



Annex 2. Summary of consultation responses (long term)

(In response to the questions in sections 4, 5 and 6 of the Phase 2 consultation document)

Annex 2

Publication date: 21 January 2009

Annex 2

Introduction

- A2.1 The consultation period for phase 2 of our Review ended on 4 December 2008. Both our proposals for sustaining PSB in the short-term as well as our possible long-term recommendations to Government drew significant and extensive comment from stakeholders.
- A2.2 In total, we received around 250 formal consultation responses from a range of organisations including public service broadcasters (PSBs) and platform providers, trade organisations, consumer and advisory groups, public bodies, the devolved administrations and legislatures, Members of Parliament and members of the devolved legislatures and individuals. Additionally we received 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.
- A2.3 This document is published alongside our final statement as an annex and provides a high level summary of the main issues raised in the consultation responses. It does not address in detail all the comments that we received, nor does it set out our responses to any of the issues that they raised. Non-confidential versions of all the responses can be viewed at:
http://www.ofcom.org.uk/consult/condocs/psb2_phase2/responses/.
- A2.4 As in the first phase of the Review, numerous individuals posted their comments online via the interactive executive summary on our website and on our blog. We also engaged extensively with a range of stakeholders and organised – or participated in – a series of consultation events and public engagements, including:
- consultation events in Bristol, Belfast, Edinburgh, Plymouth, Huntington and Carlisle;
 - round table discussions in Glasgow and Cardiff;
 - a roundtable discussion on competitive funding with industry stakeholders and other interested parties, hosted by Ofcom in London;
 - briefing and evidence sessions to the Northern Ireland Assembly’s Culture, Arts and Leisure Committee and the Scottish Parliament Education, Lifelong Learning and Culture Committee; and
 - sessions at the Royal Television Society (RTS), Westminster Media Forum, Bradford media festival and Salford conference.

Approach and structure of this document

- A2.5 While our Phase 2 consultation document covered both our short-term proposals and possible long-term recommendations to Government, this summary document refers to stakeholders’ responses to the questions we posed in sections 4, 5 and 6 of our Phase 2 consultation document, covering the long-term issues.
- A2.6 Section 7 of our Phase 2 consultation document covered our regulatory proposals for the short term and stakeholder views on these proposals are addressed in our

second statement published today which can be viewed at http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement

A2.7 The structure of the summary below broadly follows the order of the questions we asked in sections 4, 5 and 6 of our Phase 2 consultation document. We have also identified some high-level themes arising from responses and grouped specific comments made by stakeholders accordingly.

Main areas of consensus and debate

A2.8 There were a number of areas of consensus in the responses to the consultation:

- BBC – most respondents agreed in principal that the BBC should remain the cornerstone of public service broadcasting.
- Plurality – there was general agreement that the plural provision of public service broadcasting was important.
- Non- linear platforms – on the whole respondents also agreed that delivery of public service content across non-linear platforms was essential.
- Channel 4 – The majority of respondents including consumer groups, trade bodies and members of the public agreed that Channel 4 provided valuable competition to the BBC and pressed Ofcom to find an urgent solution to its funding gap. There were a number of responses from independent production companies who expressed concern about the future of Channel 4 and in particular about its ability to innovate and provide content that would not be commercially viable. A number of stakeholders argued that Channel 4 should be subject to a tighter remit and more stringent governance procedures.
- The importance of institutions – there was a strong belief that the existing public service institutions would continue to have an important role to play in delivering public service content with reach and impact.
- Competitive funding – there was broad support from a wide range of respondents for a model that involved some elements of competitive funding. However, there was no widespread support for a large-scale implementation of a competitive funding model.
- There was strong support for the ITV network and five retaining their PSB status - refined model 2 was the least popular model. Stakeholders and viewers were concerned that in a BBC/Channel 4 only model, ITV1 and five would lose PSB status. This was of particular concern to respondents from the nations.
- Regulatory assets – nearly all respondents felt that the existing regulatory assets would continue to have real and lasting value even after DSO.

A2.9 However, there were also a number of areas of debate. These included:

- Availability of public service content and role of the market – some stakeholders including BSkyB did not believe that there is evidence of impending pressures on the availability of public service content. The Satellite and Cable Broadcasters Group argued that further intervention would only be justified if there was proof that the market could not provide a particular category of public service content.

