium channels)	-£50m	+£20m	-£80m	-£10m

Source: Oliver & Ohlbaum

### The ITV network has strong incentives to concentrate only on the most profitable programming

- 4.49 The ITV network is highly sensitive to changes in the television advertising market, which currently provides around 70% of its revenues. These pressures will have a direct impact on its ability to commercially justify delivering its public service obligations. This will result in ongoing requests to reduce public service obligations .
- 4.50 ITV plc has a choice about how to maximise profit. ITV plc could continue to run its regional services as public broadcasting services, with the obligations that entails, or it could hand back its licences. This is a real choice for ITV plc, as it has made clear to us, and is one that will be informed by the relative level of perceived benefits (which include privileged access to spectrum) which are received in exchange for delivery of associated public service obligations.
- 4.51 The decisions we have made to reduce some of the Channel 3 obligations, published in the statement on short-term regulatory decisions, will rebalance obligations and benefits. However, hand back of its public service broadcasting licences could become a feasible option for ITV plc.
- 4.52 If ITV plc relinquished its licences, and if any subsequent licensee did not achieve comparable levels of reach and programme investment levels the impact on viewers might include:
- reduction in significant reach and impact for public service broadcasting delivered via such a mass audience channel;
  - a significant impact on the ability of stv, UTV and Channel TV to deliver services for their respective nations;

- reduction or elimination of regional programming on Channel 3. Without retention of a quota current levels of provision would be lost. A replacement Channel 3 licensee may not undertake the same level of regional programming;
- impact on high quality national and international news on the ITV service. While ITV plc would probably continue to provide national and international news short-term on a wholly commercial service, ITV plc itself notes that it could provide no guarantees of news or other programming;
- loss of guaranteed volumes of UK origination, out-of-London production and independent production; and
- loss of the ITV network's programming to 6% of viewers.

### **Five may also come under increasing pressure**

- 4.53 We believe that Five's public service broadcasting licence is likely to remain viable even after digital switchover. However, increasing pressures might also affect its ability to deliver its limited public service obligations.
- 4.54 In its response to our consultation Five advocated that both it and the ITV network should retain public service broadcaster status. It also offered to provide additional programming for older children. However, Five will face similar pressures to the ITV network and, in the past, when under financial strain Five has sought to reduce the amount of originated programming in its schedule by agreement with the regulator.

### **Channel 4's economic model is no longer sustainable**

- 4.55 Phase 2 of the review established that by 2012 Channel 4 could require additional funding of £60 to £100 million a year in order to continue to deliver its existing remit. Channel 4's own modelling suggested that it would need replacement funding to a value of just over £150 million per annum by 2012 to deliver its vision. This divides into just over £100 million to sustain its existing remit plus up to £50 million to deliver its multiplatform vision as outlined in *Next on 4*.
- 4.56 As an advertising funded broadcaster, Channel 4 aims to maximise its delivery of public service content, within a clear commercial framework. In practice this means that Channel 4 has to balance its purely commercial content, which helps provide much-needed profitability, with content that may be less commercial but more unequivocally public service and in line with its remit.
- 4.57 In its response to our consultation Channel 4 stated that the "drastic deterioration of the UK economy has significantly worsened the outlook for commercially-funded public service broadcasters". As a result Channel 4 states that it is in a much tougher financial situation than we forecast in September 2008.
- 4.58 This leads to inevitable tensions. Channel 4 has already made significant cuts to its programme budgets for 2008 and 2009 affecting the amount of UK drama and UK-originated content in its schedule. Its programme budget for 2009 is expected to be around £530 million, back to levels last seen in 2002, and Channel 4 has indicated to Ofcom that it will find it difficult to meet its quota target of 60% originated content in 2009. Channel 4 stated in its response to our consultation that it has also cut investment in new activities and decreased its support for partner organisations in order to manage a break-even position.

- 4.59 Without a change to the existing model, we expect that Channel 4 will continue to reduce its delivery in a number of areas which are important to viewers and to the delivery of the public purposes. The impact on viewers is likely to be an overall reduction in programming that delivers against the public purposes. This is likely to affect its delivery in every public service purpose, through a weakening of current affairs, drama, narrative comedy, serious factual and educational programming. It will also affect its ability to meet its remit to take creative risks with ideas and talent beyond those justifiable in a purely market context.

### **These pressures will weaken delivery of the public purposes for audiences**

- 4.60 Without any response to the pressures on the commercial public service broadcasters, there is likely to be a reduction in programming made in the UK that meets the purposes and characteristics of public service broadcasting. The impact on viewers is explained in Figure 8.

### **Figure 9: The potential impact of these pressures on delivery of the purposes**

#### **Purpose 1: Informing our understanding of the world**

- If ITV plc continues as a public service broadcaster it will still deliver network news programming and some current affairs programming that meets this purpose. However the quota for current affairs programming is set to reduce from 90 minutes per week to 50 minutes from 2010 (with 40 minutes in peak).<sup>26</sup>
- If ITV plc relinquishes its licences, continued provision of news and international news and current affairs by ITV1 cannot be guaranteed. This could have an effect on the quality and range of Channel 4 news which is also supplied by ITN.
- Without new funding, Channel 4 might reduce its commitment to investigative and international current affairs and its budget for news, both of which audiences value highly.

#### **Purpose 2: Stimulating knowledge and learning**

- ITV1, Channel 4 and Five are likely to cut back on originated serious factual programming including documentaries, arts, religion, science and history.

#### **Purpose 3: Reflecting UK cultural identity**

- If ITV plc relinquishes its licences there will be a reduction or elimination of news for the devolved nations and the English regions.
- There would also be a reduction in other programming from the nations and regions that is important to audiences.
- There would also be a reduction in other more expensive programming that meets this purpose including drama and comedy delivered by ITV1 and Channel 4. In

cutting back its programme budgets for 2008 and 2009 Channel 4 has already reduced the amount it spends on original drama.

<sup>26</sup> See our statement on short-term regulatory decisions published at [http://www.ofcom.org.uk/consult/condocs/psb2\\_phase2/statement](http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement)

#### **Purpose 4: Representing diversity and alternative viewpoints**

- Audiences believe Channel 4 offers a distinctive alternative to the BBC. It has historically delivered innovative and risky programming. Cuts in its programme budget are likely to lead to a reduction in these areas.
- Particular elements of the audience are likely to be disproportionately affected by these cuts. As one example Channel 4 is more effective at reaching minority ethnic groups than the BBC.

#### **A new approach to delivering public service content is required to meet audience priorities**

- 4.61 Our analysis demonstrates that, without intervention, the amount of public service content shown by the public service broadcasters is likely to fall substantially. In a range of likely scenarios and taking into account existing regulatory assets such as privileged access to the airwaves we envisage a funding gap of between £145 million to £235 million by 2012 in investment in public service content<sup>27</sup>. Most stakeholders acknowledged that there were a number of programme areas under severe pressure.
- 4.62 In its response to the phase 2 consultation the BBC argued that it believed that the requirement for funding may be less than estimated, based on analysis commissioned from Cap Gemini. However, it agreed that there would be an emerging funding gap and that there were real risks around regional news, children's provision and – to a lesser extent – national news and some specialist factual content.
- 4.63 Views on the exact size of the funding gap may vary. As we noted in phase 2, for example, the funding gap could be greater in scenarios in which there is much more rapid fragmentation of audiences. But there is now widespread consensus that the pressures on the public service broadcasting system are structural and substantial. Unless they are addressed, this could mean audiences coming to rely exclusively on the BBC for many areas of public service output which they value highly.
- 4.64 The following table outlines Ofcom's analysis of where shortfalls are likely to arise and highlights particular areas of public service broadcasting where there would be little or no provision beyond the BBC.

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<sup>27</sup> Our phase 2 report explained this analysis in further detail. Oliver & Ohlbaum estimated the difference between the level of investment that the commercial public service broadcasters would make in each area of content in 2012, and the level of investment that would be required to meet audiences' present day needs.

**Figure 10: Potential shortfall relative to what audiences currently need in commercial public service broadcasters' investment by genre in 2012 / 2015, under different scenarios<sup>28</sup>**

	Potential Reduction in Commercial Investment 2012 / 12 by Scenario			
	Gradual Transformation		Stagnation	
	2012	2015	2012	2015
UK Drama	£27m	£24m	£46m	£52m
UK Comedy	£4m	£3m	£8m	£9m
National News	£5m	£5m	£15m	£20m
Regional News	£50m	£75m	£75m	£100m
Regional Non News	-	£12m	£12m	£12m
Current Affairs	£3m	£3m	£6m	£6m
Factual/ Documentaries	£20m	£15m	£33m	£40m
UK Children	£35m	£33m	£38m	£38m
Religion	-	-	-	-
Arts	-	-	-	-
Education	£1m	£1m	£2m	£2m
<b>Total</b>	<b>£145m</b>	<b>£171m</b>	<b>£235m</b>	<b>£279m</b>

Source: Oliver & Ohlbaum

- 4.65 Our audience research shows that the current system is already failing to meet audience needs in some areas such as programming for children and content for the devolved nations. The response by public service broadcasters to the current economic downturn in cutting their programme budgets also demonstrates the risk to other genres where returns are low or risks are high, such as innovative drama and comedy.
- 4.66 Unless the pressures on the advertising funded public service broadcasters are addressed, audiences will come to rely exclusively on the BBC for many areas of public service content in the areas where the market is not likely to provide. However, our research demonstrates clearly that audiences highly value a choice of provision in these key areas.
- 4.67 In the following section we consider how the value of public intervention can be maximised to meet public purposes, and the extent to which replacement funding will be required to replace the declining value of the commercial public service broadcasters' privileged access to the airwaves.

<sup>28</sup> This chart takes into account audience priorities and the potential contribution from multichannel broadcasters.

## Section 5

# Maximising value in any future model

### Introduction

5.1 Having established that a new approach to public service broadcasting is needed to meet audience priorities, this section considers how the greatest value could be obtained from the current means of funding as well as how any replacement funding should be assessed. These issues are addressed before discussing new approaches to public service broadcasting because they affect the shape and detailed execution of each model.

#### **The key conclusions in this section are:**

- There is a growing funding gap in public service broadcasting.
- Each funding option had support from some stakeholders; the majority believed a combination of these would be required.
- A BBC funded through the licence fee should remain the cornerstone of public service broadcasting.
- Alongside the licence fee, regulatory assets should continue to be a significant source of funding, with the potential for reassignment in the future.
- The BBC's proposed partnerships could make an important contribution to supporting investment in public service content but on current information do not offer a complete solution in the short-term and offer only uncertain benefits in the longer term.
- Structural changes in the sector, through joint ventures or even mergers, could create additional value for audiences.
- Replacement cash funding may well be necessary and cannot be ruled out.
- Use of the licence fee switchover surplus post 2012 and any unused funds currently earmarked for the switchover process before 2012 are both credible funding options.
- Direct public funding remains an option for government to consider.
- Industry funding by means of a levy would be a significant intervention and should only be considered in the wider context of industry needs and priorities.
- If cash funding is introduced into the system, there are clear criteria for whether it should be allocated competitively or directly to an institution.

## **There is a growing funding gap in public service broadcasting**

- 5.2 Our phase 1 consultation document recognised the declining value of funding for commercial public service delivery. It concluded that replacement funding would be required to continue to deliver plurality of providers in some areas and to meet audience priorities in the long-term. Our phase 2 consultation document estimated that the funding gap, depending on market scenarios, would likely be between £145 million to £235 million by 2012.
- 5.3 Any decision on the level and source of funding is for government to make, in conjunction with decisions on future models of delivery. The first priority should be to maximise value from existing sources of funding for commercial public service broadcasters, in particular privileged access to spectrum.
- 5.4 Other sources of replacement funding would require structural changes or the introduction of new legislation. In a difficult economic climate, the introduction of new sources of replacement cash funding needs careful consideration alongside other demands. But it may well be necessary given the importance audiences place on public service broadcasting and the significant challenges which its delivery faces.

## **Each funding option had support from some stakeholders; the majority believed a combination of these would be required**

- 5.5 In phase 2 we set out the main possible funding options for future models for public service delivery: the licence fee and licence fee funded assets; regulatory assets; broadcaster partnerships; industry levies; and direct government funding.
- 5.6 Stakeholders broadly accepted that these represented the most likely sources of potential funding. Alternative sources of new funding raised in responses were the potential for tax breaks on production of specific public service genres (e.g. children's), or consumer subscription payments for particular content (e.g. arts). A few respondents also argued that a relaxation of regulation on product placement, sponsorship and transaction television could increase industry revenues.
- 5.7 Some stakeholders suggested that changes to advertising minutage could be considered to increase commercial revenues to broadcasters. Regulation of advertising minutage has broader purposes and a wider market impact beyond public service broadcasting. Since the phase 2 document, Ofcom has separately published its consultation<sup>29</sup> on the advertising rules which sets out a range of options but proposes to leave the amount of minutage unchanged.
- 5.8 In the phase 2 document we also assessed the merits and drawbacks of each funding option, bringing together stakeholder responses, consumer research and additional Ofcom analysis. In the deliberative research with members of the public, no one funding option emerged as a complete solution. In the analysis of potential sources of funding against a set of criteria, no single source of funding was likely to meet each of the criteria or the full value of the public funding gap identified.
- 5.9 The responses from stakeholders expressed similar views. The vast majority of consultation responses argued that the licence fee and regulatory assets, which are already available and assigned by government, should remain first choices as a source of funding. Some respondents raised the potential for reassigning these

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<sup>29</sup> Review of television advertising and teleshopping regulation - Stage Two  
<http://www.ofcom.org.uk/consult/condocs/rada08/>

assets to maximise their value in supporting a future public service broadcasting system.

- 5.10 However, most respondents acknowledged the risks of solely relying on these sources. Many agreed that existing sources of funding, even reassigned or used with greater efficiency, would be unlikely to meet the value of commercial funding likely to be lost. Most respondents suggested that a combination of funding sources would be likely to be required in the future, but there was no consensus on which these should be.
- 5.11 In the remainder of this section we set out the consultation responses on, and further analysis of each of the funding options. On this basis, we set out recommendations on the appropriateness of different options for government to consider.

### **A BBC funded through the licence fee should remain the cornerstone of public service broadcasting**

- 5.12 In our phase 2 document we concluded that the BBC should remain the cornerstone of public service content, and its programme and services budget should be secure and well-funded through the licence fee in any future model.
- 5.13 Almost all responses agreed with this conclusion: a number of responses went further to suggest that a well-funded BBC would be sufficient intervention alone. Only a few responses argued against the BBC and licence fee as an unnecessary public intervention and tax respectively.

### **Alongside the licence fee, regulatory assets should continue to be a significant source of funding, with the potential for reassignment in the future**

- 5.14 In our phase 2 document we assessed two elements to the regulatory assets held by the commercial public service broadcasters. First, privileged access to spectrum – the principal source of commercial public service broadcasting funding at digital switchover. Second, other assets such as prominence in programme guides. We concluded that both will continue to have some value, but the implicit subsidies from these for funding of content are likely to decline.
- 5.15 Of these, stakeholders broadly agreed that privileged access to spectrum represented the greatest value of the regulatory assets. It was generally felt that prominence in programme guides, while of different value to different broadcasters, may also have some value to commercial public service broadcasters. Stakeholders did not consider that must-carry-status was of significant financial value, either now or in the future.
- 5.16 In phase 2 we stated that privileged access to spectrum by the public service broadcasters had the advantages of being in place already and being of proven value. However, we also identified that in the long-term the value of spectrum benefits is increasingly uncertain. Providing funding in this way can also distort choices about the public service broadcasters' use of spectrum compared to their other inputs, reducing efficiency.
- 5.17 Applying Administered Incentive Pricing (AIP) to spectrum used by the DTT multiplexes will help to improve efficiency from the end of 2014 but could also reduce the ability of the main broadcasters to fund public service content. As noted in our 2007 statement on AIP and in phases 1 and 2 of this review, we will consider carefully the potential effects on public service broadcasting output before introducing

AIP, and examine policy or regulatory changes that may be appropriate to address or mitigate these.

- 5.18 The vast majority of stakeholders supported the continued use of regulatory assets as an important means of funding public service content. Most responses argued that the current allocation of assets drew out their particular value to particular broadcasters and that this would be diminished if changed. However, some respondents argued that the current allocation of regulatory assets:
- did not realise their full value as a source of funding compared with market value;
  - undervalued them in terms of the competitive advantage through of reach and prominence of services, to the public service broadcasters; or
  - their recipients did not focus their equivalent financial value on public service content.
- 5.19 These responses argued that greater value could be realised from wider distribution or auction of regulatory assets.
- 5.20 We have considered these arguments carefully. The current allocation of assets under the existing licences is in place until 2014, unless the licences are handed back before then. Thereafter, in principle, any new legislation and model for public service broadcasting delivery could provide the opportunity to re-consider the assignment of assets and change either their allocation or use, for example to:
- another public institution to deliver public service purposes with greater value for money;
  - among a wider number of services at a market rate and use the funding generated directly to support specific areas of public service broadcasting; or to
  - auction some assets to bidders in order to maximise their value as a source of funding.

**The BBC's proposed partnerships could make an important contribution to supporting investment in public service content but on current information do not offer a complete solution in the short-term and offer only uncertain benefits in the longer term**

- 5.21 The BBC has proposed that it could play a more immediate and significant role in developing partnerships or sharing efficiencies with other broadcasters. In light of the pressures on the commercial public service broadcasters, the principle of the BBC opening up access to its resources to support their ability to invest in public service content is a positive one. The BBC has made clear in its consultation response that it supported maintaining choice for viewers in public service broadcasting.
- 5.22 The BBC has proposed four broad categories in which it believes it could deliver new sources of value to the public service broadcasting system:
- Production - by taking advantage of BBC technology investment in digital production tools and sharing infrastructure and facilities in order to reduce production costs for public service broadcasters, particularly in regional news;

- Distribution - through the shared use of the BBC's technologies (iPlayer, internet connected television set-top boxes) and the BBC's online presence to reduce development costs and drive audiences and revenues for public service content overall. The BBC has suggested this could also be extended outside of the existing public service broadcasting institutions;
  - Exploitation - through commercial initiatives between public service broadcasters and BBC Worldwide to increase secondary revenues from content and brands in a number of areas; and
  - Enablers - through sharing outputs from the BBC's research and innovation, audience research and training functions.
- 5.23 The BBC believes that the greatest benefits for other broadcasters are to be derived from the use of BBC digital production technology, regional news infrastructure, the BBC iPlayer and IPTV commercial benefits, subject to approval by the BBC Trust. The BBC Trust and Executive will take forward the partnership proposals with the other public service broadcasters and are also inviting consultation and comments from the rest of the industry.
- 5.24 The BBC has suggested that these initiatives could create real value for other public service broadcasters, and, provided they do not diminish the BBC's own services, would benefit the delivery of public service content. The scale and scope of these benefits are still being considered, but the BBC suggests that the overall annual net benefits for ITV, Channel 4 and Five could in time reach over £120m per annum by 2014. The BBC's analysis suggests that these benefits would be split between the other three public service broadcasters, with most value accruing to ITV, somewhat less to Channel 4, and the least amount to Five.
- 5.25 These are initial proposals by the BBC, and have yet to be evaluated fully by the other public service broadcasters or indeed ourselves. In public statements ITV and Five have given an initial positive reception to the overall potential of BBC partnerships. In its response to the consultation Channel 4 welcomed the BBC raising the possibility of partnerships with other organisations. However, while it recognised the strategic logic behind some of the partnerships, it was sceptical about the level of tangible financial benefit that they could offer. Channel 4 stated that it "continues to believe that a wider solution than partnership will be necessary to support content creation in the UK beyond the BBC".
- 5.26 The other public service broadcasters have suggested the greatest potential benefit from partnerships would arise from new approaches to distribution, though some of those benefits from collaboration had already been factored into their plans through existing initiatives. With the exception of a possible partnership around regional news, the other broadcasters have been sceptical about the likely financial benefits from sharing the BBC's approaches to digital production.
- 5.27 We have considered the partnership proposals against three tests that we previously set out publicly<sup>30</sup>: that they should make a significant financial contribution, while preserving the autonomy of all parties and not preclude other potential public service providers from entering the market or damage competition.
- 5.28 Our preliminary analysis (which does not include any analysis of potential market impact or any competition considerations that would need to be assessed), based on

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<sup>30</sup> <http://www.ofcom.org.uk/media/features/lsepsb?lang=cy>

information to date, suggests that there may be financial benefits and efficiencies available in the short-term to other public service broadcasters from some of these initiatives. Subject to what we say below about the need to consider any competition considerations, they could therefore make an important contribution to supporting investment in public service content and ensuring its availability across digital platforms. However, the partnerships as currently proposed are likely only to partially meet the tests we set out, appear to the other public service broadcasters to deliver smaller benefits than the BBC believes, and are therefore likely to be only part of a solution in the long-term.

- 5.29 We note that, in the longer term, while the scale of potential value may be significant, it is by itself well short of our estimate in phase 2 for the necessary replacement of lost commercial funding. Furthermore, it is important to understand whether the partnership proposals that derive revenue benefits are genuinely incremental to the other broadcasters existing plans.
- 5.30 Many of the proposals could be set up without the need for legislation, making them available in the short-term. For example, the partnerships may be beneficial towards efficiencies in delivery of regional news, subject to the resolution of certain issues (see sections 8 and 9). In most cases, this would be without major risk to the autonomy of recipients, though any adverse impact on the range of providers in content production or distribution should be carefully monitored.
- 5.31 However, the commercial and competitive implications of any such deals need careful consideration, and they should not prevent other potential providers from entering the market. Any commercial partnerships between the BBC and other UK commercial broadcasters (public service broadcasters or otherwise) must meet competition policy requirements and the public benefits should outweigh any potential implications for competition in the broader market.

### **Structural changes in the sector, through joint ventures or even mergers, could create additional value for audiences**

- 5.32 Partnerships between the BBC and other public service broadcasters are one means of creating additional value through cost savings and other synergies.
- 5.33 There may be a further opportunity to create additional value for audiences. Structural change in the sector, through joint ventures or even mergers between organisations, could also allow cost savings and other synergies by reconfiguring assets and business relationships.
- 5.34 Any such structural change would clearly need to be consistent with broader competition policy.