- BBC Partnership Proposals – the BBC suggested several partnerships with other broadcasters under the categories of ‘Production, Distribution, Broadband and Enabling’. While Ofcom received many responses to the consultation before the BBC announced its proposed partnership proposals, some of the respondents who reviewed these proposals welcomed them and regarded them as potentially productive. However, others were more sceptical. Channel 4 felt that there was a strategic logic to some of the proposals but noted that they did not all apply to Channel 4 and where they did it was hard to see how they would deliver tangible financial benefits. Furthermore, UTV argued that the proposals around regional news ran the risk of reducing plurality and impeding journalistic endeavour.
- English regions – it was clear that many respondents highly valued ITV regional news. However, the appropriate size of the ITV regions was a strong point of contention with a number of respondents especially among viewers and consumer groups.
- Nations – There was strong support for nation-specific solutions but within the enhanced evolution model. Respondents from the nations expressed concerns that Channel 4 could not be seen as a reliable alternative provider of public service content when compared to the well-established infrastructure of the ITV network and the licensees in the nations. Concerns were also expressed on other issues such as:
 - The very low levels of portrayal of, and production in Northern Ireland on UK PSB networks as well as the lack of adequate and secure funding for indigenous language broadcasting in Northern Ireland,
 - the viability of stv in Scotland and the implications of a Scottish Digital Network
 - the relatively low levels of broadband/online service take-up in Wales which would mean that older and poorer viewers are less likely to adopt new, internet-based technologies or actively seek out news and other public service content beyond the traditional sources.
- There was strong opposition to a single UK-wide Channel 3 licence: Respondents thought that such a solution would:
 - be detrimental to the viewers across the UK;
 - take local accountability away from programme makers;
 - lead to a homogenised service across the UK; and
 - lead to a decrease in audience size in the devolved nations and actually make the provision of public service content for these nations less viable rather than more viable.
- A number of respondents felt that GMTV can continue to operate on a commercially viable, stand-alone basis. They were opposed to Ofcom’s proposal that the breakfast-time licence should revert to the main channel 3 licences, if these are still in place in the longer term.
- A number of stakeholders argued that local television and local news in particular offer greater value to viewers and should be seen as complementary to regional television and not an alternative.

- While the overwhelming majority of respondents agreed with Ofcom's analysis of the different funding options – many argued that an industry levy offered a fair and appropriate way of sustaining public service broadcasting. However, there was no clear consensus about which industries should be subject to a levy. There were also mixed views in relation to a potential collaboration or merger between Channel 4 and BBC Worldwide.

A2.10 These responses and the other engagement we have had throughout the consultation period have given us a large amount of information, evidence and alternative viewpoints to consider.

Summary of responses to specific consultation questions

Q4.1. Do you agree that public service provision and funding beyond the BBC is an important part of any future system?

Audiences highly value public service broadcasting and don't just want the BBC to provide it

A2.11 Overall, respondents thought that public service provision beyond the BBC is crucial, and so is the delivery of content across non-linear platforms. Public intervention was considered necessary to ensure availability of, and access to, content that the market may not otherwise provide. Consumer and industry groups stressed the importance of plurality in public service provision and competition for quality noting that this is in the interests of audiences and the future of the broadcasting industry in the UK.

A2.12 A number of respondents, including ITN, highlighted the benefits of a pluralistic news environment and that this provides the basis for an informed citizenship and is critical if cultural understanding is to be encouraged. However, ITN contended that BBC initiatives have intruded on fragile emerging markets on several occasions and crushed nascent commercial businesses. ITN noted it has experienced this with the BBC's investment in www.bbc.co.uk and the launch of free BBC services on mobile.

A2.13 In its response, the BBC recognised the need to sustain a competitive broadcasting market and that PSB faces some serious "structural and cyclical challenges". CapGemini analysis conducted for the BBC, suggested that the funding gap is around £250m rather than the £330-420m identified by Ofcom. However, they recognised real risks around the provision of regional news, children's and potentially national news and specialist factual programming. The BBC also argued that:

- Market provision of PSB output may increase from other sources, particularly international broadcast markets, and sustaining competition may become less reliant on the traditional public service broadcasters.
- Provision beyond the BBC is indeed valued by audiences but they did not agree that plurality is a benefit in all instances, and its audience research highlighted plurality is less important in certain genres such as arts and religion. It had conducted its own 'willingness to pay' analysis which suggested that people would be willing to pay £1.28 per month in addition to the licence fee to protect at risk genres (lower figure than Ofcom's analysis).

A2.14 Channel 4 noted the need for urgent action to be taken to secure competition to the BBC. Channel 4 added that plurality in public service institutions has benefited the wider creative economy arguing that innovations by Channel 4 and Five have led to

the BBC modernising its own news, and that Channel 4's own programming formats have influenced other broadcasters.

- A2.15 Channel 4 also argued that plurality of public service content is also important in reaching harder to reach audiences e.g. 16 - 34 year olds and that it is increasing its share of this audience where the BBC's share is falling. Channel 4 acknowledged the role played by commercial players (citing Sky Arts) but emphasised that these players provide little originated content and do not have the same reach and impact as the public service broadcasters.

Plurality in the devolved nations

- A2.16 A number of consumer and industry bodies from the devolved nations also emphasised that relying on one provider of public service content would risk isolating large parts of the audience from being informed, entertained and engaged with life in their nation. One stakeholder noted that a potential BBC monopoly in public service broadcasting could be "the cultural equivalent of the democratic deficit that devolution was intended to address".
- A2.17 stv argued that public service provision beyond the BBC is critical, particularly in Scotland and stated its commitment to being a commercial PSB beyond digital switchover.
- A2.18 MG Alba agreed that plurality is an essential ingredient for any PSB structure including for Gaelic broadcasting. They argued that with the withdrawal of Gaelic content on stv, the role of MG Alba becomes even more important.
- A2.19 RTÉ themselves are keen to play a part in supporting plurality in Northern Ireland and urged Ofcom to find a way to make its services available in Northern Ireland on a free-to-air basis.
- A2.20 UTV noted that the BBC is core to a vibrant and diverse creative environment but expressed concerns over the increasing breadth of BBC interests and felt that licence fee monies should not be used to deliver content that would be provided by the commercial market. They also raised serious doubts over the long-term viability of the licence fee (in its current form).
- A2.21 Referring to research commissioned by Ofcom and conducted by Ipsos MORI, ULTV claimed that the research showed that 86% of all adults want more non-news programming about their region than shown on the main channels.

Gaps in the provision of certain genres is acknowledged

- A2.22 A number of respondents acknowledged there is market failure in the provision of certain genres of public service content such as UK originated drama and factual programming for older children. Save Kids TV made the point that BBC governance of its children's output needs to be tighter and expressed concerns about the impact of moving to Salford on budgets.
- A2.23 Discovery and Nickelodeon agreed that funding beyond the BBC is necessary and make a strong argument for encouraging wider market competition under a competitive funding model.
- A2.24 All3Media noted that the funding gap for originated content is likely to have reached £500m per annum by 2013 and that Ofcom has underestimated this value.

Some respondents thought that concerns are overstated

A2.25 Five adopted a more optimistic view arguing that the existing commercial public service broadcasters can continue to deliver for many years to come and provide plurality and competition to BBC without the need for further intervention. Five submitted that the current system is resilient and adaptable with no need for additional funding and favoured a new approach based on a number of factors including:

- More targeted roles for commercial PSB players;
- partnerships with the BBC including selective cross promotion of "at risk" programmes on BBC airtime;
- more congenial advertising rules to all commercial public service broadcasters;
- relaxation of some regulatory burdens; and
- a full review of the public service broadcasters' terms of trade with independent producers.

A2.26 A few respondents, including BSkyB, did not believe there is evidence of impending pressures on the availability of public service content. BSkyB argued that the communications sector is dynamic and the pay TV model allows new opportunities for diversity of content.

A2.27 The Satellite and Cable Broadcasters Group (SCBG) argued that their members provide over 100 channels showing high-quality UK-originated public service content. The group noted that future intervention is only justified when there is proof the market cannot provide a particular category of public service content and that interventions should not favour public service broadcasters over other channels. They also argued that the proposed models "which see increased funding for the commercial public service broadcasters" could reduce SCBG members' revenue by up to £37m and the level of content investment by up to £85m.

A2.28 The Newspaper Society argued that further funding and support of the existing publicly subsidised competitors, or encouragement and support for the entry of new competitors, could jeopardize [their own members'] ability to continue to produce the range and depth of local coverage valued by its communities.

A2.29 The Guardian Media Group (GMG) thought that regulatory intervention should be a last resort for PSB incentives and thought that Ofcom should explore the possibility of: (a) relaxing media ownership rules to allow consolidation; (b) public support to build broadband and DAB infrastructure; (c) more meaningful partnership proposals from the BBC.

Q4.2. Which of the three refined models do you think is most appropriate?

Q5.2. Which of the three refined models do you think is most appropriate in the devolved nations?

Strong belief that existing institutions should continue to play a role in achieving reach and impact for audiences

A2.30 The enhanced evolution model (model 1) was supported by the majority of respondents who viewed this model as able to offer plurality and meet audience needs. However, proponents of this model recognised that additional funding will be needed to ensure its sustainability.

A2.31 Five, saw evolution as the only acceptable model noting the need for continuity.

A2.32 Industry groups including BECTU and Equity also favoured the enhanced evolution model noting that the alternatives will lead to a narrower range of public service content provision. They believed that a new funding agency would introduce the unappealing prospect of additional bureaucracy in the public service content system, having an unclear remit and criteria.