### **Replacement cash funding may well be necessary and cannot be ruled out**

- 5.35 Section 4 set out the scale of the likely replacement funding which will be required once digital switchover is complete. Reassignment of existing regulatory assets, BBC partnerships and possible structural changes in the sector could all help close that gap. But all those mechanisms remain uncertain and - even if they were all put in place - may not completely achieve this objective. We believe that replacement cash funding may well be necessary in addition. That possibility certainly cannot, in our view, be ruled out.

- 5.36 Replacement funding could be met from sources external to the current system. Three options were identified in the phase 2 document: the licence fee switchover surplus (if retained), government revenues and funds raised by levies on the industry.

**Use of the licence fee switchover surplus post 2102 and any unused funds currently earmarked for the switchover process before 2012 are both credible funding options**

- 5.37 In the phase 2 document we established that once switchover is complete, there will be a component of the licence fee – best described as a “digital switchover surplus” – that will be available for other uses if retained in the settlement from 2012/13. The digital switchover surplus, if retained by government in the next licence fee settlement, offers potentially significant and secure funding and a relatively limited impact on the market.
- 5.38 The issue has been debated in public since the consultation, and we received a number of responses on this issue. As with consumers in our phase 2 research, some stakeholders were supportive of the use of licence fee funding for other public service providers. They argued that the licence fee could support content of public value wherever found rather than through a particular institution. Respondents suggested that a “rebalancing” of the BBC’s revenues and share of investment with commercial public service broadcasters would be appropriate, if commercial revenues deteriorate further.
- 5.39 However, other respondents believed that any allocation of licence fee revenue outside of the BBC could compromise its own public service broadcasting delivery, and that it should only be considered as a last resort or if the licence fee was to be increased significantly above inflation to pay for it.
- 5.40 In their response, the BBC expressed concerns with the proposal on a number of grounds that:
- at the start of the current licence settlement it is too early to know what the calls on licence fee may be at its end in 2013;
  - it is uncertain whether the switchover funding, which the BBC describe as “ring-fenced to aid delivery of the BBC’s sixth public purpose”, will be maintained in the next settlement;
  - the link between the licence fee and the BBC is “complex”, and that even if it is not fully understood by all licence fee payers they have greater expectations of the BBC than other broadcasters; and that
  - reallocating the licence fee risks compromising the independence and stability of the BBC, by introducing other dependencies on the licence fee as well as impacting the BBC's accountability to the Trust.
- 5.41 We accept these are well made arguments. But it remains the case that a licence fee maintained in real terms and an unchanged set of public service obligations for the BBC would make available significant funding from the digital switchover surplus to address public purposes in different areas.
- 5.42 There may be increasing calls on the licence fee in the period, but the current settlement has been set to meet these. The cost of the licence fee to the BBC is set to increase by 9% to 2012, from £135.50 to £148 per household. Additionally, the

number of households in the UK is also likely to increase in the period: a conservative estimate would be a 5% increase, or 1.4m additional households, most of which will be liable to pay the licence fee. Additionally, the settlement expected the BBC to make 3% per annum of operating efficiency savings. The cumulative effect of these provisions should yield a significant increase in funding available from the licence fee.

- 5.43 Under the current licence fee settlement, funding for Digital UK and the Digital Switchover Help Scheme is clearly ring-fenced from general BBC service budgets. It will be for government to decide in the next settlement whether any funding should continue to be ring-fenced for other purposes and, if so, whether the licence fee should be increased to pay for them. Our research in phase 2 suggested that consumers are on the whole resistant to a higher licence fee.
- 5.44 There are other possible uses for any surplus which could include: investing in new BBC digital services; increasing coverage of DAB digital radio across the UK; or widening access to broadband services across the UK. Investment in new BBC digital services at this level would significantly increase the BBC's investment and its share of provision in still emerging markets. By contrast, funding of a similar size to the switchover surplus would in itself only be a relatively small contribution to providing universal DAB or broadband access. There would be likely to be market competition concerns with these possible uses and market impact would have to be carefully considered. Alternatively, the licence fee could be reduced.
- 5.45 We recognise the concerns raised by the BBC and others. But we believe that these should not stop government from considering the possible switchover surplus from 2013 – and any surplus arising between now and 2013 in the current funding of digital switchover – as a means of supporting public service content outside the BBC. Use of these funds will also need to be considered in the wider context of funding needs for Digital Britain.
- 5.46 There will clearly be a balance to be struck between allocation of funds between infrastructure development and spend on content. Funding public service content by other providers would be one of a number of potential uses supported by consumers.

### **Direct public funding remains an option for government to consider**

- 5.47 In the phase 2 document we identified potential use of direct funding from central government or devolved governments to support the future delivery of relevant public service content. Direct government funding offers potentially high and secure funding and reduces issues with collection and incentives of recipients. It is a model already used for S4C and MG Alba.
- 5.48 There was limited support for direct government funding through our consultation. Respondents expressed the view that there were already many competing claims for government spending which public service broadcasting investment would divert. The few respondents who commented on it considered that National Lottery funding faced the same pressures. Respondents were on balance more negative on both of these sources than the consumers were in our research in phase 2.
- 5.49 Consultation respondents also considered that the potential impact on the editorial and strategic independence of public service providers, particularly as news providers, was a major drawback of this source. However, it was acknowledged that direct public funding is already deployed in areas of content delivery that meet purely public objectives or have very limited commercial basis.

- 5.50 The issue of where direct government funding would come from is clearly a matter for the government. However some consultation respondents noted a direct connection between the proceeds of spectrum freed up as a result of digital switchover – the digital dividend - and the financial issues to be addressed in public service broadcasting. They suggested that the digital dividend could be used as a source of direct government funding, and could for example create an endowment fund.
- 5.51 While public funding remains an appropriate option for government to consider, it needs to be recognised that in the current economic environment, resources are constrained and the needs of competing claims for government spending would clearly need to be considered.

**Industry funding by means of a levy would be a significant intervention and should be considered only in the wider context of industry needs and priorities**

- 5.52 In phase 2 we set out that public service content could potentially be funded from an industry levy applied at different points in the value chain. We said that a basis for introducing levies or payment collecting schemes in the UK might be if content distributors and aggregators were benefiting from access to high quality UK content for which they were not paying. We noted that while levies could introduce new funding, they present challenges of enforceability and could act against industry development and incentives.
- 5.53 In our phase 2 research consumers found an industry levy to be the most acceptable of the potential new sources of funding. In the consultation responses, support for an industry levy was more mixed.
- 5.54 Respondents recognised that consumers and therefore industry benefit from high quality UK content and that funding for this was under threat, with alternative distribution being a contributing factor. Some respondents highlighted that industry levies were already widely used in other countries, particularly Europe, to fund particular content of cultural benefit.
- 5.55 Supporters agreed that levies should ideally be focused on those areas of the industry that derive significant and growing commercial revenues - either directly or indirectly - from the distribution of public service content but without making a material contribution to its generation.
- 5.56 Many stakeholders were concerned that a levy on new forms of distribution would firstly be difficult to identify and define, and secondly jeopardise development and emerging commercial relationships within these markets. Additionally, respondents thought it unlikely that any levy could be introduced without a negative market distortion or impact, and as such would only re-distribute existing value within the industry rather than grow funding overall.
- 5.57 In summary, we do not think that the case for a levy to fund public service content has been made. The introduction of any levy is likely to have significant impact on the market. Any single levy is likely to have disadvantages, though some of these could be partly mitigated to meet both public and industry interests.
- 5.58 There are other potential uses for industry funding – for example, individual or joint funding of R&D or infrastructure. We consider that industry levies should be considered only in the wider context of industry funding needs and priorities, which are being considered as part of the government's Digital Britain project.

## **If cash funding is introduced into the system, there are clear criteria for whether it should be allocated competitively or directly to an institution**

- 5.59 If replacement cash funding is put into the public service broadcasting system, it is critical that it is done in a manner which gives the greatest impact in meeting the public purposes and which is transparent, fair and creates incentives which reinforce the underlying goal.
- 5.60 Our analysis in phase 2 of the review showed that allocating funding directly to an institution generally works best when only top-up funding is needed, where the outputs are difficult to define and measure, and where only one organisation is likely to be interested in the outcome of any tender<sup>31</sup>.
- 5.61 It also showed that competitive funding processes are best suited to obligations which have clearly defined outcomes, which need substantial funding and where they are likely to be a number of bidders with similar business models, opportunity costs and audience reach. A number of the areas of concern in public service content, like children's programming or regional news, look likely to meet these criteria.

## **Successful models in other countries show competitive funding can work well and need not be bureaucratic**

- 5.62 In the course of the review many stakeholders have expressed support in principle for a greater use of greater use of competitive funding. These include the Satellite and Cable Broadcasters Group, Discovery, Yahoo! and the Institute of Local TV.
- 5.63 This review has clarified some of the key principles about how competitive funding of public service content might work in practice in the UK. We have been able to do this using stakeholder experiences which have been shared with us through consultation response and through a November 2008 round table event. We have also been able to study a number of international models.
- 5.64 First, our phase 2 deliberative research and stakeholder responses provided us with a good understanding of which components of the public purposes will be best delivered through a competitive fund. We are clear that competitive funding will be most effective in delivering those aspects of public purposes where there is a clearly defined audience target or genre focus.
- 5.65 Second, respondents agreed that the main aim of competitive funding should be to fill the gaps in plural provision of public service content. For example, the Satellite and Cable Broadcasters Group (SCBG) suggested that funding should only be available for content the market cannot support, and be open to all. Discovery, PACT and Ofcom's Advisory Committee for Northern Ireland made similar points.
- 5.66 Third, the model should focus on delivery against a set of audience-centric measures such as reach, impact and appreciation. While supply-side considerations such as volumes of content and distribution strategies will play their role in delivering these measures, they should not, of themselves be the sole focus for measuring the success of this approach.
- 5.67 Fourth, a range of providers beyond the existing public service broadcasters have the skills and appetite to supply public service content under a competitive funding model. This also includes players outside the broadcast media market.

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<sup>31</sup> See phase 2 of the PSB Review (Figure 22)

- 5.68 In commenting on the detail of how competitive funding could work, some new media providers, including Yahoo!, have suggested that long-term contracts should have the potential to separate production and distribution so as not to tie providers into distribution arrangements. This would both reflect changes in audience behaviour and the speed of development in the industry.
- 5.69 As audiences fragment across digital media, long-term competitive contracts should encourage alternative ways of making public service content available to users. They should encourage development of innovative business models, for example where the production of content and distribution are carried out by separate entities. This will help enable flexibility and participation from new media providers.
- 5.70 Some stakeholders were concerned that competitive funding has potential to increase bureaucracy and administrative burdens. Others offered insights about how a system can work effectively, based on their experience with competitive funding in other areas or internationally.
- 5.71 The competitive funding round table session highlighted that there are several existing models - overseas and in the UK - where competitive funding is administered efficiently. Some examples are set out below.

## Figure 11: Examples of competitive funding in the UK and abroad

### 1. Republic of Ireland - Sound and Vision Broadcasting Funding Scheme

The scheme's objective is to increase public access at national, local and community level to high-quality radio and television programmes in English and Irish which explore the themes of Irish culture, heritage and experience, in contemporary or historic contexts. The fund is managed by 6 full time staff with additional support from external contractors where necessary. Since it was set up in 2005, the team have assessed 1,557 projects and made 711 awards valued at €53m.

### 2. Singapore - Media Development Authority

The Media Development Authority (MDA) matches funding from third parties in the style of a series of co-investment deals. Funding is time limited and milestones/reporting deadlines are agreed to as part of the accountability process. Among the criteria used for agreeing to fund a particular project is the possession of a large enough distribution network and the ability to provide financial returns on the investment for the local economy. In its response to our second phase consultation, Discovery cited its involvement in a number of media funds, including the Singaporean one, and considered them to be no more bureaucratic than those that a commercial company would experience in persuading its shareholders to make additional investments.

### 3. United Kingdom - Teachers' TV

The Teachers' TV contract runs for several years (three years with a one year extension in the first contract, five years with the possible of a further two and a half year extension in the second). The first contract was valued at around £20 million per year. In each case, the supplier was chosen using a competitive procurement process, and assessment panel was resourced from a small number of civil servants alongside a series of temporarily appointed subject matter experts.

### 4. New Zealand - NZ On Air. (NZOA)

NZOA aims to "fund programmes and broadcasts, not otherwise provided in a commercial market, which are widely accessible, reflect New Zealand's diversity, are rich in information and - across the range of programming - are entertaining for all New Zealanders". Funding mainly goes to: Drama & Comedy, Special interest, Documentaries, Maori & minorities, Children's, Arts, Culture & Performance. Most funding is allocated to projects that are broadcast on the major national free-to-air channels (advertising funded). However, funding is also available for projects on smaller mainstream channels as well as regional and special interest channels. Successful producers agree to receive a minority participation in the net revenue generated from the project. Prior commitment of broadcasters to a project, audience size and promotion of local audio and video content are important selection criteria.

It employs a staff of around 13 people and is funded by a direct government grant (c. \$110m in 2008). Funding decisions are taken by a government appointed board of six directors who meet six times a year.

5.72 Based on the feedback we have received and our audience research and market analysis, our conclusions on competitive funding are now more fully developed. If the

government chooses to adopt it in any specific area, our recommendations are as follows:

- The process should begin with an invitation for consortia to bid to deliver a range of specified long-term outputs that focus on consumer outcomes. The winning bidder should be selected according to the degree to which specified deliverables are met or exceeded. Levels of content investment and distribution may influence the decision, as will the claim on public funds (see below).
- Given that the identified content areas are not provided by the market, it is unlikely that they are profitable. As a result, the panel should award the contract at the lowest cost, subject to the delivery of the output specified above.
- The panel should be appointed by the body providing the funding.
- The model should promote innovation by encouraging bidders from a range of industry fields, rather than just broadcasting. Consortia could include those with new media expertise, players from the film industry who are accustomed to bidding for public funds, businesses with brands that have a proven resonance with the target audience, commercial broadcasters, charities and other cultural institutions.
- Contracts should be long-term, which will help minimise bureaucracy since the effort required to award the bid is drawn on infrequently.
- To control costs, Ofcom could be responsible for assessing delivery against the contract in between bids through its PSB Annual Reporting process (a proposal made by PACT). It could also give advice and guidance to the awarding panel at the point when invitations to tender are drawn up and then awarded.
- Creative and editorial control should rest with the winning bidder.

**In conclusion, there is a clear approach to maximise value in any future model**

5.73 There is a clear approach that needs to be taken to maximise value in any future model.

- The licence fee and regulatory assets, especially privileged access to spectrum, should remain the core means of funding public service broadcasting, though with the potential to reassign regulatory assets to maximise value to audiences.
- BBC partnerships and structural changes in the sector, through joint ventures or even mergers, could create further value within the current system.
- Replacement funding in cash may well be necessary and cannot be ruled out. There are a number of credible options which could provide it.
- If replacement funding in cash were introduced, allocating it competitively is a practical alternative and could play an important role.

5.74 Any option involving government funding or public assets would need to be consistent with rules on competition policy including state aid.

## Section 6

# A new approach to public service content

## Introduction

- 6.1 This section sets out the principles we should believe underpin the new approach to securing the delivery of public service content that meets the priorities of audiences.

### **The key points covered in this section are that:**

- We have considered a number of possible models for delivering public service content to test views from audiences and stakeholders.
- Audiences supported the role of the existing broadcasters, but also saw the potential for new models of public service delivery.
- The existing public service broadcasters favoured an enhanced evolution model, but other stakeholders also supported the introduction of new models of funding.
- We have considered a number of criteria for evaluating the different future models of public service delivery.
- Institutions and competitive funding can play a complementary role, but a competitive approach alone is not appropriate.
- We need a new approach in which each broadcaster's contribution to public content is effectively aligned with their core incentives.

### **We have considered a number of possible models for delivering public service content to test views from audiences and stakeholders**

- 6.2 In phase 1, we set out four illustrative models for the future delivery and funding of public service content, based on:
- Evolution;
  - BBC only;
  - BBC/Channel 4 plus limited competitive funding; and
  - broad competitive funding.
- 6.3 We conducted deliberative research to investigate audiences' views of the models and possible funding sources for future delivery of public service broadcasting. It was clear from our research, and the stakeholder responses we received through the review, that the BBC only model attracted scarcely any support. As a result, through phase 2 we did not put forward the BBC only model again, but focused our work on refined illustrative models. These ranged from a refined evolution approach, based on existing institutions, through to a broad competitive funding model.

## **Audiences supported the role of existing institutions, but also saw the potential for new models of public service delivery**

- 6.4 Participants in deliberative research supported the idea of a new model for public service content. This was the case even though it entailed replacement funding.<sup>32</sup> 'Doing nothing', despite being the only cost neutral option, was not seen as a viable option for the future of public service content as this would mean a reduction in public service programming overall and a decrease in choice and range for audiences.
- 6.5 Of the models put forward, the BBC only model received the least support, being rejected by all but two participants. While there was no consensus on the other models, the evolution and BBC / Channel 4 options were preferred by participants.
- 6.6 Viewers in England tended to favour a BBC / Channel 4 approach, attaching greater value to the distinctive contribution they perceived Channel 4 to provide. Audiences in the devolved nations tended to prefer an evolution based approach, because they valued highly the role of their respective national Channel 3 licensee. They also attached high priority to plurality in nations news.
- 6.7 Some participants called for an alternative to the models that they were presented with, by combining competitive funding with guaranteed roles for existing institutions in addition to the BBC. They favoured this approach because it combined the benefits of public service provision by known and trusted providers with an element of flexibility, creating a stable, yet flexible, new model.

## **The existing public service broadcasters favoured an enhanced evolution model, but other stakeholders also supported the introduction of new models of funding**

- 6.8 In phase 2 we set out three refined illustrative models for consultation: enhanced evolution, BBC / Channel 4 plus limited competitive funding and a refined competitive funding model.
- 6.9 Based on the stakeholder responses we have received, it is clear that an enhanced evolution model is preferred by many respondents. In particular, existing institutions, such as the BBC and Five, and industry groups, including BECTU and Equity, favoured this model because of the continuity it offers, its current ability to offer plurality and meet audience needs. Proponents of a refined evolution model recognised that replacement funding is needed to ensure its sustainability.
- 6.10 There were also a number of respondents who favoured a model that involved some elements of competitive funding. However, there was more limited support for a large-scale implementation of a competitive funding model.
- 6.11 Respondents including Discovery, Nickelodeon, Save Kids TV and SCBG all favoured the introduction of a competitive funding model. Pact also argued for competitive funding for at risk genres including children's programming.
- 6.12 Supporters of a BBC / Channel 4 based approach noted that Channel 4 could provide an alternative to the BBC in many areas but emphasised the presence of a competitive fund in addition to an extended remit by Channel 4. This received less support than the other models in phase 2 because respondents associated it with the loss of public service broadcasting status by the ITV licensees and Five and were

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<sup>32</sup> We explain the full findings of this research in our phase 2 consultation document.

concerned this approach would not fulfil the needs of audiences in the nations and English regions.

### **We have considered a number of criteria in evaluating the different future models of public service delivery**

- 6.13 In exploring these models through the review and setting out our recommendations in this document, we have considered a series of tests of effectiveness for a future model of public service content. There was broad support for these tests when we asked stakeholders about them through our consultation in phase 1.
- 6.14 In phase 2 we set out our final set of tests for effectiveness that should be applied to any future model, incorporating some suggestions from stakeholders. These are set out in Figure 12.

**Figure 12: Tests for a future model for public service content**

Objective	Test
Reach and impact	Are providers incentivised to deliver public service content that achieves reach and impact?
Plurality	Does competition between providers deliver the benefits of plurality?
Flexibility	Is the model sufficiently flexible to respond to audience and market changes?
Value for money	Does the model make efficient and effective use of public resources?
Governance	Do providers have clear remits, independence, transparent accountability arrangements and incentives aligned to public purposes?
Complementarity	Does it complement, not discourage, market provision?
Openness to new platforms	Does it embrace the platforms, content forms and services that most effectively meet audience needs?
Sustainability	Are providers' funding models sustainable?
Audience support	Is the model broadly supported by audiences?

### **Institutions and competitive funding can play a complementary role but a full competitive approach is not appropriate**

- 6.15 The challenges we are seeing in the model for funding public service broadcasting today, explained in section 4, highlight the significant and growing tension between each commercial broadcaster's incentives to maximise profit and to deliver public service programming.
- 6.16 Given the difficulty of aligning these incentives and the broader pressures on free-to-air advertising, and as competitive intensity increases as a result of the economic climate, so will this tension increase.

- 6.17 The most radical approach to addressing such a tension would be to move away from the current reliance on commercial public service broadcasters and move towards a fully competitive funding approach. In phases 1 and 2, such models were suggested.
- 6.18 This approach would have a number of benefits in meeting the tests of effectiveness. It would ensure flexibility to meet audience needs, help to ensure governance requirements are met, with incentives aligned to public purposes. It would also help to embrace the digital opportunity, introducing new platforms, content forms and services that most effectively meet audience needs.
- 6.19 But as our analysis, research and consultation responses show, in an ever more fragmented market for digital content, strong institutions offer a number of benefits. They can continue to deliver reach and impact for public service content. They offer recognised brands and a significant presence across digital media. They also work best to deliver some obligations which are less easy to define. An institutional based approach, as explored through our consultation on the evolution model, is also favoured by a number of stakeholder and audiences in some cases.
- 6.20 The table below sets out Ofcom's assessment of the strengths of an institutional approach compared to a competitive funding approach.

**Figure 13: Strengths of institutions and competition in long-term models for public service broadcasting**

The established broadcasting institutions are good at...	New players and platforms supported by competitive funding good at...
Achieving mass audience appeal that maximises reach and impact	Catering to the needs of different audience communities of interest
Exploiting the power of serendipity, with viewers stumbling across new content	Multi-platform content propositions which audiences are able to actively discover
Proven, trusted and familiar providers	Opportunity to introduce new providers
Offering universal access, free at the point of consumption	Widely available, possibly free, able to reach out to audiences not attracted to PSBs
Exploiting main channel reach, signposting audiences to digital channels or the web	Possibility of new entrants and brands that have high levels of recognition with targeted audiences
Building on the strengths of the current PSB system	Opportunity to address weaknesses in the current system
Proven ability to produce high quality professionally produced content	Competition for funds could drive -up quality and reward innovation and creativity
	Flexible to future changes in audience viewing habits and the wider market
	Widens choice bringing in new perspectives and styles, driving up PSC reach & impact

- 6.21 Our conclusion in this final statement is that the introduction of a full competitive approach would not be appropriate. Our assessment, made clear through our analysis, audience research and stakeholder responses, is that institutions with specific public service responsibilities remain important to delivering public service content with reach and impact.