A2.33 PACT argued that all three refined models have strengths and weaknesses but on balance it supported model 1 listing its reasons and additional proposals which included:

- Urgent additional funding for Channel 4 is needed;
- Contestable funding for at risk genres such as children's' and clarity of children's' provision (via enhanced provision from Five);
- English language remit for S4C or a combination of above;
- A strong Channel 4 presence in non-news nations and regions commissioning with a focus on developing sustainable companies outside London;
- A continuing role for Channel 4 in funding UK film;
- PSB status should be attached to commitments and obligations to developing human resources and expertise that will deliver PSB content across different platforms;
- Remits should be extended to other platforms as long as other PSB requirements (Terms of Trade) are also transferred across platforms;
- PACT agreed that PSB duties should be proportionate to the benefits and believes this is achieved in model 1 by scaling back ITV's duties;
- Sought assurance that the independent quota and Terms of Trade are retained for all public service broadcasters.

A2.34 BskyB did not accept that further public intervention in the sector is necessary beyond the current system.

Refined model 2 was the least favourite because respondents associated it with the loss of PSB status by the ITV1 and five

- A2.35 A few supporters of model 1, including UK Music, added that if ITV1 / five were to hand back their licences, the next best solution would be the BBC/Channel 4 model. A few respondents, including the UK Film Council and GMG supported the refined BBC/Channel 4 model, noting that Channel 4 can offer plurality in the majority of genres. Other supporters of this model emphasised the presence of a competitive fund as a necessary element in addition to an extended remit by Channel 4.
- A2.36 However, overall, this model received the least number of supporters because respondents associated it with the loss of PSB status by ITV1 and five. More specifically, the majority of those respondents opposing the BBC/Channel 4 model were concerned that this model would not fulfil the level of public service content required by audiences in the nations and the English regions, given ITV's historical strengths and its infrastructure there.
- A2.37 The Ofcom Advisory Committee for Wales (ACW) believed that for Channel 4 to replace ITV1 as a provider of programming for the nations in opt out slots would be a retrograde step which would be in danger of replicating the "intrinsic disadvantages" of the past, without delivering any enhanced reach and impact.

A range of views expressed in relation to the Competitive Funding model

- A2.38 A number of respondents including five argued that any model dispensing with the ITV network and five would be a poorer alternative, reducing plurality, reach and impact.
- A2.39 Concerns were also raised by respondents, including the BBC that a competitive funding model for PSB could be overly bureaucratic in terms of administration, and could add regulatory burdens which may potentially increase the costs of public service content provision.
- A2.40 However, other respondents, including Discovery, Nickelodeon, Save Kids TV and SCBG all favour a competitive funding model. SCBG qualified its support for model 3 only if funding were to come from an established source. Discovery used examples of their experience in Australia and Singapore to refute the idea that such schemes are bureaucratic. Nickelodeon contended that this model would be best suited to providing for children's programming.
- A2.41 A confidential respondent, who favoured the competitive funding model, argued that the evolution model has a short shelf life and it would be pointless to consolidate the pressure structure that everyone admits has serious failings. The respondent also argued that the BBC/Channel 4 model tie public service broadcasting to the fortunes of two channels and the vagaries of management inside those two organisations, the cultural attitudes that prevail and the whims of the market.

The importance of news and strong support for nation-specific solutions

- A2.42 The overwhelming majority of respondents from the devolved nations – including a large number of independent producers and industry groups – supported the enhanced evolution model. The main concern put forward was that Channel 4 could not be seen as a reliable alternative provider of public service content when compared to the well-established infrastructure of the ITV network and the licensees in the nations.

- A2.43 In Northern Ireland there was also significant support for a competitive funding model. Northern Ireland Screen believed a competitive funding model was 'fit for purpose for Northern Ireland', able to deliver news, non-news, network portrayal and production and indigenous language programming.
- A2.44 The Newspaper Society referred to the impact that the proposed models could have on the commercial media in the nations, regions and localities. They further argued that no policy should be recommended which could unfairly handicap their members' ability to compete.

England

- A2.45 Overall, respondents from (or referring to) the English regions were less opposed to a competitive model for public service content delivery when compared with the respondents from the devolved nations who appeared more attached to their national channel 3 licensees. This conclusion echoed Ofcom's research which showed much lower levels of support for a fully competitive model in the devolved nations.
- A2.46 ITN argued that costs of any separate regulatory structure, combined with the differing demographics in remote areas must not create a model that is expensive to monitor and contains unrealistic expectations of what is both commercial and newsworthy in lowly-populated areas.
- A2.47 The ACW argued that the impact of devolution in Scotland, Wales and Northern Ireland has created a democratic imperative which is currently not the case in the regions of England. In addition, they noted that the market will likely provide local television services in the more populated towns and cities in England without the need for any public intervention.

Scotland

- A2.48 A number of respondents (including the Scottish Government, the Scottish Conservatives, Scottish Screen and United for Local TV (ULTV)) supported the Scottish Broadcasting Commission's proposal for a Scottish Digital Network (SDN) consisting of a digital channel and an online dimension. However, differing views were expressed as to whether the estimated cost of £75m is necessary or indeed appropriate in the current economic climate. Others thought that the SDN should also receive commercial revenue. Respondents argued that under the refined evolution model the establishment and funding of the SDN would be additional to new funding for Channel 3 licensees.
- A2.49 The Ofcom Advisory Committee for Scotland (ACS) argued that much depends on the future viability of stv. The development of BBC ALBA and the extent to which it will build significant audiences beyond the Gaelic community should also be taken into account in future scenarios. ACS added that in the event of a more distinctive Scottish model developing it is likely that some decisions would have to be made in Scotland (alongside UK-wide decision-making) about the allocation of public funding to ensure plurality and equity.

Wales

- A2.50 The overwhelming majority of respondents from Wales supported the view that the Channel 3 Welsh licence should remain separate. Ofcom's Advisory Committee for Wales (ACW) noted that the discussion of future broadcasting in Wales can not be confined to the three refined models as there are a number of possible future

scenarios, all based on an assumption that post 2012 or earlier, ITV1 is no longer a PSB provider for Wales.

- A2.51 ACW argued that the next Communications Act should establish a new funding mechanism, applying to the UK as well as Wales, which can respond to the changing circumstances without requiring fresh legislation every few years. In response to the current uncertainty, the ACW's advocated for the creation of a dedicated funding agency (A Broadcasting Commission for Wales) which could commission, fund and secure carriage for PSB programming. ACW thought that this new Commission could share back office, administration and transmission facilities with S4C to maximise the efficient use of public money. However, the ACW did not believe the Commission could share premises and facilities with the BBC as the Commission's programming and content would ultimately be competing with the BBC in Wales.
- A2.52 The Welsh Assembly Government and the Welsh party Plaid Cymru also favoured the creation of a National commissioning body with a statutory duty to ensure high quality public service content in both languages across the full range of media in Wales from a plurality of networks.
- A2.53 A number of industry bodies including the National Union of Journalists (NUJ) in Wales favoured the enhanced evolution model (with funding for the nations) because it places high importance on plurality in nations news and the role of each nation's respective channel 3 licensee as the carrier service for nations' news. The NUJ stressed that demand for online news in Wales still lags way behind traditional television delivery.

Northern Ireland

- A2.54 The Department of Culture, Arts and Leisure in Northern Ireland (DCAL) expressed concern that Northern Ireland could "lose out" under any of the three models. For example, DCAL highlighted that Model 1 requires additional funding for local news programming, under Model 2 UTV may not chose to compete for funding, while Model 3 - although perhaps the most economically efficient - may not deliver the required range of PSB programming. However the Department thought competitive funding could prove beneficial for programming such as children's, arts, religion and documentaries.
- A2.55 UTV favoured model 1 with an element of competitive funding as the most suitable model for nations. It argued that independent producers should require a broadcast partner to apply for funding through a scheme similar to the Broadcasting Commission of Ireland's "Sound and Vision" fund.
- A2.56 Arguing in favour of the competitive funding model, Ofcom's Advisory Committee for Northern Ireland (ACNI) noted that such a model would:
- Ensure a mix of content across a range of providers who would bid to deliver content on TV, radio and digital;
 - Be administered by UK-wide independent body which would be replicated on a national and regional basis creating localised independent bodies.
 - Require ring-fenced funding for the delivery of content not provided by market – such as indigenous languages programmes and local content.

- Be structured in way to ensure the production sector is fostered and nation and region portrayal becomes the norm.

A2.57 Northern Ireland Screen also favoured a competitive funding model for similar reasons.

Q4.3. Do you agree that in any future model Channel 4 should have an extended remit to innovate and provide distinctive UK content across platforms? If so, should it receive additional funding directly, or should it have to compete for funding?

Broad support for Channel 4’s vision but mixed views on whether – and how – it should receive additional funding

- A2.58 The majority of respondents to this question, including industry groups, production companies and the VLV agreed that it is important to develop models of funding for Channel 4 with some urgency, which offer a solution that is sustainable, certain and meaningful. Some stakeholders thought that Channel 4 could be a deserving recipient of any industry levy and allocated appropriate regulatory assets, including spectrum sale proceeds. However, a number of respondents opposed to the use of the so-called “switchover surplus” or gifting BBC Worldwide (or its profits) to Channel 4, principally due to the impact it could have on BBC services.
- A2.59 Many responses came from independent production companies who are very concerned about the channel’s future ability to contribute towards innovative and educational content which would not be commercially delivered otherwise. Channel 4’s contribution to training and developing talent within the industry was highlighted by several respondents. A significant knock-on effect on the quality of the creative industry in general was predicted if Channel 4 cannot secure adequate funding.
- A2.60 Channel 4 stressed the need for urgent funding in order to deliver its vision and argued that competition for quality in film and TV has significant benefits for the UK’s wider creative economy - providing award winning content and helping new talent emerge.
- A2.61 Channel 4 appealed to the Digital Britain review by suggesting that its content can help drive take-up of digital technologies and stimulate demand for greater bandwidth. It also argued that the TV-advertising market has deteriorated further and that the changes are structural as well as cyclical.
- A2.62 ITN would not want to see any direct links to public funding for the supply of news, which the broadcaster has already indicated should be sourced through traditional funding streams to protect its independence. ITN argued that the hybrid system is the most ideal as it combines workable, long-term measures to safeguard the future of Channel 4 as well as an element of competitive funding for other areas, including regional news. ITN asserted that it is right and proper for Channel 4 to compete for additional funding to pursue its vision for the future. For this reason, and to limit the burden of increased accountability on Channel 4, ITN favoured contestable funding over direct subsidy.