- 6.22 However, they could be complemented by an element of competition for funding in order to create more flexibility during an era of great change and increasing uncertainty.

**We need a new approach in which each broadcaster's contribution to public service content is effectively aligned with their core incentives**

- 6.23 In the fully analogue broadcasting market, limited competition ensured the system could sustain significant public contributions from each of the public service broadcasters. However, this era is now reaching its natural conclusion, and the current model of public service broadcasting is no longer sufficient to meet the needs of audiences in the digital age.
- 6.24 We believe that the UK needs a new approach to sustaining delivery of public service content, which both embraces the opportunities created by the digital revolution, and responds to the structural changes in the commercial sector. It must enable room for innovation within the market whilst ensuring provision of the core public services for citizens across the UK.
- 6.25 This new approach must ensure there are sufficient resources available to support investment in public service content, and create the right incentives to deliver it effectively, so as to maximise the value of resources available.
- 6.26 We believe this is best achieved by re-balancing public service obligations across the sector:
- **securing the economic future of strong institutions who have public purposes at their heart; whilst**
  - **retaining strong commercially owned networks which incorporate a public service commitment consistent with their long-term objectives.**
- 6.27 These interventions should exist alongside a thriving, competitive and innovative commercial market for content across digital media.

## Section 7

# Ensuring strong public service providers

## Introduction

7.1 A new approach to public service broadcasting must ensure sufficient resources are available to support investment in public service content, and create the right incentives to deliver it effectively. In this section we explain how securing the economic future of strong institutions that have public purpose at their heart will help achieve this.

### The key points covered in this section are that:

- A strong BBC with funding to deliver its programmes and services across digital platforms should remain the heart of the public service system.
- However, a second institution with clear public purpose goals and a sustainable economic model will help to ensure wide availability of public service content.
- While Channel 4 has played this role and is valued by audiences, its current funding model is unlikely to be sustainable in the future.
- A second institution with public purposes at its heart could be secured through Channel 4 in a structural relationship with another organisation.
- These options are ambitious, challenging and complex and would need to meet clear criteria.
- The second institution including Channel 4 will need a new remit and a new governance and accountability framework to ensure effective delivery.
- We recommend that structural relationship options involving Channel 4 should be considered further by government.
- We also need to be clear about alternative options.

### **A strong BBC with funding to deliver its programmes and services across digital platforms should remain the heart of the public service system**

7.2 It has been clearly established through this review that audiences place a high value on the BBC and the breadth of services it provides across television and other digital media.

7.3 Our audience research for phase 1 showed that people think that an effective, strong and independent BBC is essential to the health of public service broadcasting in the UK. It continues to be people's main source for public service content and its online and on-demand services are making a growing contribution.

7.4 For many, the BBC is the prime provider of public service content. Our PSB Tracker shows that, among regular viewers, the BBC channels perform particularly strongly in delivering many of the purposes of public service broadcasting.

- 7.5 Support amongst stakeholders for the BBC is also strong. One of the provisional conclusions set out in our phase 2 document was that the BBC should remain the cornerstone of public service content, and its core programme and services budget should be secure.

### **The BBC has led the way in exploiting opportunities to deliver public service content across a range of platforms**

- 7.6 The BBC has pioneered delivery of public service content across platforms in many ways. Its services include: eight national television channels, regional programming, 10 national radio services and 40 local radio stations.
- 7.7 BBC Online was launched in 1997 and the BBC now spends £116 million annually on the site, generating a unique monthly audience that averaged 14.3 million in 2006/7, according to BBC data. Since then, the BBC has also launched its iPlayer service, enabling viewers to download and stream access to a range of output. In 2008, the BBC estimates that approximately 180 million programmes were watched using the iPlayer.
- 7.8 The BBC's innovations in its digital channels, BBC news online and the i-player and clearly demonstrate how strong public service content can help to drive the take-up and impact of new platforms.

### **The BBC should remain the main focus of intervention to deliver public service content**

- 7.9 The first of the five priorities set out for government in this statement is that the BBC's role and funding for its core priorities should be maintained and at the heart of the overall system.
- 7.10 The BBC should continue to provide the main focus of public intervention to sustain the purposes of public service broadcasting, properly funded, so that it can continue to provide its portfolio of services, and with the room to innovate and develop in a fully digital world.
- 7.11 S4C should also continue to play a key role in Wales, delivering programming to Welsh speakers with secure funding from the government, while MG Alba and the Irish Language Broadcast Fund would do the same for Scottish Gaelic and Irish speakers. Their roles are considered in further detail in section 9.

### **However, a second institution with clear public purpose goals and a sustainable economic model will help to ensure wide availability of public service content**

- 7.12 It is also clear from our research that audiences care about having a public service alternative to the BBC, particularly in those areas where the market may not be able to provide.
- 7.13 We believe, therefore, that it is important to maintain a second organisation with public purposes, which:
- Has the scale to operate independently of the BBC and deliver reach and impact;
  - A distinctive remit and perspective to the BBC with strong incentives to commission UK content in the areas where the market is unlikely to invest;

- Helps ensure choice and diversity of content amongst all audiences;
  - Has an economically robust model which enables it to invest in content effectively across platforms.
- 7.14 Channel 4 has played a valuable role as a second organisation focused on public purposes, providing an alternative source of public service content. It has provided competition with the BBC and been able to reach certain audiences – including younger viewers – particularly effectively.
- 7.15 Research conducted for this review and our PSB Annual Tracker shows that audiences recognise the distinctive and innovative content delivered by Channel 4, meeting the needs of diverse audiences.
- 7.16 The majority of respondents to our phase 2 consultation agreed that Channel 4 provides valuable competition to the BBC. In its response Channel 4 stressed the role it played in ensuring that content is accessed by harder to reach audiences such as younger viewers and people from ethnic minorities.
- 7.17 However, the challenges faced by the transition to the digital era are broader than this. The risks of reduced provision of public service content spread across the public service broadcasting system outside the BBC.
- 7.18 In pursuing our role in maintaining and strengthening the quality of public service broadcasting our concern is therefore to secure a second institution with a broad contribution to public purposes at its heart and which is placed on a robust economic footing. Our focus is, therefore, on this alternative voice to the BBC rather than on sustaining Channel 4 as an end in itself.
- 7.19 But because of its established track record of delivery, Channel 4 is well placed to be at the heart of this second institution.

**While Channel 4 has played an important role and is valued by audiences, its current funding model is unlikely to be sustainable in the future**

- 7.20 For most of its existence, Channel 4 has successfully balanced a primary purpose to invest in public service content, delivered through a fully commercial model sustained largely from revenues generated in the free-to-air advertising market. This model has undoubtedly supported the organisation's unique public service role, and its ability to offer a strong public service alternative to the BBC and the commercial market.
- 7.21 However, while Channel 4's primary purpose is to maximise its public service contribution ahead of profit, its financial ability to fund this role is no longer sustainable. Section 4 examined how the financial pressures on its funding model meant it was already cutting back on many key areas of original production. Channel 4 will not be able to maintain its level of investment in public service content unless a new economic model is put in place.
- 7.22 In responding to our phase 2 consultation several stakeholders pressed Ofcom to find a solution to Channel 4's funding gap. There were a number of responses from independent production companies who expressed particular concern about whether it would continue to be able to innovate and provide content that would not be provided by the market.

- 7.23 Other arguments for providing a funding solution for Channel 4 included securing its existing role in a number of areas such as: helping to maintain a vibrant independent production sector, uncovering new talent and reflecting the diversity of the UK.
- 7.24 Over the course of the review we have explored a number of possible funding solutions, which are covered in section 5 of this statement. Some of these are unique to Channel 4, or have particular implications for Channel 4, which we asked stakeholders about in our consultation.
- 7.25 Channel 4's response to our phase 2 consultation stated it was convinced a basket of funding measures will be needed to fund the wider creative economy in the future. Its view is that while there is some value in regulatory assets and the BBC's partnership proposals contain some strategic logic, a wider solution will be needed to support provision of public service content from a range of providers.
- 7.26 Direct public funding could help to sustain Channel 4's ongoing public service role. This is one solution which has been suggested by a number of respondents to our consultation.
- 7.27 However, in the run up to digital switchover and beyond, the level of additional funding required by Channel 4 to deliver its remit will continue to increase. The provision of direct funding means that Channel 4 will continue to be exposed to the changes and pressures facing the free-to-air model generally which are likely to grow over time.
- 7.28 As a result, it is not clear that this represents the most stable economic model for Channel 4, potentially increasing its reliance on public support as these pressures continue. Provision of funding directly to Channel 4 may also have an impact on the incentives of the organisation, particularly in terms of the judgements it makes about its commercial activities.
- 7.29 It may therefore be appropriate to consider the potential that wider structural solutions arising from a range of possible partnerships could offer and which might become a more broadly based second institution with public purposes at its heart.

**A second institution with public service purposes at its heart could be secured through Channel 4 in a structural relationship with another organisation**

- 7.30 Sustaining a second strong organisation alongside the BBC, with sufficient ability to invest in public service content across digital media, is likely to require a more ambitious approach than merely seeking to preserve Channel 4's current institutional model. We believe this might be best achieved through structural relationships between Channel 4 and one (or more) other organisation.
- 7.31 A structural relationship would go further than partnerships, such as those proposed by the BBC. It would involve a deeper level of integration or co-ordination of activities between the two organisations. There would be a range of possible options, from joint-ventures through to mergers. The value created will depend on the level of integration, as will the potential risks and challenges.
- 7.32 There are a number of reasons why a structural relationship between Channel 4 and another organisation could represent an attractive route to secure a sustainable economic model. These include:

- the ability to realise significant cost savings by combining activities of the two organisations;
- potential synergy benefits arising from areas of co-operation and collaboration;
- establishing a more diversified revenue base and reducing reliance on free-to-air advertising revenue;
- giving the organisation greater scale in a more competitive digital market, allowing it to deliver public service content with reach and impact across digital media; whilst
- sustaining a core focus on public purposes already at the heart of Channel 4's current model.

7.33 One option would be a relationship between Channel 4 and BBC Worldwide.

7.34 This approach has the benefit that both organisations have a commitment to funding public service outcomes, which may help to align incentives in the relationship. BBC Worldwide and Channel 4 have already established there is potential value from collaboration between the two organisations on a number of specific initiatives. It is possible this could be extended to a deeper and more integrated relationship.

7.35 An alternative approach would be to consider partnerships, joint-ventures and even a possible merger between Channel 4 and a commercially owned broadcaster, such as Five. This would offer potential cost savings and synergies but may raise immediate competition concerns and would crucially depend on the control and the incentives of any merged entity.

7.36 However, each of these approaches carries risks. The benefits and disadvantages associated with each of these options are explained below.

### **Benefits and disadvantages of a structural relationship between Channel 4 and BBC Worldwide**

7.37 BBC Worldwide is the BBC's commercial arm. It contributes to the BBC's public service role both through investment in programming and also by returning profits to the Corporation. It has a global presence, active in programme rights exploitation and in the operation of channels (including its 50% shareholding in the UK TV joint-venture), publishing, home entertainment and digital media. Worldwide has implemented a highly successful growth strategy, which has allowed it to triple profits from £37 million in 2003/4 to £118 million in 2006/7.

7.38 We asked stakeholders in our phase 2 consultation their views on a relationship between Channel 4 and BBC Worldwide and responses were divided on this as a possible source of funding. Of the responses that supported new sources of funding for Channel 4, many felt that a relationship with BBC Worldwide would be preferable to direct funding options, on the basis that it would preserve Channel 4's independence while giving it greater scale and the ability to diversify its commercial revenue streams.

7.39 A number of responses suggested that the impact on the BBC, in terms of foregoing a dividend or advance production funding from BBC Worldwide, would be detrimental to service quality and would only result in increased pressure on licence fee funding.

The BBC suggests that a series of commercial agreements across specific activities with Channel 4 is more practical and value creating.

#### Figure 14: Benefits and risks of a C4/BBC Worldwide relationship

##### Potential benefits

- Potential cost and revenue synergies, particularly in areas of similar activity (for example, digital channels).
- Strategic logic by combining strong brands, content and distribution capacity.
- Could provide permanent sources of new funding that are less exposed to pressures on the free-to-air advertising market to re-invest in public service content.

##### Potential risks

- BBC Worldwide currently contributes both a dividend and advance funding of some programmes to the BBC. If the new combined entity were not able to sustain this investment and dividend flow, this would put pressure on the BBC's funding for its services.
- Currently, BBC Worldwide generates value from exploitation of BBC assets through a first-look agreement. Greater separation between BBC and the new entity than currently exists with BBC Worldwide could potentially put the effectiveness of this agreement at risk, reducing the value within BBC Worldwide.
- There may be competition concerns caused by scope for coordinated behaviour between BBC, Channel 4 and BBC Worldwide.

#### Benefits and disadvantages of a structural relationship between Channel 4 and Five

7.40 Another option discussed publicly since phase 2 is a potential relationship between Channel 4 and Five. This was considered by both organisations in 2004 and has been raised again in recent weeks.

7.41 Some of the benefits and disadvantages of this type of proposal are set out in the following box. A key concern is that the combination of a public not-for-profit organisation with public purposes, and a private profit maximising one with commercial objectives is highly complex. A fundamental tension may always remain which would be likely to complicate the allocation of assets and investment to public service content, particularly at points where the organisations faced financial pressures.

### Figure 15: Potential benefits and risks of Channel 4/Five relationship

#### Potential benefits

- There would be immediate areas of cost synergy, particularly in reducing duplicate activities between the two businesses (e.g. in administration, advertising sales, digital channels etc).
- A structural relationship between two broadcasters could create potential revenue synergies (such as through co-ordinated positioning and scheduling of channels and selling of advertising inventory).
- Both organisations have an existing public service responsibility which could be managed across the combined activities.

#### Potential risks

- Both companies would remain highly reliant on, and therefore exposed to, free-to-air advertising revenue, and the partnership may only delay, rather than address the fundamental structural pressures on both businesses.
- There would be a clear tension between the objective of Five's sole shareholder, RTL, to maximise profits against Channel 4's desire to maximise public service delivery.
- In the case of a full merger, shareholder tensions could raise questions about ultimate control of the venture, and which obligations would take precedence if resources are constrained.
- Plurality of providers may be impaired and a horizontal merger may raise competition concerns.

### These options are ambitious, challenging and complex and would need to meet clear criteria

- 7.42 The establishment of a second institution through a structural relationship between Channel 4 and another organisation is clearly an ambitious and challenging proposition. Deals of this kind are complex and carry significant risk of implementation.
- 7.43 For any relationship of this nature to work effectively, the incentives of both organisations should be aligned and focused on the benefits of the relationship. It may be that a one-off allocation of funding to Channel 4, potentially through any under-spend in the current digital switchover help scheme, could help to facilitate any commercial partnership.
- 7.44 Furthermore, the added complexity is the need to establish a new commercial model that has scale and is sustainable, but which also protects the fundamental public service ethos that Channel 4 currently has. Any proposed relationship would therefore need to pass five clear tests if it is to deliver the underlying public purposes:
- **Sustainability** – does the partnership deliver the scale of benefits required to sustain investment in public service content, is the funding model economically

robust over time and in changing market conditions, is there a clear strategic rationale and do both parties believe there will be benefits in the relationship?

- **Governance** – is the public service remit of the organisation clearly established, does the partnership have clear and effective accountability arrangements to ensure that its incentives are aligned to deliver this public purpose?
- **Complementarity** – does it complement market provision, and do the public service benefits of the combination outweigh any potential market impact?
- **Plurality** – does it retain Channel 4's current independence and secure a clear alternative to the BBC in provision of public service content?
- **Competition** – is it consistent with fair and effective competition?

7.45 There are clearly many variations and considerations about how these relationships may come about structurally. There may also be other potential options to consider involving other organisations. Further work will be required to assess any approach taken, particularly against the tests set out in this section.

### **Structural relationships involving Channel 4 may also present the need for further consideration of access to rights and Terms of Trade with independent producers**

7.46 A structural relationship between Channel 4 and another organisation may also result in a situation where the new organisation is no longer solely a broadcaster, but part of a new media organisation with exploitation of rights at its heart. Should this occur, this may require further consideration of Channel 4's access to programme rights and its Terms of Trade with independent producers. The evidence we are seeing of significant change in the independent production sector, including rapid consolidation and emergence of larger and more powerful independent producers may also be a factor influencing the timing for further review.

7.47 New Terms of Trade are still in the process of being implemented by the public service broadcasters following the 2006 Television Production Sector Review. Further questions about the Terms of Trade could either be addressed through Ofcom's regulation of the terms of trade between public service broadcasters and independents, under s.285 of the Communications Act, or through a decision by government and Parliament, introduced through new legislation. We note that in responding to our consultation some stakeholders have commented on the case for revisiting the current scope of the terms of trade in the context of influencing funding in the industry.

7.48 However, this would clearly need to be considered alongside the important role that Channel 4 currently plays in working with independent production companies. It particularly helps to support opportunities for new, smaller, and regional production companies. A healthy independent sector remains vital to delivering diversity and quality of public service content.

### **The second institution, including Channel 4 will need a new remit and a new governance and accountability framework to ensure effective delivery**

7.49 In any scenario where a second institution with public purposes at its heart emerges it will require a new remit. We envisage that a future remit would encompass many of

the valued elements of the existing Channel 4 remit and the core purposes that Channel 4 identified in *Next on 4*.

- 7.50 A new remit should retain a duty for producing innovative and distinctive programming and should continue to deliver programming that meets the public purposes in the following genres: National and international news; Current affairs; UK drama; UK comedy; UK factual; and Educational programming. The remit should also build on Channel 4's historic strength in reaching diverse audience groups. It could potentially play a greater role in reaching minority ethnic groups for whom audience research highlighted lower satisfaction with current public service delivery.
- 7.51 This remit could also involve an enhanced role, with a more explicit commitment to news and current affairs. It could also take on additional responsibilities in providing UK programming for older children, building on the initial proposals in this area set out in *Next on 4*. This is an area where audiences place a great deal of value on programming which reflects UK culture and values. We believe this new entity could make a significant investment. It could also make a more explicit commitment to formalise Channel 4's significant contribution to British film.
- 7.52 As part of this review, we have decided to increase Channel 4's out-of-London production quotas and introduce a devolved nations production quota for the first time. A new remit could also be extended to a much more significant commitment to portraying the nations including further increases in these quotas to compensate for the relaxation of obligations in this area on Channel 3 licensees. We plan to review and consider increasing these quotas once the future of the second institution and of Channel 4 is clear. The full details are in the statement on short-term regulatory decisions published alongside this document.

### **A new governance and accountability framework will be needed to ensure effective delivery of this remit**

- 7.53 In the context of a second institution, it is also critical that governance and accountability structures ensure that a public service ethos and editorial independence are maintained and that resources are fairly allocated to deliver this role.
- 7.54 Several respondents to the consultation emphasised the need for Channel 4 to have tighter governance procedures in the future to ensure value for money and accountability.
- 7.55 A new governance framework would need to ensure:
- proportionate and transparent use of public resources and investment in public service content;
  - maintenance of creative freedom and editorial independence to meet public purposes;
  - it does not unduly impact market provision and its incentives are aligned with public service delivery; and
  - there are clear means to effectively assess public service delivery.

## **We recommend that structural relationship options involving Channel 4 should be considered further by government and Parliament**

- 7.56 We recommend that in order to sustain a strong second public institution with public purposes at its heart, structural relationships involving Channel 4 should be explored in greater detail. As we have explained in this section, partnerships will rely on mutual benefit to partners, the potential to achieve substantial synergies and the ability to align incentives of the new entity to sustain a strong commitment to public purposes.
- 7.57 It is possible that this challenge is too great and that structural relationships of this kind cannot be achieved. We recognise that this is an ambitious, challenging and complex proposition, and that structural relationships are likely to carry significant risks and may be difficult to achieve.
- 7.58 If this turns out to be the case, we should be clear about the alternative options for Channel 4's future. There are essentially three:
- **The use of one or other form of direct public funding**  
Channel 4 receives direct funding based on redefined remit and new accountability and governance arrangements. The concerns with this approach were raised earlier. Other calls on public resources should also be considered.
  - **Relieving Channel 4 of its special remit, repositioning it as a commercial network similar to Channel 3 and Channel 5 and probably thereafter privatisation**  
This will lead to a short-fall in public service choice and provision in a number of areas and fails to meet the needs of audiences.
  - **Managed decline – in which the remit and status is retained but the ability to deliver steadily erodes**  
This would inevitably lead to a much reduced public service contribution from Channel 4 which would decline as pressures on the free-to-air market increased. This could be mitigated in part by a transfer of additional regulatory assets from 2014.

## Section 8

# Freeing up commercially owned networks

## Introduction

8.1 This section sets out Ofcom's recommendations for the development of the commercially owned public service broadcasters in the medium-term and the future of the regional and national Channel 3 licences, Channel 5 and the Teletext licence beyond 2014. These recommendations are made in the context of the market changes and the pressures on the free-to-air model which have been set out in section 4 of this document and the impact that these pressures are already having on public service content delivery, in particular on the ITV service. It is these pressures which have resulted in the decisions we have also made on short-term licence changes for Channel 3, for Channel 5 and for Teletext which are being published separately today.