A range of views expressed in relation to Channel 4's remit

Some argued for an extended remit for Channel 4

A2.63 Channel 4 believed it remained vital for it to provide content on a range of platforms. A multiplatform role is “absolutely core to Channel 4's role in distributing public service content” and continue to deliver its public purposes with significant reach and impact. 4IP was cited as being designed to stimulate public service digital media across the UK.

A2.64 Of those respondents who argued in favour of extending Channel 4's remit, it is worth noting the following specific points:

- The Arts Council England would expect to see a commitment to the arts industries and investment in content and talent articulated both within Channel 4's core remit and 'Next on 4' proposals.
- The ACW argued that Channel 4's record in covering Welsh life on its networks has not been particularly impressive, but that it should have an extended remit to innovate and provide distinctive UK content across all platforms. ACW does not support direct, institutional funding for Channel 4.
- On the contrary, BECTU was happy to see Channel 4 receiving public funds but opposed a potential suggestion to privatise it.
- The NUJ in Wales agreed that Channel 4 could play a greater role in the nations and regions, but was concerned that Channel 4 does not currently have the level of audience penetration that is offered by ITV1 in Wales. NUJ Wales therefore felt that Channel 4 would not offer as much plurality in the short and medium term, but the union accepted that with the right promotion and signposting, this might change over the longer term.
- PACT noted that Channel 4 should be able to fulfil its remit via portfolio channels and other platforms with the proviso that other PSB requirements are transferred to these services. It added that Channel 4 should not be given additional funding simply to meet the overhead or distribution costs of making content available on other platforms as this would risk putting the institution before the content it provides.
- Save Kids TV were enthusiastic about Channel 4 having a remit to cater for older children but are realistic about the limitations of this and that it would not solve the whole problem. They would like S4C to take on a greater role in delivering children's programming.
- ACS pointed out that if additional direct funding were to be received by Channel 4, it would be essential to monitor the level of innovation or distinctiveness in its output.
- stv agreed that public service broadcasters should have extended remits across platforms and this should also apply to stv. It argued that there needs to be a level playing field, not one set of rules devised exclusively for Channel 4.

Others thought Channel 4 should have a tight or a reduced remit

A2.65 Other respondents disputed Channel 4's need for additional funding due to the broadcaster's strong market position and brand recognition. Among these responses:

- Five strongly opposed the case for additional public funding to support Channel 4 expressing concerns about governance, state aid and market impact. Five suggested that Ofcom seriously under-valued Channel 4's regulatory assets at £80m and stipulated that these are actually worth £100-150m. Five thought that the case for extending Channel 4's remit beyond linear TV has not been tested robustly enough, and believed there is no proven need for publicly funded public service content online, in addition to BBC.
- Another public service broadcaster thought that Channel 4's remit should be attached to the main channel rather than to all its services and proposed a rigorous 3 stage process for assessing whether a public service content provider needs public support:
 - Define the precise public service remit to be met;
 - Assess the cost of delivering this remit;
 - Identify which elements of the remit would not be sustainable in the absence of public support.
- GMG argued that Channel 4's online experience is 'patchy' and that Channel4.com has poor reach (noting that the reach of guardian.co.uk is higher) and that Channel 4's role should be constrained to broadcasting.
- UTV agreed that Channel 4 should have a tightly refined remit, perhaps returning to spirit in which channel was launched; It thought the remits of BBC and Channel 4 should be complementary, not competitive and was fully supportive of raising Channel 4's Out Of London (OOL) quota and introducing new quota for devolved nations, especially in Northern Ireland.
- Sky believed Ofcom focuses on inputs into the broadcasting system and not on the outputs thus missing the extent of public service content delivery by the market.
- United for Local TV (ULTV) thought there is no case for transferring other assets to Channel 4 and that if public funding were available, it should be open to competitive tender. ULTV argued that new entrants might be better placed than Channel 4 to deliver children's and nations/regions programming and therefore did not support new funding for Channel 4 to the exclusion of new entrants.
- A confidential response argued that Ofcom has also underestimated Channel 4's ability to sell advertising on a regional basis.