### **The key points covered in this section are that:**

- Strong sustainable commercial networks can deliver key aspects of public service content valued by audiences, based on their mass reach and delivery of popular entertaining programmes.
- Market changes and the pressures on the free-to-air model mean that the ITV service's public service broadcasting role needs to change.
- ITV plc has set out detailed proposals for change which include major changes across a range of areas of regulation.
- The full range of ITV plc's proposals cannot be resolved immediately and there is particular uncertainty in relation to regional news.
- ITV plc has also said that if its proposals are not accepted, it will be forced to consider handing back its licences and becoming a wholly commercial broadcaster.
- Recognising the pressures on the free-to-air model we have made decisions to reduce the regulatory obligations of the ITV network significantly from 2009.
- Between digital switchover and 2014 the regulatory obligations of the Channel 3 service will need further consideration in advance of any new licence structure from 2014.
- At 2014 and beyond Channel 3 should become a commercial network with modest but important regulatory obligations delivering a sustainable public service commitment to national and international news and origination.
- The sustainability of Channel 3 would be enhanced in the long-term if the Channel 3 licences from 2014 were on a 24 hour basis.
- The regulatory obligations for originations and national and international news provision on Channel 5 are more limited and likely to be sustainable until and beyond digital switchover.

- The increasing availability of text based services, both broadcast and online may mean that post 2014 there is no longer clear justification for continued intervention to maintain a public service teletext licence.
- We list our recommendations for freeing up commercially owned networks.

### **Strong sustainable commercial networks can deliver key aspects of public service content valued by audiences, based on their mass reach and delivery of popular entertaining programmes**

- 8.2 The commercially owned networks such as the ITV service and Five play an important role today in delivering popular, entertaining programmes. Their mass reach enables them to invest in original British programmes which are both popular and culturally relevant. That mass reach also gives these networks the ability to play an important role in delivering alternative provision of national and international news and in reaching audiences not necessarily addressed fully by the BBC or Channel 4.
- 8.3 Responses to our phase 2 consultation overwhelmingly favoured ITV plc remaining a public service broadcaster. Audiences value the ITV network for its provision of UK-originated programming, particularly drama and entertainment, and for its national and regional news service<sup>33</sup>. However, given the substantial economic pressures on the ITV network, there is an inevitable tension between ITV plc's desire to reduce regulatory burdens so as to maximise profits, and its ongoing ability to maintain investment in public service programming. This tension is becoming far more acute as digital switchover completes and as interactive digital distribution becomes widespread.
- 8.4 Our objective is to identify a sustainable set of regulatory obligations on the commercially owned public service networks which meet the key requirements of the audience for news and culturally relevant and entertaining programming. Our analysis and discussions with these networks show that obligations to provide national and international news and originated programming are aligned with the commercial incentives of these providers and have a low opportunity cost to them. This enables these networks to make a real contribution to the delivery of aspects of public service content which the audience particularly values, informing their understanding of the world and providing engaging and relevant content.

### **Market changes and the pressures on the free-to-air model mean that the ITV network's public service broadcasting role needs to change**

- 8.5 In section 4 we have described the changes that are occurring in the market created by the growth of digital platforms which create new opportunities for audiences that lead to fragmentation of viewing. We have also described the pressures on the free-to-air advertising model for delivery of public service content on the ITV network, Channel 4 and Five, and the current cyclical and structural pressures on television advertising.
- 8.6 These changes mean that advertising funded broadcasters are facing growing pressure to cut back on the delivery of public service programmes, which are the less profitable elements of their schedules. Over the past several years ITV plc has made a series of requests for reductions in its regulatory obligations and has reduced its output in areas such as regional output, children's programmes, arts and religion.

<sup>33</sup> Source: PSB annual report 2008, PSB phase 1 research annex 5 and phase 2 annex 7

- 8.7 More recently ITV plc has argued that its current investment level in originated content is unsustainable in view of the changes in digital technology and industry structure including new substitutes for linear television viewing, increased competition for audiences and fragmentation of audiences. These changes have contributed to rapid declines in the price of television airtime and hence the advertising revenue which can be earned from the ITV service and mean that it will not be possible in future to sustain the same level of investment in programmes.
- 8.8 Recognising these pressures and the impact of digital switchover we need to identify a new, sustainable basis for the regulatory obligations imposed on the ITV network, which is better matched to the declining value of its public service broadcaster status.

### **ITV plc has set out detailed proposals for change which include major changes across a range of areas of regulation**

- 8.9 ITV plc provided a response to our phase 2 consultation, a summary of which ITV plc has consented to us publishing, and which is set out below. It demonstrates very clearly the tension evident in the current system resulting from reliance on a commercial broadcaster, with incentives to maximise profits, to provide content meeting the public purposes, which may be higher risk and provide less certainty of return.

#### **Figure 16: Summary of ITV plc proposals for changes to regulation**

- 8.10 In its response ITV plc has set out what it considers to be the practical long-term options for the future of the ITV1 channel as a regional network and its public service delivery. Its preferred long-term model is evolution of the current public service broadcasting system based on the availability of both partnerships with other public service broadcasters and renegotiation of its relationship with the Channel 3 licensees that it does not own.
- 8.11 ITV plc argues that since the publication of the September consultation the economics of free-to-air provision have deteriorated significantly, it believes that even if ITV plc is able to take advantage of the relaxation in regional news obligations that Ofcom has proposed, the present public service broadcasting settlement is unsustainable in the short-term and that the costs of public service status will outweigh the benefits as soon as this year. It argues that there is a need for fundamental change to the regulatory settlement for ITV plc by the beginning of 2010 and that without this it will be forced to consider relinquishing its public service licences and moving forward as a wholly commercial broadcaster.
- 8.12 ITV plc wishes to adopt an enhanced evolution model during the course of the current licence period. Under this it would continue to make its service universally available, to invest in originated content and to provide regional news in England and Wales and a sustaining service to the licensees in Scotland and Northern Ireland until the end of the current licence period and potentially beyond this until 2016, the end of the current BBC charter.
- 8.13 However, for this to be economically viable, ITV plc says it would require all of the following changes:

- retention of all its existing regulatory assets and exemption from spectrum pricing from 2014 and with a continuing right for the licences owned by ITV plc to be renewed unless ITV plc chooses otherwise;<sup>34</sup>
- to be able to reduce the cost of its regional news provision significantly through partnerships with the BBC which preserve the editorial independence of the Channel 3 regional service and, potentially, through a change in service levels if the partnership with the BBC was insufficient to bring the costs and benefit of the regional Channel 3 licences into balance;
- relaxation of all the regulatory obligations on Channel 3 with the exception of national, international and regional news provision;
- this relaxation would include maximum possible reduction of all its existing quotas within the ambit of current legislation by the start of 2010. According to ITV plc, this would allow the following reductions: current affairs quota to 20 hours or less per year, out-of-London quota to no more than 10%, independent quota to the minimum European level of 10% and originated production quota reduced to a level no greater than that of the Channel 5 licence;
- radical reform of the networking arrangements to put the relationship between the Channel 3 licensees onto a purely commercial footing. This would include negotiation of an 'arms length' commercially based price for the non-ITV plc owned licensees' access to the network schedule and removal of the 'subsidy' to stv, UTV and Channel which ITV plc argues that the current networking arrangements incorporate. It would also allow ITV plc to integrate production, broadcasting and secondary exploitation, and to commission content for the ITV network on this basis;
- further changes to the networking arrangements to remove the terms of trade with independent producers from regulation under the networking arrangements; and
- a number of other changes to the regulatory obligations on Channel 3, which include the lifting of the Contract Rights Renewal Mechanism, freedom to develop new revenue streams from teleshopping on ITV1 and product placement on all ITV plc's channels, elimination of the licence payments made by Channel 3 licensees from 2009 onwards and a reduction in the administrative licence fees that the Channel 3 licensees pay to Ofcom.

8.14 ITV plc argues that the ongoing regulatory obligations on Channel 3 should be periodically reset at a level which balances the value of the regulatory assets allocated to the service.

8.15 It claims that this new regulatory settlement does not require legislative change and could be brought into effect over the course of the next two years. Such an approach would also preserve the current 15 regional licence structure and avoid the re-tendering process which would be required if there was a desire to move to a system of five nations based licences. The approach has the further advantage that it

<sup>34</sup> There is no guaranteed right of renewal. Whilst section 216 of the Communications Act provides limited grounds on which Ofcom may decide not to renew the licences the right to renewal is also subject to a decision by the Secretary of State following consideration of Ofcom's report under section 229 in anticipation of the end of the licensing period.

secures the future of plural provision of national and international news on the ITV service in competition with the BBC.

- 8.16 For ITV plc, a necessary implication of this approach is that stv, UTV and Channel would make a significantly increased contribution to the costs of the ITV network schedule under revised networking arrangements but might benefit in other areas from an arms length commercial relationship between the Channel 3 licensees.

**The full range of ITV plc's proposals cannot be resolved immediately and there is particular uncertainty in relation to regional news**

- 8.17 The proposals made by ITV plc offer the prospect of securing continuing public service broadcaster status for ITV plc and also reflect the outcome of a constructive dialogue with the BBC which could help secure regional news provision in England and Wales in the short and potentially the longer term. However, in Ofcom's view the proposals also raise a number of significant issues which would have to be addressed effectively in order to provide assurance that they represent both a credible short-term solution to the provision of regional news and a solution for the longer term. These issues are:

- The certainty of ITV plc's long-term commitment to public service broadcaster status and the provision of regional news in England and Wales, in particular in the context of a potential change of strategy or of ownership.
- The conditional nature of ITV plc's proposals which depend on agreement to a series of other changes in the regulatory environment for the ITV network, which have yet to be agreed and also have a direct impact on other parts of the public service broadcasting and production ecology.
- The genuine plurality of the regional news service which the proposals would deliver in England and Wales, given the incentives on ITV plc to continue to cut its newsgathering costs and rely on the BBC, and ITV plc's desire to revisit service levels again in 2011.
- The scheduling of the regional news service.
- The potential competition concerns raised by the regional news partnerships as proposed between the BBC and ITV plc.
- The impact of the proposals on the continuing delivery of news for Scotland, Northern Ireland and the Channel Islands.

- 8.18 More generally, a system which is reliant on a continuing balance being struck between the value of the regulatory assets awarded to Channel 3 and the costs imposed on a commercial company by regulatory obligations is vulnerable to continuing requests for regulatory relaxation by ITV plc, particularly if economic conditions remain difficult. The incentives on ITV plc as a commercial business will be to maximise profit, at the cost of its delivery of public service programming. In the event that further relaxation were requested and refused, or were not possible, ITV plc would be in a position, as now, to adopt a wholly commercial strategy and relinquish its public service licences.

- 8.19 Equally, if there were a change of ownership of ITV plc, the new owner of the business might choose to adopt a different strategy, which could be wholly commercial.

8.20 The table below summarises the regulatory changes which ITV plc has proposed and indicates under whose control those changes lie. The complexity of the regulation of Channel 3 and the post merger ITV plc, as a result of merged undertakings given by Carlton and Granada, mean that the changes proposed by ITV require agreement from four different and independent parties.

**Figure 17: Responsibility for the regulatory changes requested by ITV plc**

### Public service related

Regulatory change proposed by ITV plc	Under whose control	Issues arising
<b>Reduction in all quotas other than national and regional news to the maximum extent permissible</b>		
•Originations	Ofcom	
•Out of London production	Ofcom	
•Current affairs	Ofcom	
•Independent quota	Government/Parliament	Independent quota is set by DCMS, subject to minimum 10% EC quota
<b>Networking Arrangements</b>		
•Increase contribution to shared costs by non-ITV plc licensees	Ofcom, the OFT and the Competition Commission must agree	Change requires both changes to the networking arrangements <u>and</u> amendment to the Carlton/ Granada merger undertakings
•Allow ITV plc to control network centre and integrate commissioning with production and distribution	Ofcom subject to OFT agreement	
•End to double regulation of independent terms of trade	Ofcom subject to OFT agreement	
<b>Licence revaluation</b>	Government/Parliament	Further licence revaluation not possible unless Government/Parliament implements 'Must Carry' provisions within Communications Act. Licence payments are in any case forecast to decline sharply, reducing to zero in 2012

### Non public service related

Regulatory change proposed by ITV plc	Under whose control	Issues arising
<b>Lifting of Contract Rights Renewal (CRR)</b>	Competition Commission (with advice from OFT/Ofcom)	OFT is currently consulting on amendment / lifting of CRR
<b>Allow teleshopping on PSB channels</b>	Ofcom	Ofcom has already consulted on teleshopping rules on PSB channels, with statement due in early 2009
<b>Allow product placement on all channels</b>	Government/Parliament	Government has already consulted as part of AVMS implementation. Decision due in early 2009.
<b>Reduce administrative licence fees paid by ITV to Ofcom</b>	Ofcom	Ofcom is obliged to recover its appropriate costs from TV broadcasters

8.21 Since Ofcom cannot predict at this stage what the response of other independent parties, such as the Competition Commission (CC), OFT and DCMS, will be to ITV plc's proposals for regulatory change, the full range of the proposals cannot be resolved immediately. However, we set out below our recommendations to government for the long-term role of a public service Channel 3 network and the regulatory obligations associated with it.

8.22 The questions raised by the ITV plc proposals that relate specifically to the provision of regional news are dealt with in detail in the next section of this statement on future models in the devolved nations and English regions.

**ITV plc has also said that if its proposals are not accepted, it will be forced to consider handing back its licence and becoming a wholly commercial broadcaster**

8.23 ITV plc also says in its response that if these proposals are not accepted, it will be forced to consider handing back its public service licences and becoming a wholly commercial broadcaster which is not subject to any public service obligations.

8.24 Under the purely commercial strategy it outlines, ITV plc would broadcast its service on commercially owned DTT capacity such as that held by SDN, which ITV plc owns. The service would reach all cable and satellite homes and would be available in, ITV plc says, around 93% of DTT homes once digital switchover occurs. It believes that only 5.5% fewer homes than Channel 3 as a whole is currently expected to reach would no longer be able to receive ITV plc's services (and more than the DTT Channel 3 service currently reaches). The licensees in Scotland, Northern Ireland and the Channel Islands would no longer have access to a sustaining network schedule from ITV plc and there would be no regional news or other programmes on the wholly commercial ITV service, which would no longer be subject to any public service obligations

8.25 The licences in Scotland, Northern Ireland and the Channel Islands would be entitled to receive a sustaining network service from the replacement holder(s) of the Channel 3 licences in England and Wales (see below), but this might not achieve levels of programme investment and reach comparable to the existing ITV network services.

8.26 It is likely that over time the level of national and international news and of originations would also fall on a wholly commercial ITV service. ITV plc has said that it could not offer any ongoing guarantees of the availability of news and it has already indicated the pressures on its origination expenditure.

8.27 In the event that ITV plc did hand back its licences, Ofcom would be required by statute to re-license their Channel 3 regional licences.

**Recognising the pressures on the free-to-air model we have made decisions to reduce the regulatory obligations on the ITV network significantly from 2009**

8.28 In the statement on short-term regulatory decisions which is being published at the same time as this long-term statement, Ofcom has set out its decisions for changes to the regulatory obligations on the Channel 3 service with effect from 2009 or 2010. In summary the decisions Ofcom has made are to:

- Allow changes to the structure of regional news delivery in England, Southern Scotland and Wales to allow ITV plc to reduce the cost of regional news provision;
- Reduce the volume of regional news requirement to 4 hours per week;
- Reduce the quota for non-news in England to 15 minutes per week;

- Reduce the quota for non-news in Wales and Scotland to one and a half hours per week and in Northern Ireland to two hours per week;
- Reduce the out-of-London quota to 35 percent; this and all the changes above take effect from 2009; and
- Reduce the network current affairs quota to 50 minutes per week with effect from 2010.

8.29 Ofcom believes that the effect of these decisions, combined with the value of the BBC regional news partnerships if they are successfully put in place, will be to make ITV plc's regional news sustainable for the 2009 and 2010 period. The opportunity costs of these reduced quotas other than regional news provision are, in Ofcom's view, very low, given that ITV plc is a major programme producer with a production business based in multiple centres across the country, including outside London.

### **Between digital switchover and 2014 the regulatory obligations of the Channel 3 service will need further consideration in advance of any new licence structure from 2014**

8.30 Looking beyond 2010, Ofcom recognises that, while the regulatory assets associated with the Channel 3 licences will not change during the current licence period, the value of the existing public service Channel 3 licences will decline further as digital switchover progresses. Outside the provision of regional news, Ofcom believes that the opportunity cost of the quotas imposed on the Channel 3 service is now very limited. ITV plc has suggested there may need to be further reductions in the regulatory obligations associated with Channel 3 in order to bring the costs and benefits of the regional licences closer into balance between now and 2014.

8.31 One further issue which ITV plc argues is critical to bringing the costs and benefits of its licences into balance is the impact of the networking arrangements, which it says imposes a cost of around £30 million per year on the licences that it owns. We discuss the issue of the networking arrangements in further detail in Annex 3 to this document.<sup>35</sup>

### **At 2014 and beyond Channel 3 should become a commercial network with modest but important regulatory obligations delivering a sustainable public service commitment to national and international news and origination**

8.32 Ofcom's proposed model for the Channel 3 service post 2014 is that it should build on its existing strengths as a commercial channel with mass reach. These support a public service commitment to a high level of investment in originated UK programming and investment in national and international news.

8.33 The regulatory obligations on the service would be consistent with a modest but important public service commitment and with the commercial incentives of the licence holder. We anticipate that:

- The service would be available free-to-air with access to DTT capacity on a universally available multiplex and be entitled to due prominence on electronic programme guides.

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<sup>35</sup> See [http://www.ofcom.org.uk/consult/condocs/psb2\\_phase2/statement](http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement)

- The service would be subject to a quota for national and international news in peak.
  - The service would also be subject to a quota for originated programmes.
  - Under EC law, all UK licensees are required to commission 10% of their originated content from independent production companies. The decision on quotas above this level is for the DCMS rather than Ofcom, but we note that in the past Channel 3 has significantly exceeded its independent quota of 25%.
  - Other quotas, such as those for current affairs and out-of-London production, would be reduced to minimal levels.
  - The networking relationships between the licensees would be arrived at on a commercial arms length basis, subject to due process on existing undertakings.
- 8.34 One key outstanding issue is the nature of the obligations on the Channel 3 service to deliver regional news. This is dealt with in detail in the next section of this document.
- 8.35 The opportunity of a new licensing period in 2014 also allows us to consider the nature of the ITV network's regional map. Under current legislation, if it is proposed to make significant changes to either the regional map of the Channel 3 licences or to the times of day that the licences cover, it will be necessary to re-auction the licences.
- 8.36 The issue of whether there should be changes to the regional Channel 3 licence structure raised significant controversy when consulted on in our phase 2 document. Responses are covered in detail in the next section, on future models in the devolved nations and English regions.
- 8.37 As we set out in the following section, we have rejected the approach of a single UK-wide Channel 3 licence. An alternative scenario to the existing 15 region structure, which was discussed in the phase 2 consultation, is that separate licences might be awarded to provide the Channel 3 service in each of the five nations (England, Scotland, Wales, Northern Ireland and the Channel Islands), including Wales where the licence is currently held by ITV plc. This would carry a greater likelihood of control and possibly ownership of each licensee remaining in the nation in question.
- 8.38 A disadvantage of continuing separate licences, based either on the existing regional map or five nations based licences, is that it would continue a system under which terms would need to be fixed between the 'network' supplier (the England licensee) and the other licensees. Ideally these terms would in future be arrived at on the basis of commercial negotiation. However, given the very different sizes of the devolved nations and hence the other licences compared to England, it is likely that continuing regulation of the networking arrangements may be needed with, at a minimum, a backstop power for the regulator to ensure that terms are fair and reasonable.
- 8.39 A further possible change to the structure of the licences could be to incorporate the breakfast hours of 06.00 to 09.30 into the relevant Channel 3 regional licence, extending each licence to a 24 hour basis. This could permit for example, the provision of more dedicated material for each licence area at breakfast time than is possible today. This is discussed further below.

- 8.40 The new licensing period from 2014 onwards allows a review of the regulatory assets allocated to the Channel 3 licence and the potentially attractive opportunity of a reassignment of regulatory assets to ensure that their value is maximised. While a Channel 3 with a public service commitment should clearly retain access to a DTT videostream with universal coverage and also to HD capacity in order to maximise the reach and impact of its public service delivery, it would be possible to redeploy some or all of the remaining DTT capacity on Digital 3&4 which is currently assigned to Channel 3.
- 8.41 It would also be possible to consider whether the price paid for Channel 3's capacity should be at market rate. This is already the case with the Channel 5 licence. The opportunity cost associated with the regulatory obligations set out above is limited. This could enable further funding to be provided for public service content delivered by other providers.
- 8.42 As discussed further in the next section, the Channel 3 service would be likely to remain in the longer run the most effective carrier for nations and regions news material. However, the current expiry date of the Channel 3 licences might also mark the point where arrangements for delivery of nations and regions news services could shift to a new broadcaster. This would be the case especially if ITV plc decided it no longer wished to operate its regional Channel 3 services.

### **The sustainability of Channel 3 would be enhanced in the long-term if the Channel 3 licences from 2014 were on a 24 hour basis**

- 8.43 Ofcom in its September consultation document also proposed the ending of the separate breakfast time national licence and its incorporation into the regional Channel 3 services which would thus become 24 hour licences. This proposal was opposed by a number of stakeholders, including advertisers concerned at the ending of a separate airtime sales point targeting, in particular, the 'housewife with children' demographic and the reduction in competition that this would imply. No arguments were made however that the nature of the programming offered by a 24 hour licensee would change and that it would therefore no longer be possible to reach this target audience. Indeed, we anticipate that a 24-hour licence holder would have similar incentives to appeal to these target audiences where this is profitable.
- 8.44 In its response to the consultation, Disney (which owns 25% of GMTV) argued that the proposal to remove public service status from GMTV represented the elimination of a key asset of a successful business and an arbitrary transfer of value to ITV plc (the owner of the other 75%) which could reduce Disney's incentives to invest in UK broadcasting and that the case for losing intervention could only be effectively made if the existence of GMTV somehow impaired the provision of public service content.
- 8.45 GMTV has argued that its regulatory obligations 'go with the grain' of its commercial interests and this is why it has not sought any relaxation of those obligations. By contrast we have shown in section 4 the pressure on the free-to-air model and the deteriorating economics of regional service provision for Channel 3 which have led to repeated requests for relaxation in the regulatory obligations of the regional ITV licensees.
- 8.46 Ofcom's objective is to ensure that the Channel 3 network is strong and that its regulatory obligations are commercially sustainable. For example, many costs of a news operation are fixed and as a result spreading the costs of news over the full 24 hours is likely to make it more sustainable. In addition, the breakfast period could be an important generator of value given the nature of the audiences that broadcasters

and advertisers can target. Against the general trend of declining advertising revenues, the attractiveness of the breakfast period to advertisers may also mean that advertising revenues in these slots could remain more stable. We consider that the existence of a separate public service breakfast licence, which therefore reduces the broadcast hours of the regional Channel 3 licences and prevents them from exploiting what could be a valuable slot or a means of sharing costs which support public purposes, is not the most effective way of delivering public service value going forward.