Q4.4. Do you think ITV1, Five and Teletext should continue to have public service obligations after 2014? Where ITV1 has an ongoing role, do you agree that the Channel 3 licensing structure should be simplified, if so what form of licensing would be most appropriate?

Strong support for ITV1 and Five to retain their PSB status

- A2.66 The majority of respondents supported a continuing role for ITV1 and Five as public service broadcasters post-2014.
- A2.67 Sharing this view, Channel 4 noted that both ITV1 and Five will be able to make a limited but focused contribution to public service content in future urging Ofcom to ensure quota reductions are matched by meaningful public service commitments from the ITV network. They argued that further regulatory relief for the ITV network would increase its competitive strength in the short term and directly impact on Channel 4's performance, further reducing its ability to deliver its remit. Channel 4 also argued that there was clearly an ongoing net benefit to five in retaining its PSB status and that Ofcom should maximise the public value derived from five's regulatory assets.
- A2.68 In a confidential response, ITV plc argued that its preferred outcome was to remain a public service broadcaster. However, it placed significant conditionality on its ability to retain PSB status, arguing that a number of urgent regulatory changes are needed. Furthermore, ITV plc stressed that the regulatory obligations of PSB status must be adjusted on an ongoing basis.
- A2.69 Five strongly supported the retention of PSB status for both itself and ITV1 noting that the system is greatly valued and delivers plurality, reach and impact. Five argued that its role within this system is to deliver distinctive news, factual and children's programmes. Five stated it would commit to quota/hours for UK originated children's programmes (though not for older children) and may launch a dedicated children's channel.
- A2.70 ITN responded that ITV1 must retain a central role in a plural news landscape post-DSO. Incentives need to be put in place to ensure continued access to the network schedule for news programming. They believe that the ITV network must be unshackled to move freely in this fiercely competitive digital age. They also support a relaxation of regulatory obligations so that the ITV network can be allowed to operate more effectively.
- A2.71 Stv noted that the ITV network should continue to have public service obligations but that the system should be allowed to evolve after 2014.
- A2.72 ACNI also thought that ITV1, five and Teletext should have PSB obligations beyond 2014 - delivered by accessing a competitive fund – adding that audiences would easily access content delivered by familiar broadcasters who provide high quality output.
- A2.73 UTV continued to dispute ITV plc's 'subsidy' claims of c. £25m noting that independent research (commissioned by UTV/stv) suggests £28.2m - £30.8m worth of benefits flow in the opposite direction; UTV also suggests the ITV plc licence still has value (based on significance of regulatory assets) and that if ITV plc was to hand back its licence, the void would be filled by another operator. Post-DSO, UTV argued that PSB obligations should focus on ensuring a high level of UK origination and high quality national/international news.

A2.74 A few of the confidential respondents also argued that Ofcom should not underestimate the benefit that ITV plc gets from cross promoting its digital channels on the non-consolidated Channel 3 licensees.

Channel 3 licensing structure: 5 separate national licences preferred

A2.75 A large number of respondents from the devolved nations including public and industry bodies, ACNI, stv, the Alliance Party of Northern Ireland, numerous MPs (especially from Northern Ireland) and MLA members, strongly opposed the proposal of a single Channel 3 licence for the whole of the UK. A UK-wide licence, they argued, would be detrimental to the viewers and would take local accountability away from programme makers. It was thought that this option would lead to a homogenised service across the UK, lose audience in the devolved nations and actually make the provision of public service content for these nations less viable rather than more viable.

A2.76 In contrast, the same respondents strongly argued that there should be a bare minimum of five licences proposed for the future, those being Northern Ireland, Scotland, Wales, England and the Channel Islands.

A2.77 stv argued that it is now in a much stronger financial position having taken dramatic steps over the past 18 months to rejuvenate and strengthen the business. stv rejected ITV plc's claim that it is subsidised and welcomed the SBC Report and its aspirations for Scotland, including the call for a new channel, noting that it has to play a central role in its delivery.

A2.78 Scottish Screen pointed out that stv's stated commitment to Scottish PSB broadcasting may be revised in the event of a change of ownership or management. Any PSB settlement incorporating stv would therefore have to have guarantees of commitment. If ITV1 and Five are to continue to have a PSB role going forward, Scottish Screen thought it would not be unreasonable to expect them to maintain an appropriate level of PSB obligation in exchange for the continuing benefits derived (Scottish Screen believed the methodology employed in Ofcom's analyses understates the net benefits of PSB status to the ITV network).

A2.79 The ACW reiterated its belief that the creation of a Channel 3 licence for Wales would be an optimum outcome for viewers. However, it argued that it is difficult to predict at this stage whether that would be a practical proposition at the relevant time, and notes Ofcom's 'unfavourable' analysis of the Channel 3 affiliate model.