- 8.47 Given that the existing licence obligations go with the grain of the commercial interests of a breakfast time broadcaster, these obligations could be maintained if the regional Channel 3 licences were extended to a 24 hour basis. This suggests that audiences will not see deterioration in content in the breakfast period. Ofcom therefore sees no reason to depart from its view that, post 2014 the amalgamation of the morning licence within a 24 hour regional licence structure could enhance the overall economics of the Channel 3 regional service (enhancing the prospects for public service delivery outside of the breakfast period). This would therefore represent a better deployment of regulatory assets than the continuation of a separate licence structure.
- 8.48 Advertisers' groups expressed concerns over the competition impact of a combined 24 hour licence. There could be a competition concern if, for example, a 24 hour licensee were able to extract a greater share of broadcasting expenditure for advertising in the breakfast slot (relative to what a separate breakfast licensee would have charged) or if the reduction in the number of separate sales houses reduced competition across the board. However, we have not had any clear evidence presented to us on this issue. In addition, it is difficult to make an assessment of the competitive conditions that would prevail post-2014 given the increasing competition ITV plc faces in the future.
- 8.49 Under current legislation there would be a need to grant new Channel 3 regional licences if it was desired either to extend the regional Channel 3 services to a 24 hour basis or to change the existing 15 region structure. This cannot be avoided unless there is new legislation.

**The regulatory obligations for originations and national and international news provision on Channel 5 are more limited and likely to be sustainable until and beyond digital switchover**

- 8.50 Five has made clear in its submissions to this public service broadcasting review that it wishes to remain a public service broadcaster and to this end has been willing to commit to continued provision of children's programmes on the channel. It has argued for, and Ofcom has agreed, limited reductions in its quota for original programmes. However, like the other free-to-air broadcasters Five faces significant pressure on its economic model from the fragmentation of viewing and decline in advertising revenue. These pressures have led to reductions in its investment in public service content over the past years and these are likely to continue.
- 8.51 The regulatory assets allocated to Channel 5 have always been more limited than those available to Channel 4 and Channel 3. Five is already paying a market related rate for its DTT capacity, rather than just a share of costs.
- 8.52 As a commercially owned broadcaster, Five faces the same conflict of incentives as ITV plc between the need to profit maximise and its delivery of public service programming. In Ofcom's view, this means that, with its more limited public service

broadcasting obligations, Channel 5 in practice already represents an example of a commercial network with public service commitments focussed in key areas, along the general principles suggested for Channel 3 going forward.

- 8.53 We recommend that Channel 5 should retain its public service status and that a similar model of public service delivery should be adopted, consistent with and complementary to the proposed obligations on the Channel 3 licencees.
- 8.54 Post 2014 the Channel 5 service would retain access to a single universally available DTT video stream at a market rate, together with due prominence on electronic programme guides. Its regulatory obligations would be to:
- Broadcast national and international news, as it does now
  - Continue to invest in UK-originated programming
- 8.55 Ofcom believes that these regulatory obligations would have limited opportunity cost (i.e. such public service content will not displace more profitable content) and are broadly aligned to the licensee's commercial incentives. Maintaining Channel 5's public service obligations in only these key areas would help to maintain the balance of costs and benefits in the licence.

**The increasing availability of text based services, both broadcast and online may mean that post 2014 there is no longer clear justification for continued intervention to maintain a public service teletext licence**

- 8.56 Its audience values the Teletext service. Our research has shown that across the analogue and digital services, 36% of people with access to Teletext claim to use it, with the majority of these using it at least once a week. But the reach of the digital service is lower than that of the analogue.
- 8.57 In the phase 2 consultation document, Ofcom suggested that continuing intervention to secure public purposes after 2014 via a public teletext licence was unlikely to be necessary. This proposal was commented on by a limited number of stakeholders; some that did so favoured retention of public service status for Teletext, though without substantively challenging the reasoning. There was also criticism of Ofcom's assumption that wholly commercial providers, on a wider range of platforms, would make comparable provision of editorial services to those currently offered by Teletext. However, our analysis in phase 2 suggested that the market already provides many of the services which are currently available on the licensed service and that such provision is increasing.
- 8.58 Ofcom's Advisory Committee for Older and Disabled people stressed that in the absence of sign interpreted or subtitled regional news, for many deaf or hard of hearing people, teletext is often the only means of accessing regional and local information services which are readily available to hearing audiences by means such as local radio. There is also a lower level of internet take-up in older households and those which are economically disadvantaged.
- 8.59 These factors emphasise the importance of ensuring continued provision by the broadcasters of subtitled or sign interpreted regional content on television, wherever that content is available. The current Communications Act has also extended the delivery of television based text and sign interpreted services to viewers who are deaf or hard of hearing by extending access services obligations to all television

broadcasters. The level of these obligations is increasing over time and should continue post 2014.

- 8.60 In the long-term, justification for continued intervention via a public service teletext licence depends crucially on the take-up of the internet to be able to access the growing range of on-line text based services. Broadband take-up is currently around 60%. Extending broadband access and take-up is one of the key objectives of the work currently being undertaken by government in its Digital Britain project.
- 8.61 We believe that the retention of a public service teletext service should be reviewed again in 2012 in the light of broadband take-up, the development of relevant text services at that point, and the usage of digital teletext post digital switchover.

**Our recommendations for freeing up commercially owned networks are as follows**

- 8.62 In summary, our conclusions in this section are that strong free-to-air commercial networks should remain a central feature of the public service broadcasting system in the UK and that the regulatory obligations on those services should reflect a modest but important public service commitment consistent with their commercial objectives.
- 8.63 We have today made short-term decisions to reduce the regulatory obligations on the ITV network and Five in order better to balance the costs of the regulatory obligations on those licensees with the value of their public service broadcaster status.
- 8.64 Our recommendations are that:
- The Channel 3 service continues to be a free-to-air universally available public service broadcast network post 2014, with limited obligations to invest in originated content and to provide national and international news.
  - The Channel 3 service continues to be regional in nature, based either on the existing map or on five nations based licences, with the networking arrangements between licensees based on commercially negotiated arrangements subject to due process on existing undertakings.
  - The regulatory assets associated with the Channel 3 service should be access to a universally available DTT videostream and HD capacity, which could be at market rates, along with due prominence on electronic programme guides.
  - Channel 5 should also continue to be a free-to-air universally available public service broadcaster with obligations to invest in originated content and provide national and international news, supported by similar regulatory assets to Channel 3.
  - The continued existence of a public service teletext service beyond 2014 should be reviewed again in 2012 in the light of broadband take-up, the availability of relevant services and the usage of digital teletext post switchover.

In the next section of this document we consider the implications of this approach for the devolved nations and English regions.

## Section 9

# Future models in the devolved nations and English regions

## Introduction

9.1 This section of Ofcom's statement turns to the potential models for the future of public service broadcasting in the devolved nations and English regions. It sets out both short and long-term issues, and the merits and drawbacks of potential solutions.

### **The key points covered in this section are that:**

- Audience research shows the value which viewers in the devolved nations attach to programming about their nations.
- What viewers want most from programming specifically made for those nations and the English regions is news.
- ITV plc proposes to continue producing regional news in a new partnership with the BBC but there are significant risks with this approach, ITV plc also reserves the right to propose further changes to the service from 2011.
- ITV plc's commitment to regional news is also conditional on a wider set of proposals, one of which may put at risk news in Scotland, Northern Ireland and the Channel Islands.
- Ofcom therefore proposes that government should plan now for an alternative model based on independently funded news consortia.
- The devolved Parliaments and Assemblies of the UK support new institutions and models to provide a wider range of public service content beyond news.
- The Scottish Parliament supports a Channel 3 licence for Scotland but also a dedicated Scottish digital network.
- The National Assembly of Wales favours a Channel3 licence for Wales combined with a competitive fund for content.
- The Northern Ireland Assembly favours a similar structure to that in Wales.
- In England the focus is on local as much as regional content
- The Channel Islands may require different solutions.
- Production from outside London is a major issue especially in the nations
- The future of indigenous languages is a particular issue in Northern Ireland.
- If the needs of the devolved nations cannot be met sufficiently by Ofcom's recommendations the government should consider funding specific approaches in each nation.

## **Audience research shows the value which viewers in the devolved nations attach to programming about their nations**

- 9.2 Ofcom's analysis is set against a background of devolution and diverging cultural agendas in the nations and, to a lesser extent, the regions of England. The nations' respective Parliament and Assemblies have worked to differing political, public service and cultural agendas. The new politics which devolution has brought about require a vibrant, widely accessed media to report and sustain them. They also require a multiplicity of voices. Ofcom recognises the heightened role of public service content in the devolved nations and the need to sustain choice of providers for citizens and their new democratic institutions. As part of our consultation process, we have engaged with these new democratic institutions by appearing before the relevant Parliamentary and Assembly committees in all three devolved nations.
- 9.3 Responses to Ofcom's consultation have reinforced our view that there is unlikely to be a single solution to the future of public service broadcasting that fully meets the needs of all three devolved nations. However there are some common concerns. One is that this review of public service broadcasting should not just try to preserve what is best about the present system but should try to build on it.
- 9.4 In our analysis we have taken account of a body of academic work which challenges the idea that there are fixed cultural identities related to nations and regions. Their preferred proposition is that regional/national identity cannot and should not be separated from the wider debates about diversity, race, language, gender and culture which a truly pluralist broadcasting system should deliver. This body of work further argues that communities should not just be defined by location but also as communities of interest and activism increasingly connected online across traditional regional and national boundaries. These arguments appear to support the emphasis throughout this review on the importance of digital platforms in addition to linear terrestrial television and the need for flexibility in funding models.

## **What viewers want most from programming specifically made for those nations and the English regions is news.**

- 9.5 Ofcom's research has demonstrated that viewers believe that news not just for the devolved nations but also the English regions is the main priority in television for the nations and regions. The research also demonstrated that news is the genre in which plurality is most important to audiences in the devolved nations. This was most starkly demonstrated in the research for earlier phases of this review. When viewers in Scotland were asked about their main source of news for the nation the news service from stv was cited significantly more often than the relevant Channel 3 licence holder in the equivalent research in England. In Northern Ireland the news service UTV, was cited by 56% of respondents as their main source of news while 15% mentioned BBC One.
- 9.6 This comes at a time when the future of regional and local newspapers and radio faces unprecedented challenges thus endangering what has traditionally been the spine of local and regional journalism across the UK and the training of the UK's young journalists traditionally provided in the regional and local media.
- 9.7 News for the nations and regions is, therefore, a major element in this chapter as it is in the statement on short-term regulatory decisions which is published in conjunction with this document. But in this chapter we also look beyond news at other issues which have arisen in our analysis and our consultations in the nations and regions. In

the subsequent chapter we look separately at the opportunities which are arising for broadcast content in the localities across the UK.

**ITV plc proposes to continue producing regional news in a new partnership with the BBC, but there are significant risks of this approach. ITV plc also reserves the right to propose further changes to the service from 2011**

- 9.8 The proposals made by ITV plc reflect the outcome of a constructive dialogue with the BBC which offers the prospect of securing regional news provision in England, Wales, and the south of Scotland in the short and potentially the longer term. This model could potentially also apply to the Channel 3 licensees in the rest of Scotland and in Northern Ireland and the Channel Islands but discussions here are at a very early stage.
- 9.9 ITV plc hopes that its own discussions with the BBC will result in the BBC taking on a significant part of its cost base of its regional news operation. The BBC would then provide services to ITV plc at an agreed price which would fall over time as synergies were realised. If the partnership proposals turn out to be as effective as ITV plc hopes, it could make a contribution to the viability of its regional news operations, as well as enhancing the cost-effectiveness of the BBC's. We therefore welcome this dialogue as an important and unprecedented development.
- 9.10 In Ofcom's view the proposals also raise a number of significant questions which would have to be addressed in order to provide assurance that the proposals represent both a credible short-term solution to the provision of regional news, and a solution for the longer term. Some of these issues have been highlighted in the previous section. Those that relate to the regional news service fall into three main areas:
- Immediate editorial issues about possible negative impact on the quality of the output of both partners, and longer-term concerns about the level of plurality and distinctiveness which would be provided by the ITV regional news services.
  - Rights and competition issues which may have an impact on news organisations other than the partners
  - The conditions which ITV plc attaches to its commitment to regional news which could have a direct impact on the ability of the other Channel 3 licensees to meet their news obligations.
- 9.11 Turning first to the immediate editorial issues, the BBC's current proposal is that each day in each nation and English region the BBC would make video coverage of certain news events available to the relevant ITV plc region. However no reporters or correspondents would be shared. This would be a natural development of the 'pooling' of video coverage of events such as press conferences which is already agreed on an occasional basis by television news organisations in the UK. Ofcom does not believe that the principle of pooling is, in itself, a threat to plurality.
- 9.12 However the second part of the partnership proposal, the sharing of technical facilities such as any joint studios and satellite newsgathering links, has the potential to inhibit the editorial and scheduling flexibility of both the BBC and the ITV network, given the close proximity of their news output in their programme schedules. Much work remains to be on the detail of the proposals and it may be possible to address these potential problems.

- 9.13 There may also be rights and competition policy issues arising from the willingness and ability of the BBC to license its content beyond ITV regional news at both a regional level (e.g. to other regional news providers) and at a national level (e.g. to ITN) for its news services to Channel 3, Channel 4 and international partners and customers.
- 9.14 Looking further ahead, the level of plurality provided under this model would depend on the level of resources which ITV plc was prepared to make available for the non-BBC coverage which would differentiate its own editorial agenda and output from that of the BBC. We are concerned, however, that ITV plc, seeking to reduce costs further to increase profitability, will have no incentive to continue resourcing this dedicated coverage to an editorially distinctive level. Rather the opposite, as a profit maximising business the incentives on ITV plc are likely to put at risk the plurality in regional news supply which the partnership is intended to preserve. ITV plc will have the incentive to reduce its own investment in the production of dedicated regional output and rely instead on lower cost shared material. This is particularly the case where ITV plc has the choice between whether to use pooled footage or to create its own material.
- 9.15 Ofcom's regulatory powers to set quotas for regional news by volume of output but not to regulate investment levels do not provide an effective safeguard against this risk to plurality.
- 9.16 Based on the downward pressure on the cost of news which has been a hallmark of the Channel 3 system for the past two decades one other additional scenario could be that ITV plc would make further submissions for reductions in the obligations for regional news where Ofcom does have regulatory powers. This could involve requests for further reductions in news minutage and further enlargement of regions to reduce the level of localness.
- 9.17 ITV plc already says that in addition to the regional news map and minutage changes announced by Ofcom in our statement on short-term regulatory changes to the ITV plc licences, it reserves the right to propose further changes in the service from 2011 even with a partnership with the BBC in place. Therefore ITV plc does not guarantee the provision of its currently agreed 2009 regional news service beyond 2010. There is also the possibility that a change of the management or ownership of ITV plc may result in a change of direction on regional news.
- 9.18 Finally, ITV plc's commitment to provide regional news is also conditional on a wider set of proposals. This includes the proposal to amend the ITV networking arrangements to eliminate a subsidy it claims it is making to UTV, stv, and Channel TV. This proposal may put at risk news in Scotland, Northern Ireland and the Channel Islands. A full analysis of this issue is set out in Annex 3, published at [http://www.ofcom.org.uk/consult/condocs/psb2\\_phase2/statement](http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement)

**Ofcom therefore proposes that government should plan now for an alternative model based on independently funded news consortia**

- 9.19 Given the risks and uncertainties around the proposed partnership arrangements between the BBC and the ITV network, we believe the government should now plan now in parallel for a potential alternative.
- 9.20 As explained in the previous chapter, our phase 2 document outlined (on page 77) a possible structure for nations and regions news, creating the opportunity for a new approach to regional news provision. A number of established UK-wide and regional

news providers have expressed an interest in such an approach. We have considered the responses to our suggestion and have developed a model which now also takes account of the BBC's proposals on regional news partnership.

- 9.21 Ofcom's alternative proposal is for a series of independently funded news consortia in the nations and regions based on secure funding and competitive tender processes. In each devolved nation (plus the Channel Islands) and the English region there would be a partnership-based consortium with five common elements:
- The BBC could provide an agreed level of pooled coverage and technical infrastructure subject to competition and editorial considerations.
  - A non-BBC broadcaster (preferably the relevant Channel 3 licensee because of the reach and impact of the existing regional news services) would provide slots in its schedule.
  - Funding would need to be found for the additional non-BBC resources essential to ensure plurality. One option would be for Channel 3 licensees to pay a market rate for the spectrum which is currently used to transmit non-public service channels such as ITV 2, 3 and 4 and for this money to fund the new model of regional news. Such an arrangement could be achieved under new licences from 2014 and potentially as early as 2011 if it were agreed with existing licensees. In the short-term, an option would be to use funding presently allocated to but not necessarily require for digital switchover. Devolved governments might also wish to support the funding in their own nations.
  - News providers would enter a tendering process in order to create this non-BBC coverage and to produce the news output utilising both BBC and non-BBC coverage. Independent panels, appointed by the body which provides the resources, would draw up the invitations to tender, invite bids, appoint the provider and monitor their performance against stated criteria including plurality, reach and impact. The bidders could include the relevant Channel 3 licensees and third party news organisations.
  - Whether or not a Channel 3 licensee was bidding to be the news provider the broadcaster carrying the news service should have some co-commissioning rights in order to safeguard their interests in editorial and on-air branding. Where the broadcaster was not bidding itself to provide the service or was not an owner of a bidder, it could have some role in the appointment of the news provider, alongside the independent members of the panel.
- 9.22 The current costs of regional news in the nations range from £4 million to £7 million per nation (Channel TV being significantly less). The 2009 pattern for regional news services in England and Wales costs over £50 million. However, these figures are based on existing costs, and would be expected to be lower when taking account of BBC partnerships (saving perhaps between a third and a half of the current costs). Under the consortium model there might be further possible synergies, for example with regional newspapers who might bid to be providers. The total funding required could be between £30 million and £50 million.
- 9.23 In all cases we would envisage the content being not only broadcast but distributed using all digital media.
- 9.24 If it were decided to include in the tender the amount of non-news programming, reflecting current affairs and cultural life in the devolved nations, which is currently

required from Channel 3 licensees in 2009 this would involve an estimated additional cost of £2-3 million in each of Scotland, Wales and Northern Ireland.

- 9.25 The process of tendering for television news contracts was pioneered in Britain and ITV, Channel Four and Five all currently have contracts with outside news suppliers. In addition, the Channel 3 breakfast-time licence holder, GMTV, has conducted tender processes for its regional news opt-outs in which independent producers have bid against the regional Channel 3 licensees. An independent producer presently produces GMTV's nations news for Scotland and for Northern Ireland.
- 9.26 We believe that in this model the ITV network would be the most effective carrier for nations and regions news, both because this is a long-established expectation of the channel by audiences, and more widely because it has the greatest reach and impact of any commercial channel. However, if ITV plc did not believe the incentives on offer were sufficient, or if it relinquished its public service licences altogether, then other means of distribution would be possible. These include Channel 4, which could accommodate regional news, for example in the late afternoon/early evening, without sacrificing the more innovative and challenging material that delivers against its remit. A replacement Channel 3 licensee following a tender process would be another possibility, as would any new channels established in the devolved nations.
- 9.27 The terms of the model should make it attractive for a broadcaster to participate as a partner in this scheme. Nations and regions news programmes currently attract a strong viewing share in the Channel 3 schedule; it is the production cost of so many regional editions within the same slots which makes it such an expensive component of the schedule. With the service provided free of charge because of an external funding process, the opportunity cost to the broadcaster could be very low indeed<sup>36</sup>.
- 9.28 Ofcom fully understands that, for any broadcaster to receive input from third parties at key points in its broadcast schedule, the broadcaster would need to be assured of the quality of the output. This is already required in the current contracts between broadcasters and external news suppliers. Structures for compliance and accountability in terms of the Ofcom Broadcasting Code would also be needed, in view of the fact that the licence-holder would retain overall responsibility for any content provided in its service.
- 9.29 In its submission to Ofcom, ITV plc referred to the example of competitive funding for regional news slots which appeared on page 77 of our phase 2 document. ITV plc argued that the proposal is complex, requires primary legislation and is unlikely to be capable of implementation in the limited time available before the obligations associated with the public service licences held by ITV plc exceed their benefits. While ITV plc acknowledged that the opportunity cost of a successful third party provided regional news service on the ITV channel would be very limited, a poor quality service could incur significant costs if it reduced the peak time audience size and also raised concerns around editorial control and licence compliance.
- 9.30 For these reasons ITV plc says it considers that the competitive funding proposal, even if it enabled an ITV plc owned Channel 3 to retain public service status and

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<sup>36</sup> The reason why the opportunity cost is low is because the value of advertising around 6/6.30pm is relatively low. The current advertising rules set limits on the total minutage that can be used in peak times (6 – 11pm), with hourly limits, and therefore Channel 3 licensees tend to allocate relatively more advertising to later time slots (when there are more viewers), and relatively less to the earlier time slots. While regional news items at this time on Channel 3 tend to attract quite high shares of total viewing, they will never be able to attract as many viewers as later time slots, and so the opportunity cost is likely to be low.

universal access to DTT audiences, is less preferable for ITV plc than its strategy based on an in-house model in partnership with the BBC and also less preferable than its alternative strategy based on licence hand back and a move to a wholly commercial model.

- 9.31 Ofcom has considered ITV plc's points about quality control and has tried to meet them in the structure set out in its revised model. Overall we believe that the advantage of the independently funded consortium model over reliance on a solely BBC-ITV partnership is that it provides security and accountability over the level of resources to be deployed in addition to the BBC's contribution. It is those resources which ensure plurality. The effect should be to strengthen the spine of journalism within the UK, at a regional level, at a time when it is in jeopardy across a number of media. We therefore recommend this model as the long-term solution, not just for the existing ITV plc licence areas in England, Wales and the South of Scotland but also for the rest of Scotland, for Northern Ireland and potentially also for the Channel Islands.
- 9.32 We now consider the wider implications of changes for the devolved nations and at the wider issues in the nations of the UK.

### **The devolved Parliaments and Assemblies of the UK support new institutions and models to provide a wider range of public service content beyond news**

- 9.33 The main institutions of public service broadcasting in the UK long pre-date the devolution of government that has occurred in recent years in Scotland, Wales and Northern Ireland. In the past decade, the devolved nations and their respective Parliaments and Assemblies have developed significant national agendas. This has brought with it a particular need for public service content that reflects the need to sustain and enhance plurality in the context of the new democratic institutions.
- 9.34 For this reason, Ofcom believes that there is unlikely to be a one-size-fits-all solution to the needs of each nation.
- 9.35 There are nevertheless certain features shared in common. Principal among these, as demonstrated by responses to our consultation, is attachment to the existing services provided by Channel 3 licensees, and preference for a structure with a separate licence for each nation. It is felt that this brings greater accountability. The suggestion of a single UK-wide Channel 3 licence was generally opposed. In the devolved nations there was support for a system based on separate licences for the four nations and the Channel Islands. This would differ from the present system in two respects. Firstly there are currently separate licences for the regions of England. Secondly there are two cross-border licences, one 'Border' licence for an area combining Cumbria in England with much of the South of Scotland and one combining Wales and the West of England.
- 9.36 Subject to further consultation, we believe that if there were to be a new Scotland licence it would be best to incorporate in it the parts of the South of Scotland which are currently part of the Border licence area. The award of a licence for Scotland would not preclude continuing the existing requirements for separate regional programming within Scotland. We also accept the argument for creating a separate licence for Wales, and incorporating the West of England portion of the existing licence into the Westcountry licence, which is consistent with the approach adopted in news provision from 2009 as a result of our short-term decisions.

- 9.37 Respondents tended to be lukewarm about a role for Channel 4 as a carrier for nations services, feeling this would not sit well with the existing character of the channel, or its track record in meeting the needs in the devolved nations. These submissions helped inform our consideration of the independently funded news consortium model and in particular underlined our belief that Channel 3 should, if possible, remain the vehicle for nations/regions news services.
- 9.38 The primary concerns in the devolved nations beyond news are the future of programmes which reflect the life and culture of each nation, and production from and portrayal of the nation within UK-wide services.
- 9.39 The most important differences are found in relation to competitive funding models in order to increase plurality especially beyond news. Funding agencies, based within each nation, were a strong feature of interest among respondents in Northern Ireland and Wales, with Channel 3 and others seen as potential carriers of funded content. In Scotland, responses coalesced more around the concept of a new institution, the Scottish Digital Network, funded at the UK level.
- 9.40 Responses in England tended more to focus on development of local television content.
- 9.41 These themes are brought out more fully in sections specific to each nation, below.

### **The Scottish Parliament supports a Channel 3 licence for Scotland but also a new dedicated digital network**

- 9.42 Strong support exists in Scotland for the continuance of the existing licensee stv, as indicated in Ofcom viewer research and in consultation responses.
- 9.43 As noted above, the costs of the public service obligations on the existing licensee, stv, will shortly exceed the benefits associated with the licences, although the broadcasting licences as a whole are likely to remain in profit based on the margin delivered by the network schedule. However, this profitability could decrease significantly were the rate paid for access to the ITV network schedule to increase significantly.
- 9.44 The licensee has said that it would welcome new funding to sustain its news for the regions of Scotland and that it would be prepared to bid to be the provider in any competitive process. It believes quotas for non-news programming will need to fall further from the 1.5 hours per week established by Ofcom from 2009. The competitive funding model could also be extended, if this were necessary, to provide non-news programmes on stv.
- 9.45 The Scottish Parliament has two priorities for the future of public service broadcasting in Scotland. In December 2008, MSPs passed a motion supporting Ofcom's 'enhanced evolution' option with a commercial channel continuing to provide public service content for Scotland as part of a wider UK network. This motion specifically recognised stv as 'the only remaining Scottish-based commercial provider' of such content. In addition there has been all-party support in the Parliament for a new institution – a Scottish Digital Network-as proposed by the Scottish Broadcasting Commission (SBC) which was established by the First Minister of Scotland.
- 9.46 Ofcom had a constructive relationship with the SBC throughout its work and welcomes the thoroughness of its analysis but did not take part in the Commission's

deliberations or decision-making. Since the SBC's report was published and strongly advocated by the Scottish Government consensus has emerged among consultation respondents about the desirability of this new institution.

- 9.47 The new network which the SBC has suggested would place a strong emphasis both on news for Scotland, and on non-news programmes reflecting Scottish culture. With this originated output supported by archive from BBC and stv, and distributed by broadband as well as television, the SBC put the estimated annual cost at £75 million (a substantial figure in relation to possible UK-wide interventions, as well as in relation to Scotland). A separate analysis<sup>37</sup> commissioned by Ofcom forecast the costs at a similar level. The SBC recommended that the funding for the channel should come from UK government, and be derived from the proceeds of the sale of cleared digital spectrum around the UK. The SBC did not advocate competitive funding for the network and the Scottish government supported the idea that it be funded on a non-contestable basis.
- 9.48 We recognise that difficult choices will need to be made about the use of scarce resources. These proposals need to be seen in the context of a difficult economic climate and other potential requirements and priorities.
- 9.49 The concept of a Scottish Digital Network is supported by stv and it would wish to provide news and other programmes for the channel, but believes a mixed-funding ecology, including advertising, would be preferable, and would help to grow the advertising market in Scotland all round. By contrast, the SBC believes that if the network were to take advertising, it could impact adversely on other Scottish media, and could raise State Aid issues if combined with public funding.
- 9.50 The SDN concept is also supported by MG Alba, the publicly funded body whose remit is to ensure a wide and diverse range of high quality Gaelic programmes and which has co-funded with the BBC the launch of the BBC Alba channel.
- 9.51 Since the SBC reported, there have been a number of other developments. Although the SBC report was understandably concerned about the long-term sustainability of a Channel 3 system with a news service for the nations, Ofcom has since developed the new concept of a strong commercial network with some sustainable public service commitments and also a model for how news in the nations could be part of that. Another major development is that the SBC report has triggered innovative new thinking in the political institutions of the other devolved nations.
- 9.52 In the light of these and other developments, Ofcom believes there is an alternative model for a Scottish Digital Network that should be considered by the UK and Scottish Parliaments. The SBC's proposal is primarily for a linear Scotland-wide television channel combined with online access to the content. An alternative would be for the Network to be a competitive fund which would support a series of interconnected initiatives in Scotland-wide television, local television, online and radio. It would be logical for the Network to fund in co-operation with MG Alba.
- 9.53 We do not take a view as to which model should be recommended but we suggest there are four criteria against which these different models for a Scottish Digital Network should eventually be compared.
- 9.54 One is reach and impact and with it the associated issue of 'discoverability', helping audiences find the content they are interested in. For example the competitive

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<sup>37</sup> See Annex 12 of Ofcom's phase 2 consultation document.

funding of some additional Scottish content by the Channel 3 licensee offers a greater potential for increased reach but a dedicated channel offers greater certainty of a place for this programming.

- 9.55 Another is value for money. A fund appears to offer a range of ways to achieve public purposes such as radio programming which is normally considerably cheaper than television programming but may be as effective for audiences in some circumstances. However a single institution may offer more cost clarity and certainty with a single set of overheads.
- 9.56 The third criterion is flexibility. A competitive fund might be more flexible in responding to a changing digital environment although some existing broadcast institutions have demonstrated their ability to respond quickly to such changes too.
- 9.57 But perhaps the most important factor will be the size of the funding which is available.
- 9.58 It will now be for the UK and Scottish Governments to consider these models and the associated issues of funding in order to decide what is best for Scottish viewers and citizens. Fresh research on the future needs and preferences of audiences of Scotland in the light of these new developments may be the first next step.

### **The National Assembly for Wales also favours a Channel 3 licence for its nation combined with a competitive fund for content.**

- 9.59 Ofcom's analysis suggests that the costs associated with the Channel 3 Wales and West of England licence, held by ITV plc, will exceed the benefits derived from public service status by early 2009. Thus, although the analysis also shows that the deficit for ITV plc Channel 3 licences, taken as a whole, will occur later, during 2011, the pressures on the service for Wales are already acute.
- 9.60 There was a general recognition, in Ofcom's consultation responses, of the importance of maintaining plurality in news coverage of Wales. This is particularly important, given the sparse news provision in print and other media. Many also pointed to the importance of ensuring that English language non-news programming for Wales continues to be produced outside the BBC, sourced from a range of providers.
- 9.61 While the SBC proposal has generated support for a new institution-based model in Scotland, the focus in Wales, where the Welsh language channel S4C already exists, has been on competitive funding models – albeit aligned, for as long as possible, with distribution of content on Channel 3, given its proven reach and impact.
- 9.62 The Welsh Assembly Government's Broadcasting Advisory Group proposed the creation of a Wales Media Commission, covering all media including radio, acting independently of government. The Commission would invite competitive tenders for a small number of substantial medium-term contracts of between three and four years duration. It would also be allocated spectrum which would provide the option of creating an English language television channel for Wales. In total the Welsh Assembly Government estimated that its proposal would require around £50 million of funding annually. The National Assembly Broadcasting Sub-Committee in its response also recommended that a fund for public service content in Wales is established to be responsible for disbursing monies for public service content.

- 9.63 The Ofcom Wales Advisory Committee (ACW)'s consultation response included a proposal for a similar body to that proposed by the Welsh Assembly Government - a Broadcasting Commission for Wales - which could tender contracts for the creation and distribution of content on television, radio and on-line, with suggested funding of around £40 million per annum. As with the Welsh Assembly Government, the ACW acknowledged that, within a competitive funding model, a future option would be the creation of a dedicated channel. It therefore also suggested that the proposed funding agency should, in any case, receive privileged access to spectrum on a public service digital terrestrial television multiplex.
- 9.64 As in Scotland with the proposed digital network, the scale of extra funding here is ambitious and would need to be considered alongside the other calls on scarce resources. Ofcom's proposed model for the funding of nations news is closely aligned to the funding agency model advocated in Wales and the focus on ITV Wales as a medium for delivery. It is also consistent with the option to provide funding for some non-news programmes, also for broadcast on ITV Wales.
- 9.65 One further option for synergies which contribute to plurality arises from a proposal submitted by S4C in which the channel might appoint a news provider for both its Welsh-language news (currently provided by the BBC) and an English language news for Wales on whichever channel is the agreed carrier.

### **The Northern Ireland Assembly favours a similar structure to that in Wales**

- 9.66 UTV wishes to remain a public service broadcaster. Support for it to do so, particularly in the areas of news and current affairs, is strong, not least amongst politicians in Northern Ireland. Indeed, responses to the phase 2 consultation indicated cross-party support in Northern Ireland as well as from the Department of, and the Committee on, Culture, Arts and Leisure. This reflects the fact that, in a society with a long history of division, UTV has been, and remains, valued and trusted by both communities. It is the most viewed news provider in Northern Ireland and its early evening news bulletin attracts an audience share of 39%, which is significantly ahead of BBC Northern Ireland's Newsline (at 28%) and above that of nearly all other Channel 3 national and regional bulletins.
- 9.67 Anything which might diminish the role UTV plays was regarded with concern by many respondents. Both UTV and many of the political representatives who wrote to us opposed a single licence for Channel 3. UTV itself believes its news service could be provided on a commercially sustainable basis for the foreseeable future, without the need for BBC partnerships, which it feels are of limited practical value and could jeopardise editorial independence.
- 9.68 However, in Ofcom's view, the finances of sustaining the UTV service could be adversely affected, for example by any significant upward revision to the rate paid for the ITV Network schedule, and of course also by the economic downturn. Therefore Ofcom's proposed new independently funded news consortium model for nations news from 2011 also seems particularly relevant in Northern Ireland.
- 9.69 There was also enthusiasm in Northern Ireland for a refined evolution approach alongside competitive funding. There was also widespread support for the Irish Language Broadcast Fund which was often cited as an example of how such a competitive funding model for non-news programming might work in practice, guaranteeing broadcast slots, accountability and flexibility.

- 9.70 Many respondents believed a competitive funding model would be able to meet the need not only for non-news programming for Northern Ireland but could also be fine-tuned to address the very low levels of production from, and portrayal of, Northern Ireland on the networks. Ofcom's Advisory Committee for Northern Ireland and the Northern Ireland Screen Board were among those making this point. Such a fund, if adequately resourced, could also address the still unresolved question of long-term funding for indigenous language programming for Northern Ireland. As in Scotland and Wales, questions of priorities and scarce resources will need to be addressed.
- 9.71 One unique feature of plurality in Northern Ireland broadcasting is the significance of transmissions from outside the UK, in this case from the Irish Republic.
- 9.72 Services like those from the Republic of Ireland of RTÉ in English and TG4 in Irish have been widely available free-to air in Northern Ireland for many years and are generally regarded as making a valuable contribution to the public service broadcasting ecology of Northern Ireland, providing an alternative view of Irish, Northern Irish, UK and international affairs. There is already a commitment to ensure the availability of TG4 on DTT post digital switchover and consideration is also being given as to how the availability of RTÉ's services can be maintained and improved in the digital environment in Northern Ireland. But some respondents made it clear that whatever transmissions they can receive from broadcasters in the UK and the Irish Republic they also want services which are tailored to the specific needs of viewers in Northern Ireland.

### **In England the focus is on local as much as regional content**

- 9.73 Ofcom's vision for a new model of regional news should ensure a sustainable service for the English regions. Depending on the scale of funding available, it might be possible to review the transmitter map and create a different and more localised regional news structure than that agreed for ITV plc in 2009. We recognise that under current legislation there would be a need to grant new Channel 3 regional licences under a competitive tender process if it was desired to alter the map of the current regional licences.
- 9.74 When audiences in England were asked<sup>38</sup> to prioritise different elements of regional television news in order of importance "focus on my local area" consistently ranks highly in almost all English regions. The opportunities for local television in England and the rest of the UK are explored in the next chapter.
- 9.75 Although we propose an option for the devolved nations to extend the tendering process for regional news to include the production of non-news programmes, it seems unlikely that funding would be justified for non-news programmes for English regions. Research conducted by Ofcom in phase 1 has shown that demand for such programmes is a lesser priority among audiences in England, than in the devolved nations.

### **The Channel Islands may require different solutions**

- 9.76 As noted earlier, the viability of what is by far the smallest of the Channel 3 licences is seriously and presently challenged. Ofcom has been in discussions with the States governments of Jersey and Guernsey. Although the Channel Islands are not part of the UK, the residents pay the licence fee and they should be entitled to the benefits of any reassignment of any element of the licence fee.

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<sup>38</sup> See PSB Review phase 2 Regional news annex 17

- 9.77 However Channel Islands residents do not pay UK tax and therefore would not necessarily be entitled to the benefits of any new intervention in broadcasting funded by the UK taxpayer.
- 9.78 It is therefore uncertain how any necessary intervention to support news and non-news programming on Channel 3 in the Channel Islands might be funded. One further option might be for the States governments of Jersey and Guernsey to help fill this funding gap in some way. Preliminary discussions with these authorities have begun but it is too soon to forecast any outcome.
- 9.79 Ofcom has agreed with the States governments that following the publication of this report there will be further discussions to try to find a way forward to try to ensure the continuation of the news plurality which the governments' say is so valued by residents.

### **Production from outside London is a major issue especially in the nations**

- 9.80 Ofcom recognises that production from and portrayal of each nation and region of the UK on UK networks is a vital concern.
- 9.81 However, as noted above and to reflect audience priorities, we believe that obligations on the Channel 3 licensees, so long as ITV plc remains a public service broadcaster and the network remains sustainable, should be focused on maintaining high quality national and international news service and on sustaining the level of originations. The out of London production quota for Channel 3 might therefore need to be revised down further, and reviewed fundamentally in the context of any new legislation.
- 9.82 Nevertheless, we believe it will remain in the network's interests to generate substantial production from outside London – including valuable properties such as *Emmerdale* and *Coronation Street* which are currently produced in the North of England.
- 9.83 We believe that primary responsibility in this important area should rest with the two institutions with the greatest public purposes, with the BBC and the second institution with Channel 4 at its heart. The BBC has already announced targets which will substantially increase production out of London to 50% with 17% in the nations. However some respondents in our consultation questioned why it would take until 2016 to achieve these targets. In the light of consultation responses we believe that – subject to the resolution of the funding of the second public institution - it should assume greater responsibility for commissioning content from the nations so that the net amount of production is at least no less than it is today and preferably greater.
- 9.84 As part of this review, we have decided to increase Channel 4's out-of-London production quotas and introduce a devolved nations production quota for the first time. We plan to review and consider increasing these quotas once the future of the second institution and of Channel 4 is clearer. The full details are in the statement on short-term regulatory decisions which is published alongside this document.

### **The future of indigenous languages is a particular issue in Northern Ireland**

- 9.85 Ofcom made clear in phase 2 of this review that indigenous language broadcasting forms an important part of the public service broadcasting ecology of the nations of the UK, reflecting aspects of our cultural heritage unique to these islands. However, we also pointed to concerns about the lack of consistency and equity, and sometimes

certainty, in the current arrangements for funding and delivery in the different parts of the UK.

- 9.86 For Welsh and Scottish Gaelic the future is relatively secure. S4C has achieved an established position in the UK's public service broadcasting landscape, raising the profile of the Welsh language and ensuring its widespread availability throughout Wales. The new Gaelic service in Scotland, BBC Alba, has begun to do something similar for Scottish Gaelic, although concerns remain that carriage on Freeview has yet to be agreed. We will continue to engage with the BBC Trust on the criteria they will use to assess whether DTT carriage will be secured for the channel. Ofcom has also been discussing with DCMS how to make progress with the transitional stage of Gaelic programming provision on stv in Scotland.
- 9.87 In Northern Ireland concern remains both at the lack of guaranteed funding for the Irish Language Broadcast Fund beyond 2011 (despite the commitment in the Belfast/Good Friday Agreement of 1998 to provide such funding), and at the lack of equity of treatment for Irish language broadcasting in Northern Ireland compared with that for Welsh and Gaelic in Wales and Scotland, whether by government or by the BBC. In the case of Ulster Scots there is also concern at the absence of guaranteed funding, and that in phase 2 Ofcom appeared to accept that Ulster Scots language programming and programming of a purely cultural nature could be 'conflated'.
- 9.88 There would be undoubted benefit to both Irish and Ulster Scots were government to commit to legislative support for the two languages.
- 9.89 Although the status and circumstances of the indigenous languages are different, and a 'one size fits' all policy is unlikely to be the best way forward, we do recommend that further consideration be given to appropriate delivery of indigenous language broadcasting services across the UK.

**If the needs of the devolved nations cannot be met sufficiently by Ofcom's earlier recommendations the government should consider funding specific approaches in each nation**

- 9.90 In this review a number of recommendations in Ofcom's new vision for public service broadcasting have been made which we hope would have a positive impact on content for citizens in the devolved nations. But we have also highlighted where there are uncertainties about the outcome. In our view if the needs of the devolved nations cannot be met by these recommendations then government should consider funding specific approaches in each of the devolved nations for the delivery of public service content other than news.
- 9.91 Our recommendations on the nations and regions are as follows:
- High quality, plural competition for the BBC throughout the nations and regions should remain at the heart of broadcasting policy
  - Proposed partnership arrangements between the BBC and ITV plc (and possibly other Channel 3 licensees) enhance the prospects for viability of the Channel 3 regional news services in the short-term. However, they will not be sufficient in the longer term, and run the risk of loss of plurality if the ITV licensee is impelled by commercial pressure to rely more on the BBC's content.
  - Given the risks and uncertainties, the government should plan now for a potential alternative based on independently funded news consortia. The Channel 3

licensees or other external news providers would compete for funding to deliver news services free of charge to slots in the Channel 3 schedule, or another UK-wide broadcaster such as Channel 4. Such funding would be secure and independent, and could place the emphasis on maintenance rather than erosion of quality.

- Sources of funding, additional to the BBC resources, could come from existing regulatory assets such as broadcasting spectrum. As part of a wider settlement with ITV plc, the latter might pay spectrum charges which could be used for this purpose. Other options are funding from the digital switchover surplus beyond 2012 or any potential under spend up to 2012, and funds from devolved governments. Independent panels would be created in each nation to appoint the news providers.
- There is evidence of public support for and a public interest in current affairs and other non-news content for the nations.
- A 'one-size-fits-all' approach will not be the best option for the devolved nations. Recognising their differences, different approaches are being developed in the nations. In Scotland, a Scottish Digital Network has been suggested. Wales and Northern Ireland may favour agencies that distribute funds on a competitive basis for content broadcast on Channel 3, and other platforms. In the context of finite resources, these approaches are for government to consider and would require funding.
- Continuing concerns about DTT carriage for BBC Alba and secure funding for indigenous language programmes for Northern Ireland need to be addressed.

## Section 10

# Future models for the localities

## Introduction

- 10.1 In addition to new models for regional news and for public service content in the devolved nations, the growth of digital media also creates the opportunity for provision of more local content.

### **The key points covered in this section are:**

- There is an opportunity to provide public service content at a local level.
- Several stakeholders argued that there should be intervention to support local television.
- Audiences value local content, but further research is required to understand the level of interest in local television.
- The commercial model for local television is challenging and may rely on a UK-wide network.
- There are opportunities for local television within new spectrum releases
- A significant intervention in the market would be required to deliver UK-wide local television.
- Further work is required to consider the need for intervention to support public service content at a local level.

### **There is an opportunity to provide public service content at a local level**

- 10.2 Ofcom's Digital Dividend Review considered the case for intervention in the market to reserve spectrum being freed up by digital switchover for local television. However, it concluded that a broadly market-based approach was more appropriate, and in line with the objective of deriving the total value to society that using the digital dividend is likely to generate over time.

- 10.3 We have now considered again the prospects and policy options for delivery of local television via the DTT platform. There are a number of reasons why we think this is timely:

- There is uncertainty over the long-term provision of programmes for the nations and regions on Channel 3. Local television may provide alternative and/or complementary services;
- Stakeholders responding to the phase 2 consultation have urged us to explore more fully the case for reserving capacity on a public service multiplex. United for Local Television (ULTV) has submitted a developed proposal (see below);
- The commercial environment for all local news and information services is challenging, whatever the source. There is a long-term decline in the market for

local newspapers and local commercial radio, and only limited development of internet alternatives;

- The BBC Trust has decided to pull back from plans to develop the BBC's own local services – partly in recognition that a significant BBC presence could stifle rival services delivered commercially by others; and
- Audiences still appreciate news and information about where they live, and think it important that there is plurality alongside the BBC.

10.4 Local television is a feature of the broadcast ecology in almost every European country, but has barely developed within the UK. The potential to deliver public service purposes via local television had been recognised in a number of Ofcom studies<sup>39</sup> even before the current Public Service Broadcasting Review. However, there is no evidence that economic pressures on new local television services would be any less than for the existing regional television model. Ultimately, it may be the case that local content is delivered more efficiently via broadband and/or on-demand platforms – although development in this area has been slow so far.

### **Several stakeholders argued that there should be intervention to support local television**

- 10.5 A number of stakeholders responding to the phase 1 and 2 review consultations urged Ofcom to explore further the prospects for local television in the UK. These included existing local television operators, lobby groups and some public authorities, particularly in Scotland. For example, Angus Council said local government funding could be directed towards local television in support for news, information and campaigns. Dumfries and Galloway Council suggested that the south of Scotland should pioneer local television after digital switchover.
- 10.6 The Scottish Government, however, said local public service broadcasting did not form a core part of the plans developed by the Scottish Broadcasting Commission for Scotland-wide services. However, it did suggest that where these local initiatives have public service at their core, they should not need to compete in an open market for spectrum. ITN said the economics of local content provision were challenging, and suggested that partnerships with local and regional papers would be the best way to provide the infrastructure to develop both web and digital television propositions.
- 10.7 ULTV submitted a detailed proposal for a UK wide network of local television channels, based on dedicated capacity on the Freeview DTT platform available either at cost, or free. A nationwide sustaining service would be transmitted, into which the various local stations would insert their more locally targeted output. The volume and nature of this local content would vary from place to place. The individual local stations could be fully commercial; community based not-for-profit; or any other combination.
- 10.8 ULTV urged Ofcom to recommend that DTT capacity on Freeview be set aside to facilitate this nationwide local television channel (dubbed 'Channel 6'); that public service status be accorded to local operators in return for programme commitments; and that 'must carry' obligations are placed on platform operators. The group said such a 'network' was critical to the future success of local television because of the need for visibility, reach and economies of scale.

<sup>39</sup> Digital Local; New News Future News; Digital Dividend Review

10.9 The group said universal access and a viable national network were both important for the success of local television services. Most other consultation respondents who expressed an opinion about local content also saw access to the digital terrestrial platform as important for the visibility of potential services, although many also recognised the need for multi-platform approaches. We analyse ULTV's and other alternative models below.

### **Audiences value local content, but further research is required to understand interest in local television**

10.10 The scarcity of current UK examples of local television has presented obvious difficulties in researching demand for – and appreciation of - such services. Nevertheless, we have been able to draw on a range of Ofcom research studies<sup>40</sup> that provide information on general audience views on local news and local television.

10.11 Most research has focused on the delivery of news alone. It does not, as a result, provide sufficient evidence of demand for a wider schedule. And while there is evidence of a high value being placed on local content, the research does not always differentiate between sources (radio, newspapers, internet etc).

- Studies for phase 1, the Digital Dividend Review, and for the market impact assessment of BBC local proposals all point to the high value attached to local news.
- The research conducted for the market impact assessment<sup>41</sup> of the BBC Local project showed that around three-quarters of people (79%) rate local news stories and local weather (74%) as 'important' types of media. Local life and community stories are also considered 'important' by three in five (60%). It also found 76% believe there is 'enough' coverage of 'local news stories' in the UK media; 13% believe there is 'not enough'; 27% 'would like to access more in-depth local news programmes'.
- Phase 2 quantitative research<sup>42</sup> asked participants to prioritise different elements of nations and regions television news. "Focus on my local area" consistently ranked highly on importance in the English regions, Scotland and Wales but less so in Northern Ireland.
- Quantitative research for the Digital Dividend Review assessed relative demand for a local television channel on Freeview against five other potential uses of the digital dividend<sup>43</sup>. Thirty-five per cent selected a local television channel on Freeview as first or second choice from a citizen perspective – which placed it in third place behind extra SD channels on Freeview; better mobile phone coverage; and mobile broadband (both 40%). Forty-one per cent chose it in their top two options from a personal basis, placing it second behind extra SD channels on Freeview (43%).

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<sup>40</sup> New News Future News 2006, ITV regional news proposals quantitative and deliberative studies 2008, Digital Dividend Review 2008, BBC MIA on local video service 2008

<sup>41</sup> Ofcom's Market Impact Assessment research into the BBC Local Video service 2008

<sup>42</sup> See PSB review phase 2 Regional news annex 17

<sup>43</sup> DDR research 2007

- 10.12 If government were minded to consider support for local television we would recommend further research to assess specifically where local television sits within consumers' public service content priorities.

### **The commercial model for local television is challenging, and may rely on a UK-wide network**

- 10.13 An analysis<sup>44</sup> of commercial viability carried out by Oliver & Ohlbaum (O&O) suggests there are significant challenges involved in running digital terrestrial local television on a purely commercial basis in many areas of the UK. The biggest 15 urban centres were assessed in terms of potential advertising revenue set against the cost of running a day-long schedule based around news and other local programming. This analysis assumed that access to a DTT video-stream would be free to the local television provider.
- 10.14 The research (see Annex 4) concluded that, under this assumption, only London and Manchester provided markets big enough to support profitable stand-alone local television channels on a commercial basis - given the levels of investment required to sustain local programming set against the relatively low audience share and reach achievable.
- 10.15 However, there were possibilities for other city television channels to develop alongside London and Manchester as part of a mini-network, especially if part of multi-media operations. Synergies with local newspaper operations might be exploited and the cost of a high-quality 'network' schedule could be spread across a number of city channels.
- 10.16 For stand-alone city television to be commercially viable in the top 15 UK cities, the cost per thousand advertising rate would need to be in excess of £11. This is higher than any television advertising rate achieved by current UK channels and approaching rates paid by classified advertisers in local newspapers. This does not seem likely. Audience share would need to reach around two per cent to provide an audience big enough to allow a local city channel to break even.

### **There are opportunities for local television within new spectrum releases**

- 10.17 Our Digital Dividend Review considered how best to award spectrum released as a result of digital switch-over. In particular, we considered whether there might be market failures that would mean a market-led award might fail to maximise the total value to society that using the digital dividend is likely to generate over time. We identified one potential market failure, caused by the inability of disparate local television operators to co-ordinate bids for UK-wide packages of interleaved spectrum – the capacity available that will be retained to carry the six DTT multiplexes after DSO. This spectrum is particularly suitable for local television because it contains a number of 'in-group' frequencies (which can be received using existing aerials).
- 10.18 In order to address this, we concluded that spectrum within the interleaved (white space) spectrum should be auctioned in geographically determined packages where there was sufficient evidence of interest expressed by potential operators, whether for local television or other wireless services (the spectrum would not be reserved for particular use). All in all, 81 potential transmission sites were identified, covering

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<sup>44</sup> See Annex 4

most of the UK's major centres of population and the locations of existing RSL licensees.

- 10.19 The process leading to the auction of spectrum for Cardiff and Manchester is already underway.
- 10.20 We also considered other possible market failures, including the possibility that the broader social values that may be delivered by local television might not be realised if there were to be a market led award. However, we concluded that the relationship between broader social value and consumer value generated through local television was insufficiently different to other uses of spectrum to warrant intervening in the award.
- 10.21 In reassessing the possibilities for local television, we have considered the physical availability of interleaved spectrum in the UK. Technical analysis suggests that there may be sufficient interleaved spectrum available in Scotland to facilitate a near-nationwide multiplex, if the geographic lots were aggregated. This could accommodate both a possible Scottish channel (if capacity on an existing public service multiplex were not available) and local television. Similar analysis has been carried out in Northern Ireland to assess whether similar outcomes may be achieved.
- 10.22 Interleaved spectrum is relatively less abundant in England and Wales in terms of its geographic spread, but in England the available sites cover most of the major population centres. There is less interleaved spectrum available in Wales than elsewhere due to its topography and the relatively large number of transmitters needed to serve its population adequately.

### **A significant intervention in the market would be required to deliver UK-wide local television**

- 10.23 Technical consideration has also been given to the 'Channel 6' proposal supported by ULTV. A proposal to add local services at local transmitter sites may be technically feasible. Of the six national multiplexes, the three public service multiplexes will have widest coverage after switch over (98.5 per cent of households). However, this would only allow one local service to be inserted at each transmission site. This means, for example, the Winter Hill transmitter could only carry one local service in the whole of the current Granada area. Greater differentiation would be possible at relay level but it would be costly.
- 10.24 Any recommendation now to reserve capacity for local television through a video-stream on an existing public service multiplex would represent a significant intervention, and would require further work to determine whether it is the best way to achieve the desired outcome. It also remains the case that any intervention to reserve capacity on a multiplex is costly in terms of the removal of opportunities for other services to use that capacity.
- 10.25 We have set out three options for local television (see Fig 15 below). Model One requires no further intervention beyond the already determined sale of interleaved spectrum within geographically defined lots where there is evidence of demand. Model Two is based on an intervention to reserve capacity on a public service multiplex. Model Three represents an additional intervention to deliver funding in support of Model One and/or Model Two.

## Figure 18: Three options for Local television

### Three options for Local television

#### Model 1: Our existing approach ('bottom up')

Characteristics: Local television develops within a market-led environment, either on DTT or other platforms (cable, satellite, broadband etc), as appropriate. For DTT, local television channels would have the opportunity to compete at auction to obtain geographic packages of interleaved spectrum or get access to interleaved spectrum directly from the PMSE band manager (being established with obligations toward programme-making for special events). Community focused stations might seek direct funding from public bodies for content and/or for auction bids / access payments.

#### Pros

- Can be targeted at specific areas where there is proven demand, with tailored solutions (commercial or community);
- No need for further central interventions, other than direct funding where relevant
- Auction lots likely to be available for most major population centres
- Costs can be shared among operators. Model may be commercially viable at transmission sites covering larger populations
- Avoids distorting choices against alternative delivery platforms for local television (such as broadband)
- Ensures flexibility for use of spectrum to changes as consumer demand and technologies change

#### Cons

- Risk of local television being outbid by other users/uses (broadcast and/or non broadcast)
- No universal availability of local television – some areas not served at all
- May leave viewers with little or no local television compared to other countries (missed opportunity)
- Little evidence of effective broadband alternatives so far. There are virtually no cable- or satellite-only examples of local television.

#### Model 2: Intervention to reserve capacity on an existing public service multiplex

Characteristics: Local television is dropped into a nationwide video stream reserved for the purpose. The channel has some form of public service status, in return for programme obligations.

#### Pros

- Near universal delivery possible for some form of local television
- Could accommodate both commercial and not-for-profit models
- Flexible. Could be used to deliver national services in Scotland, Wales, and Northern Ireland, with local complementing or replacing regional ITV in England

- Reserving a single video stream on a multiplex already assigned for a public service broadcaster is a relatively straightforward concept.
- Relays could carry very local services different to main transmitter (but costly)

#### Cons

- This option amounts to a significant regulatory intervention
- Significant uncertainty about funding and practical operation of a network sustaining service – including potential clash of interests between commercial and community operators and operators of very different sizes, resource levels and profit potential.
- No guarantee of take-up in many areas (unviable commercially or lack of interest). The resource could end up being wasted
- There is an opportunity cost of displacing an existing national service
- Allocating capacity on an existing multiplex may remove the incentive for local television to consider or find alternative platforms
- Potential clash of interests between commercial and community operators
- It is not possible to target specific communities separately within a transmitter's coverage area
- Service information issues may be costly to resolve.

#### **Model 3: Intervention to provide funding in addition to options 1 and/or 2**

Characteristics: Local television is further supported by additional direct funding for local public service content.

#### Pros

- If sufficient funds are made available, it should ensure local television is delivered throughout the UK i.e. would address the issue of potential lack of take-up on a public service multiplex
- Maximum flexibility for resources to be used in the most transparent way using whichever distribution method(s) are most effective

#### Cons

- Significant cost of sustaining a large number of local services
- Local television is not necessarily the most pressing public service broadcasting need (others are programmes for the UK nations and UK-originated children's)
- Potentially costly to administer such a complicated and wide ranging funding body

**Further work is required to consider the potential need for intervention to support public service content at a local level**

- 10.26 Ofcom is creating more opportunities for local television in the UK by releasing the geographically interleaved spectrum through the Digital Dividend. Alternatively, from 2014 it would be possible to reserve capacity on a public service DTT multiplex which could be assigned to support local television services. However, this would be a relatively significant intervention.
- 10.27 It may be that an alternative distribution approach for local content over broadband internet would be more effective, especially given changes in consumer behaviour and the current pressures in the advertising market. Although this will depend on further progress towards widespread availability of broadband internet access.
- 10.28 We believe the potential for DTT capacity to support local television should be kept open for further consideration. We will also be carrying out more detailed analysis on the issues and options regarding provision of local content, to build on the work done for the public service broadcasting review. This will need to link closely to work on the future of local radio and also consider the broader issues in provision of local content across different media including online.

## Section 11

# Priorities for children's programming

11.1 This section examines the issues facing children's programming and assesses the options available to government for maintaining and strengthening this important area of public service provision.

11.2 The key points covered in this section are that:

- There is clear public interest in addressing needs identified for children's programming, if funding is available.
- A second public service institution could play an important role in delivering content to older children.
- However, provision by a second public service institution might not go far enough, in which case, competitive funding could play a role.

### **There is a clear public interest in addressing needs identified for children's programming, if funding is available**

11.3 The UK market for children's television is among the most competitive in the world. Children have a choice of over 25 dedicated channels available in cable and satellite households, equating to over 120,000 hours of programming broadcast annually.<sup>45</sup>

11.4 Yet despite the large volume of programming available, fewer than one in five hours broadcast are of programming made in the UK, with less than 1% made up of new UK originations.<sup>46</sup>

11.5 An overwhelming majority of parents believe that children's programming plays an important social role, and three quarters say that it is important for children's programming to reflect UK culture and values. Parents value highly the role the BBC plays in providing a range of high quality and original programming for children, and both viewing to and approval of the BBC children's channels are high.<sup>47</sup>

11.6 While parents particularly value the BBC's output, Five also makes a contribution in delivering UK-originated pre-school programming under its Milkshake brand. Five has indicated that it sees children's programming as being a key part of its future public service remit. S4C continues to invest significantly in original programmes for Welsh-speaking children, and there may be opportunities to reversion some of this content in English. While the ITV network's hours of children's programming on Channel 3 continue to fall, children's programmes are still carried on the CITV channel. Dedicated children's channels such as Nickelodeon, Disney and Cartoon Network also make a contribution.

11.7 However, investment in children's programming outside the BBC has fallen consistently over recent years. Investment by commercial public service broadcasters fell by nearly 80% in real terms between 2002 and 2007.<sup>48</sup> No

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<sup>45</sup> Source: BARB

<sup>46</sup> Source: BARB

<sup>47</sup> Source: PSB children's tracker, 2007

<sup>48</sup> Source: Operators' own data

commercial digital channel has established a business case for investment in high quality UK programming for older children and our modelling suggests that such a case is unlikely to emerge.<sup>49</sup>

- 11.8 We have concluded that there is a significant reason to be concerned about the provision of a range of high quality, original programming for children, particularly among older children (primary school age and above), and young teens. This is particularly the case for UK drama and factual programming where there are fewer opportunities to supplement programme investment by marketing properties on a global basis. We also found that there is relatively little public service content available online for this audience other than from the BBC, driven by the difficulties of generating profitable revenue.
- 11.9 Any long-term solution for children's programming needs to address two core issues emerging from our research. First, achieving reach and impact in a world where consumption patterns are rapidly fragmenting. Second, ensuring plurality of provision, which parents believe should play a central role in delivering public service content for children. To achieve this plurality of provision, new sources of replacement funding will be required.
- 11.10 Television continues to play an important role in children's lives, with the average child watching over 15 hours of programming per week. However our analysis also suggests that intervention in the delivery of children's public service content in interactive media (in addition to linear television) could help meet the public purposes for children in new, more effective and efficient ways.
- 11.11 In phase 2 of the review, we estimated that the gap between what audiences currently need and what is likely to be provided in 2012 is in the region of £35 million per annum.
- 11.12 Here as elsewhere we recognise that difficult choices will need to be made about the use of scarce resources and relative priorities.
- 11.13 We believe, if funding is available, there is a clear public interest in addressing the audience needs we have identified in children's programming. This could be done in two ways: first, by including a remit to cater for older children among the obligations of the second public service provider; and second, through a competitive funding model

### **A second public service institution could play an important role in delivering content to older children**

- 11.14 In Section 7 we discussed the potential for a second public service institution to play an expanded role in delivering content to all audiences. Part of this remit could be to deliver content to older children.
- 11.15 Channel 4 has already announced plans for a pilot service aimed at children in the 10 to 15 age group across a range of platforms. In order to address their needs, the second public service institution would need to extend this remit further, particularly focusing on UK produced drama and factual programming, aimed at children of primary school age and above. This would complement the remit of the new organisation to ensure choice and diversity of output among all audiences.

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<sup>49</sup> Source: O&O analysis for Ofcom review of children's television, 2007

11.16 Provision of children's programming through the second public service institution has many attractions. Such an organisation would have values consistent with delivering public purposes; it would be able to deliver reach and impact and would offer a different voice from the BBC.

**However, provision by a second public service institution may not go far enough, in which case competitive funding could play a role**

11.17 There are a number of reasons why provision by a second public service institution may not go far enough. First, the new organisation might not have the financial resources to fully meet the funding gap; second, it may find it difficult to deliver to all the priority age groups identified; third, it might limit competition, diversity and plurality by excluding the range of players who are already successfully participating in different areas of the children's market.

11.18 Given these outstanding concerns, we believe that there is a clear public interest in addressing the needs of this age group through a competitive funding model, if funds are available.

11.19 Competitive funding in this area was supported by many stakeholders as a model, noting its flexibility in delivering across platforms. Nickelodeon thought the model could play a role in providing drama and factual programming for older children. Save Kids TV were also enthusiastic about the potential of competitive funding noting that this could be used to deliver a new children's online destination which would have both broadcast and internet applications and involve partnerships with interested broadcasters and producers.

**How could competitive funding of a children's service work?**

11.20 Children are more likely than other audiences to have access to a range of different digital devices and media platforms. Their viewing patterns are more likely to be fragmented across a range of service providers. There is also a thriving market of commercial content providers for children, populated by a range of well established operators and brands.

11.21 To work, the competitive funding of a children's service would need to:

- specify outcomes such as extended reach and impact on older children;
- require specified levels of investment in first-run UK-originated output;
- define the character of output (e.g. a balanced range of genres);
- include a requirement to adapt to/address fragmented consumption patterns; and
- enable the provider to adapt to future changes in consumer behaviour and technology.

11.22 This proposal delivers benefits that would not be realisable using a traditional institutional approach:

- it involves the whole market in the delivery of public service content, rather than just a narrow set of public service providers;

- competition for creativity will help to drive innovation in delivery, which might be absent were funds given to an existing institution; and
- competing bids provide the awarding panel with an ability to benchmark services against one another, thereby driving out inefficiency.

## Section 12

# Detailed recommendations and next steps

## Introduction

- 12.1 In this section we conclude the final statement of our review of public service broadcasting by setting our recommendations and explaining the steps to follow publication of this document.
- 12.2 The Communications Act 2003 calls upon Ofcom to conduct a review of public service broadcasting and report on it at least once every five years. Ofcom's duty in conducting this review is:
- to review the extent to which the public service broadcasters have delivered the purposes of public service television broadcasting; and
  - to report on it with a view to maintaining and strengthening the quality of public service broadcasting in the future
- 12.3 In phases 1 and 2 of our review, we set out our conclusions on the extent to which the public service broadcasters have delivered the purposes of public service broadcasting. In this final statement we have focused on setting out our recommendations for the future.

### The key points covered in this section are:

- Core principles underpinning any future system of public service broadcasting
- Overall priorities for government
- Detailed policy recommendations
- Potential sources of replacement funding
- Next steps

## Core principles for any future system of public service broadcasting

- 12.4 Audiences have told us they value public service content, they want it sustained, and also they want a choice beyond the BBC. These views are echoed by many of the people who have contributed to this review.
- 12.5 We believe that the UK needs a new approach to sustaining delivery of public service content, which embraces the opportunities created by the digital revolution and recognises the structural changes in the commercial sector. This new approach must ensure sufficient resources are available to support investment in public service content and create the right incentives to deliver it effectively.
- 12.6 This is best achieved by re-balancing public service obligations across the sector:
- Securing the economic future of strong institutions which have public purposes at their heart

- Freeing up commercial networks, while retaining a modest but important public service commitment consistent with shareholder objectives.

12.7 These interventions should complement a thriving, competitive and innovative commercial market for content across digital media.

### Overall priorities for government

12.8 Our recommendations are based on detailed audience research, a wide range of views from stakeholders within industry and our own analysis. The recommendations we present to government and Parliament set out what we believe is required to fulfil a vision of diverse, vibrant and engaging public service content enjoyed across a range of digital media, which complements a flourishing and expansive market sector. In summary, we believe that the four top priorities are:

- To **maintain the BBC's role and funding** for its programmes and services at the heart of the overall system.
- To support investment in and wide availability of high quality original programming and UK and international news, by positioning the **Channel 3 and Channel 5 services as commercial networks with a limited public service commitment**, with modest licence benefits balanced by appropriate obligations on a sustainable basis
- To plan now to ensure the supply of **a choice of high quality news alongside the BBC in the devolved nations and English regions**. This should include developing proposals for a new approach based on independently funded news consortia.
- To ensure there is a financially robust **alternative provider of public service content alongside the BBC**, with Channel 4 at its heart, preferably based on partnerships, joint ventures or mergers, with the scale necessary to sustain effective delivery of public purposes across digital media. A new remit, governance and accountability will be essential.

12.9 We recognise also the value of choice in public service content for children and in the devolved nations. If these needs cannot be met sufficiently by these recommendations then:

- Government should consider **funding specifically for children's content**, and the case for **specific approaches in each of the devolved nations for the delivery of public service content other than news**.

### Detailed policy recommendations

#### Public service content should be delivered across digital platforms

12.10 Public service content will only continue to achieve reach and impact if it is made available across multiple platforms, in a variety of formats, to a range of devices.

12.11 We believe that any new public service framework must therefore establish public service content that is available across all digital media, not just linear broadcasting.

## Supporting institutions with clear public purpose goals and sustainable economic models

- 12.12 The BBC should continue to provide the main focus of public intervention to sustain the purposes of public service broadcasting, properly funded, so that it can continue to provide its portfolio of services, and with the room to innovate and develop in a fully digital world.
- 12.13 S4C should also continue to play a key role in Wales, delivering programming to Welsh speakers with secure funding from the government.
- 12.14 MG Alba and the Irish Language Broadcast Fund should provide the same role for Scottish Gaelic and Irish speakers.
- 12.15 The government should consider the potential to establish a second organisation alongside the BBC, with a strong public service role at its heart, based on partnerships, joint ventures or even mergers between Channel 4 and other organisations. These should be assessed against five clear criteria:
- **Sustainability** – is the funding model economically robust, is there a clear strategic rationale and do the parties believe there are mutual benefits?
  - **Governance** – does the partnership have clear and effective accountability arrangements, and are its incentives aligned to public purposes?
  - **Plurality** – does it help to deliver an alternative to the BBC in provision of public service content?
  - **Complementarity** – does it complement market provision?
  - **Competition** – is it consistent with fair and effective competition?
- 12.16 The second institution should have a new remit, retaining a duty for producing innovative and distinctive programming and should continue to deliver programming that meets the public purposes in the following genres: National and international news; Current affairs; UK drama; UK comedy; UK factual; and Educational programming. The remit should also build on Channel 4's historic strength in reaching diverse audience groups, and could potentially play a greater role in reaching minority ethnic groups for whom audience research highlighted lower satisfaction with current public service delivery.
- 12.17 This remit could also involve an enhanced role with a more explicit commitment to news and current affairs, and additional responsibilities in providing UK programming for older children, building on the initial proposals in this area set out in *Next on 4*. It could also make a more explicit commitment to formalise Channel 4's significant contribution to British film. A new remit could also be extended to a much more significant commitment to portraying the nations including further increases in these quotas to compensate for the relaxation of obligations in this area on Channel 3 licensees.
- 12.18 In the context of a second institution, it is also critical that governance and accountability structures ensure that a public service ethos and editorial independence are maintained and that resources are fairly allocated to deliver this role.

12.19 If structural options involving Channel 4 are not achievable, there are three alternative options for Channel 4's future:

- **The use of one or other form of direct public funding**  
Channel 4 receives direct funding based on redefined remit and new accountability and governance arrangements. The concerns with this approach were raised earlier. Other calls on public resources should also be considered.
- **Relieving Channel 4 of its special remit, repositioning it as a commercial network similar to Channel 3 and Channel 5 and probably thereafter privatisation**  
This will lead to a short-fall in public service competition in a number of areas and fails to meet the needs of audiences.
- **Managed decline – in which the remit and status is retained but the ability to deliver steadily erodes**  
This would inevitably lead to a much reduced public service contribution from Channel 4 which would decline as pressures on the free-to-air market increased. This could be mitigated in part by a transfer of additional regulatory assets from 2014.

### **Support sustainable commercially owned networks which retain a modest but important public service commitment**

12.20 The Channel 3 service should continue to be a free-to-air universally available public service broadcast network post 2014, with obligations to invest in originated content and to provide national and international news.

12.21 The Channel 3 service should continue to be regional in nature, based either on the existing map or on five nations based licences, with the networking arrangements between regional licensees based on commercially negotiated arrangements subject to due process on existing undertakings.

12.22 We consider that the existence of a separate public service breakfast licence is not the most effective way of delivery public service value in the longer term. Ofcom therefore believes that post 2014, the morning licence should be amalgamated into a 24 hour regional licence structure, so as to enhance the overall economics of the Channel 3 service.

12.23 Under current legislation there would be a need to grant new Channel 3 regional licences if it was desired to extend the current regional licences to a 24 hour basis or to make significant changes to the regional structure of the licences. Any change on that position would require new legislation.

12.24 The regulatory assets associated with the Channel 3 licences should be: access to a universally available DTT videostream and HD capacity, which could be at market rates; along with due prominence on electronic programme guides.

12.25 Channel 5 should also continue to be a free-to-air universally available public service broadcaster with obligations to invest in originated content and provide national and international news, supported by similar regulatory assets to Channel 3.

12.26 The continued existence of a public teletext service beyond 2014 should be reviewed again in 2012 in the light of broadband take-up, the availability of relevant services and the usage of digital teletext post switchover.

## **Plan now to ensure the supply of a choice of high quality news alongside the BBC in the devolved nations and English regions**

- 12.27 High quality, plural competition for the BBC throughout the nations and regions should remain at the heart of broadcasting policy
- 12.28 Proposed partnership arrangements between the BBC and ITV plc enhance the prospects for viability of the Channel 3 regional news services in the short-term. However, they will not be sufficient in the longer term, and run the risk of loss of plurality if the ITV licensee is impelled by commercial pressure to rely more on the BBC's content.
- 12.29 We recommend that an alternative proposal should be considered for a series of independently funded news consortia in the devolved nations and English regions, based on secure funding and competitive tender processes. In each devolved nation (plus the Channel Islands) and the English regions there could be a partnership-based consortium with five common elements:
- The BBC could provide an agreed level of pooled coverage and technical infrastructure subject to competition and editorial criteria.
  - A non-BBC broadcaster (preferably the relevant Channel 3 licensee because of the reach and impact of the existing regional news services) would provide slots in its schedule.
  - News providers would enter a tendering process in order to create this non-BBC coverage and to produce the news output utilising both BBC and non-BBC coverage. Independent panels, appointed by the body which provides the resources, would draw up the invitations to tender, invite bids, appoint the provider and monitor their performance against stated criteria including plurality, reach and impact. The bidders could include the relevant Channel 3 licensees and third party news organisations.
  - Whether or not a Channel 3 licensee was bidding to be the news provider the broadcaster carrying the news service should have some co-commissioning rights in order to safeguard their interests in editorial and on-air branding. Where the broadcaster was not bidding itself to provide the service or was not an owner of a bidder, it could have some role in the appointment of the news provider, alongside the independent members of the panel.
  - Independent panels should be created in each nation to appoint the news providers. We would envisage the content being not only broadcast but distributed using all digital media.
- 12.30 The total funding required could be between £30 and £50 million. Such funding would be secure and independent, and would place the emphasis on maintenance rather than erosion of quality.
- 12.31 Sources of funding, additional to the BBC resources, could come from existing regulatory assets such as broadcasting spectrum. As part of a wider settlement with ITV plc, the latter might pay spectrum charges which could be used for this purpose. Other options are funding currently deployed on digital switchover, and funds from devolved governments. Independent panels would be created in each nation to appoint the news providers.

## **Consider the need for delivery of public service content other than news in the devolved nations**

- 12.32 If the needs of the devolved nations cannot be met sufficiently by Ofcom's main recommendations, the government should consider funding specific approaches in each of the devolved nations for the delivery of public service content other than news.
- 12.33 In Northern Ireland, there is emerging support for a competitive funding model to complement the BBC.
- 12.34 In Wales, there have been proposals for the introduction of a new funding agency.
- 12.35 In Scotland, a new dedicated channel has been recommended by the Scottish Broadcasting Commission, which could include both news and other public service output made in and for the nation. An alternative would be for the network to be a competitive fund which would support a series of interconnected initiatives in Scotland e.g. Scotland wide television, local television, online and radio services.
- 12.36 Government should consider the case for specific approaches in each of the devolved nations for the delivery of public service content other than news. These should be assessed against competing priorities.

## **Consider the potential for specific funding for children's programming**

- 12.37 There is clear public interest in addressing needs identified for children's programming. A second public service institution could play an important role in delivering content to older children.
- 12.38 A second public service institution should play an important role in delivering content to older children.
- 12.39 However, provision by a second public service institution might not go far enough, in which case, competitive funding could also play a role.

## **Further work should be done on the potential for local television services**

- 12.40 We believe there are three potential options to support the development of local television services:
- Model One requires no further intervention beyond the already determined sale of interleaved spectrum within geographically defined lots where there is evidence of demand.
  - Model Two is based on an intervention to reserve capacity on a public service multiplex.
  - Model Three represents an additional intervention to deliver funding in support of either of the models above.
- 12.41 We recommend the potential for broadcasting spectrum to support local television should be kept open for further consideration.

## Replacement funding should be considered

- 12.42 A clear approach needs to be taken to maximise value in any future model for public service broadcasting.
- 12.43 The licence fee and regulatory assets, especially privileged access to spectrum, should remain the core means of funding public service broadcasting.
- 12.44 There is potential to reassign regulatory assets to maximise value to audiences from the end of the current licences.
- 12.45 BBC partnerships and structural changes in the sector, through joint ventures or ventures or even mergers, could create further value within the system. However, it is important that they are transparent, genuinely sustain plurality and editorial independence, and that the potential implications for competition in the broader market do not outweigh the public benefits.
- 12.46 Replacement funding in cash may well be necessary and cannot be ruled out. There are a number of credible options which could provide it.
- 12.47 Any unused funds currently allocated towards digital switchover before 2012 and the Licence Fee switchover surplus after 2012 (if retained) are both credible funding options. But we do not believe that the top-slicing of funding for the BBC's programmes and services should be considered.
- 12.48 The model of direct government funding which is already used for public service broadcasting in the BBC World Service and S4C could be extended further. Alternatively funds could be raised through a new industry levy, as used in some other countries.
- 12.49 It is important to recognise that resources are constrained, particularly in the current economic environment. There are competing demands for funding, which could also include supporting more extensive roll-out and take-up of digital infrastructure, such as current generation broadband, super fast broadband or DAB, for example.

## Next steps

- 12.50 This report sets out our recommendations to ensure that the interests of citizens and consumers can continue to be fulfilled through ongoing production and availability of a choice of content that delivers the purposes of public service broadcasting.
- 12.51 Decisions on many of these matters are needed within the next year, as the current model of commercial public service broadcasting is clearly no longer sustainable.
- 12.52 We recognise that difficult choices will need to be made about the use of scarce resources. These priorities will need to be considered alongside other potential requirements to fulfil the interests of citizens and consumers in the digital age.
- 12.53 In addition, Ofcom will take forward work in a number of areas including:
- Implementing the decisions in the short-term in relation to licence conditions set out in the document published alongside this report.
  - Further analysis and evaluation of the BBC's partnership proposals.

- More detailed analysis of the issues regarding provision of public service content at a local level.
- Working with government and its Digital Britain project across a range of issues including the options and implications of new partnership models involving Channel 4.
- Releasing spectrum and promoting superfast broadband to spread the benefits of greater availability and take-up of connectivity across the UK.

- 12.54 The sheer pace of change brought about by new digital technologies makes it increasingly difficult to predict the future with any certainty. It is possible that the recommendations set out here may not be sufficient to secure a sustainable model for investment in public service content beyond digital switchover.
- 12.55 If the pressures on commercial broadcasting are even greater than expected and the transition to digital more dramatic, it may be that more radical options will be required to secure public service content in the future. This might include a more comprehensive approach to the distribution of funding which creates a fundamentally more flexible and accountable system.
- 12.56 Ofcom's next Public Service Broadcasting Review will occur around the conclusion of digital switchover and towards the end of the current digital broadcast licences. This will be an important point to assess whether changes to the public service broadcasting system in the UK have been successful in navigating the transition from analogue to digital and most fundamentally, in meeting the needs of audiences throughout the UK.
- 12.57 These are our recommendations to government and Parliament on maintaining and strengthening public service broadcasting in line with our duties. It is now in the hands of government and ultimately Parliament to make the decisions which will secure the future of this crucial part of the UK economy and society.

## Annex 1

# Glossary

**ACNI Advisory Committee for Northern Ireland.** See Advisory Committees for the nations.

**ACW Advisory Committee for Wales.** See Advisory Committees for the nations.

**Advisory Committees for the nations** are tasked to identify those aspects of Ofcom's work and of communications in general that are of particular importance for their nation and to work with the Ofcom Executive to inform themselves on these topics and to offer Ofcom advice accordingly. The Committees are asked to be prepared to respond to specific consultation requests from Ofcom on matters where a non-metropolitan perspective will be valuable.

**AVMS (Audio-Visual Media Services Directive)** The successor to the Television Without Frontiers directive, adopted by the European Council in 2007.

**BARB** the pan-industry body which measures television viewing (Broadcasters' Audience Research Board).

**Broadband** a service or connection which capable of supporting always-on services which provide the end-user with high data transfer speeds. Large-capacity service or connection allowing a considerable amount of information to be conveyed often used for transmitting.

**Channel 3** the 15 regional ITV licensees and one licensee (GMTV) providing the national breakfast-time service (see also ITV1, below).

**Channel 5** the fifth national public service channel, licensed by Ofcom.

**Channel 5 Broadcasting Ltd** the organisation that holds the Channel 5 licence.

**Channel Television** the company that operates the Channel 3 licence in the Channel Islands.

**Commercial PSB main terrestrial channels** ITV1, GMTV, Channel 4, Five.

**Commercial PSB portfolio channels** refers to channels that are owned and operated by the same parent company as the commercial public service broadcasting main terrestrial channels, but which do not have public service broadcaster status, e.g., ITV2, ITV3, ITV4, E4, More 4, Film 4, Five US, Five Life.

**Communications Act, the Act or Communications Act 2003**, which was passed in July 2003.

**CRR Contract Rights Renewal.** When Carlton Communications and Granada merged CRR was put in place to ensure advertisers were able to negotiate contracts fairly and effectively. It does this by (i) guaranteeing advertisers/media buyers will be no worse off following the merger than before, (ii) putting in place an automatic 'ratchet' that reduces what advertisers pay to ITV plc as its audience shrinks, (iii) making an Adjudicator available to make sure that fair competition prevails.

**DAB (Digital audio broadcasting)** A set of internationally accepted standards for the technology by which terrestrial Digital Radio multiplex services are broadcast in the UK.

DDR Digital Dividend Review.

**Deliberative research** a qualitative methodology whereby participants are provided with a wide range of evidence in different formats and given time for in-depth informed discussion from a citizen as well as personal perspective.

**DSO (Digital switchover)** the process of switching over the current analogue television broadcasting system to digital, as well as ensuring that people have adapted or upgraded their televisions and recording equipment to receive digital TV.

**DTT (Digital terrestrial television)** currently most commonly delivered through the Freeview service.

**DVR digital video recorder.** A digital television set top box with an integrated satellite, cable or terrestrial television tuner and hard disc drive. It allows viewers to pause and rewind live television; select items to record from an EPG and in some cases to 'series link' recordings, which ensures a whole programme series is recorded. Branded devices include Sky+, V+ and Freeview+

**EPG (Electronic programme guide)** A programme schedule, typically broadcast alongside digital television or radio services, to provide information on the content and scheduling of current and future programmes.

**Five** the on-air brand identity for Channel 5

**Free-to-view TV** Channels or services for which no payment is required at the point of reception (excluding the licence fee), except for the initial cost of reception hardware.

**Freeview** the collective brand identity for the free-to-view television and radio services available over the digital terrestrial television platform. Its shareholders comprise the BBC, ITV, Channel 4, National Grid Wireless and BSkyB.

**Genre** a category of television programming, for example current affairs or entertainment.

**HDTV (High-definition television)** A television system which provides a clearer, sharper picture than standard definition through higher resolution. HD transmission format must display at least 720 lines on screen.

**IPTV (Internet protocol television)** The term used for television and/or video signals that are delivered to subscribers or viewers using internet protocol (IP), the technology that is also used to access the internet. Typically used in the context of streamed linear and on-demand content, but also sometimes for downloaded video clips.

**ITV plc** the company that operates eleven licences in England, Wales and the Scottish Borders.

**ITV1** how 13 of the 15 regional Channel 3 licensees are branded on-air. The three licensees that are branded differently are UTV, North of Scotland and Central Scotland.

**ITV network** that portion of the ITV1 schedule that is broadcast simultaneously to the whole of the UK under the Channel 3 licences.

**ITV service** a term referring to the regional Channel 3 service currently provided by the 15 Channel 3 licensees.

**Long-term** up to and beyond 2014 (usually, but also to 2020).

**Market Impact Assessment** or MIA Ofcom conducts MIAs as part of the BBC Trusts Public Value Test ("PVT") regime to assess whether the BBC's proposals to launch new services or to amend existing services, would be in the wider public interest. The MIA, which is carried out independently by Ofcom, assesses the likely impact of proposed BBC services on commercial providers.

**Medium-term** from 2011 to the end of current commercial broadcasting licences in 2014.

**Multi-channel** In the UK this refers to the provision or receipt of television services other than the main five channels (BBC One & Two, ITV1, Channel 4/S4C, Five) plus local analogue services. 'Multichannel homes' comprise all those with digital terrestrial television, satellite television, digital cable or analogue cable, or television over broadband. Also used as a noun to refer to a channel only available on digital platforms (or analogue cable).

**Multiplex** A device that sends multiple signals or streams of information on a carrier at the same time in the form of a single, complex signal. The separate signals are then recovered at the receiving end.

**Network programmes** The programme is produced for broadcast to households across the UK.

**Non-network programmes** The programme is produced for broadcast to households within a specific region or number of regions within the UK. This is only possible where a programme is broadcast in a regional slot on BBC1, BBC2 or ITV.

**Non-PSB channels** refers to channels other than the public service broadcasting channels.

**Ofcom's first PSB review (2003-5)** Ofcom's first statutory review into public service television broadcasting, undertaken in 2003-5.

**Ofcom's second PSB review (2007-9)** Ofcom's second statutory review into public service television broadcasting, the terms of reference for which were published on 11 September 2007.

**Originated programme** A programme commissioned and either broadcast for the first time or repeat broadcast by a UK broadcaster.

**PACT** The trade association that represents the commercial interests of the independent production sector.

**Peak time** The period during which a television station broadcasts its early and mid-evening schedule, typically used by Ofcom to refer to the period between 18:00 and 22:30 each day (including weekends).

**Platform** the mechanism through which content or services are delivered to the home, for example digital terrestrial television, satellite, cable, IPTV and broadband.

**Plurality** the delivery of public service content by more than one provider.

**PMSE band manager** programme making and special events band manager. The band manager pays a charge for the spectrum used by programme makers and special events producers, based on its Administered Incentive Pricing (AIP). In turn, it earns revenue by charging its customers for access, with regulation ensuring that it does so on a fair, reasonable and non-discriminatory (FRND) basis. Subject to these obligations, the band manager is able to allow others to make use of its spectrum.

**Portfolio channels** refers to channels that are owned and operated by the same parent company as the public service broadcast channels, but which do not have public service broadcasting status, except in the case of the BBC.

**PSB** Public service broadcaster.

**PSB channels** BBC One, BBC Two, ITV1, GMTV, Channel 4, Five, S4C, CBBC, CBeebies, BBCNews24, BBC Three, BBC Four, BBC Parliament, Teletext.

**PSB purposes, the public purposes, public service purposes** Objectives of programming set out by Ofcom in its 2004 public service broadcasting review, which are used to measure how well public service programming is being delivered by the public service broadcasters.

Purpose 1: *Informing our understanding of the world* - To inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas.

Purpose 2: *Stimulating knowledge and learning* - To stimulate our interest in and knowledge of arts, science, history and other topics, through content that is accessible and can encourage informal learning.

Purpose 3: *Reflecting UK cultural identity* - To reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences.

Purpose 4: *Representing diversity and alternative viewpoints* - To make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere.

**Public service content** content that meets some, if not all, of the public service broadcasting purposes and characteristics.

**Reach (TV)** proportion of total television households viewing a particular channel over a specified time, expressed as a percentage of total available television households.

**Reach and impact** ensuring that public service content reaches the maximum possible audience, or reaches a smaller audience but in a way that has maximum personal and social value to that audience.

**Regional production** programmes that meet the regional production definition. This stipulates that programmes should meet at least two out of the following three criteria:

- the production company must have a substantive business and production in the region;

- at least 70% of the production budget (excluding the cost of on-screen talent, archive material and copyright costs) must be spent in the region;
- at least 50% of the production talent (i.e. not on-screen talent) by cost must have their usual place of employment in the region.

**Repeat programme** A programme broadcast on a second or further occasion by the same broadcaster that it was originally shown by.

**RSL** or Restricted Service Licence a broadcasting licence awarded by Ofcom for a broadcasting service that is time-specific in nature or that has a narrow geographic target.

**SBC** Scottish Broadcasting Commission. The body set up by the Scottish Parliament's First Minister to conduct an independent investigation into the current state of television production and broadcasting in Scotland and define a strategic way forward for the industry.

**Standard definition** television or SDTV a system that broadcasts television pictures at a resolution of 576 lines.

**Share (TV)** proportion of total television viewing to a particular channel over a specified time, expressed as a percentage of total hours of viewing.

**Statement on short-term regulatory decisions** the statement setting out regulatory decisions by Ofcom published alongside this document regarding the commercial public service broadcasters' regulatory requirements which are to be implemented in 2009 and 2010.

**Short-term** means before the completion of digital switchover from now to 2011.

**Stv** the on-air brand identity for the two Channel 3 licences in Scotland (North of Scotland and Central Scotland).

**UTV** the on-air brand identity for the Channel 3 licence in Northern Ireland.

**UTV Media Plc** holds the Channel 3 licence for Northern Ireland.

**VoD (Video on demand)** a service or technology that enables television viewers to watch programmes or films whenever they choose to, not restricted by a linear schedule. Also Near Video on Demand (NVoD) is a service based on a linear schedule that is regularly repeated on multiple channels, usually at 15-minute intervals, so that viewers are never more than 15 minutes away from the start of the next transmission.