A proposal for a more multi-licence structure in England

A2.80 One of the confidential responses suggested the possibility of delivering a post-2014 Channel 3 licensing structure based on 8 licences: A single licence for each of the devolved nations and the Channel Islands, a channel 3 licence for the North of England (broadly Border, Tyne Tees, Granada and Yorkshire), one for Central England (broadly Anglia, Central and HTV West) a licence for the South of England (broadly Meridian and Westcountry) and finally, one for London.

A2.81 The respondent suggested that no company should own more than three licences in the above scenario. Furthermore, that no licensee (or single independent production company) should supply more than 33% of network content. The respondent added that this suggestion would:

- provide a competitive programme stimulus to creativity in the ITV network

- deliver a greater proportion of programming from outside of London
- give greater diversity to Channel 3
- reflect more fairly the interests of the whole of the United Kingdom

Belief that GMTV can continue to operate on a commercially viable, stand-alone basis

A2.82 A number of respondents (both confidential and non-confidential) were opposed to Ofcom's proposal that the breakfast-time licence should revert to the main channel 3 licences, if these are still in place. Arguments raised were that:

- GMTV has a unique character, reach and popularity (especially among women) that could be compromised were it to be absorbed as a mere day-part of the ITV network;
- the multichannel and on-demand platforms do not offer effective alternatives and the proposal would result in the dilution of a credible competitor to the BBC in the morning slot;
- the proposal could result in a reduction in net advertising revenue for the breakfast timeslot which could in turn have a detrimental impact in the broadcaster's ability to invest in public service content.

A2.83 The Walt Disney Company Ltd argued that GMTV is a profitable business that is meeting its PSB obligations, and is not seeking to reduce those obligations. Disney did not agree that this attempt to 'transfer value' is an effective means of supporting public service content. Moreover it thought that this would represent an arbitrary transfer of value to ITV Plc – and it could impair Disney's future incentives to invest in the UK. Disney stated that GMTV still offers an alternative advertising point to ITV1 and as such it does not represent an anachronistic structural intervention. The case for losing the breakfast licence should only be made if it can be proved that its existence somehow impairs the provision of public service content – and Ofcom has not done this, according to Disney. In fact, Disney suggested that there is a greater possibility that investment in children's output would diminish if the breakfast licence is lost.

The role of Teletext

A2.84 NUJ argued that the role of Teletext should be strengthened not deleted. UTV also thought that local Teletext news is valued by the audience.

A2.85 ACS noted that Teletext did originate as a public service and that there is value in its continuing to do so. However, ACS argued that by 2014 this technology is likely to have a diminished market presence.

A2.86 ACOD stressed that in the absence of sign interpreted or subtitled regional news, for many deaf and hard of hearing people Teletext is often the only means of accessing regional news and local information services which are readily available to hearing people via other media such as local radio. ACOD also noted that it is difficult to predict what the PSB landscape might look like in 2014 and beyond. ITV1, as well as others, provides popular programming in which social inclusion and access issues can be portrayed. ACOD believed that ITV1 should be supported in some way to promote this role, without mandating what form of licensing would support it."

Concerns about the digital divide

A2.87 NUJ Wales favoured maintaining PSB on ITV1 Wales for as long as the channel has mass reach until viable alternatives evolve with similar or greater reach and impact. The union was also concerned about the uneven impact of DSO and broadband/online service take-up in Wales. The Union claimed older and poorer viewers are on the losing side of the digital divide because they make up a greater proportion of the Welsh population than the UK as a whole and are less likely to adopt new, internet-based technologies or actively seek out news and other public service content beyond the traditional sources.

Few believed that institutions would no longer be necessary

A2.88 Sky argued that Ofcom should not seek to preserve the current institutions but create the right conditions for the market to deliver.

A2.89 The ACS argued that it is difficult to envisage anything other than paid-for PSB output – bought on a contestable basis - after 2014. It thought that five's contribution to public service content is relatively marginal but it is desirable that it should continue, especially in the form of news coverage and the provision of documentaries. ACS thought that it is clear that stv wishes to bid for contestable public funding to support the continued existence of its news service. ACS would certainly not exclude the emergence of other players that would be interested in delivering PSB in Scotland.

Q4.5. What role should competition for funding play in future? In which areas of content? What comments do you have on our description of how this might work in practice?

The majority of respondents favoured competitive funding but to different degrees

A2.90 The overwhelming majority of respondents expressed their views to this question and most of them favoured a system which involved some element of competitive funding, although there was no widespread support for large-scale implementation of this model. Proponents of competitive funding thought that indirect and direct competition for funding has a strong role to play in stimulating excellence and innovation, in deterring institutional complacency and in encouraging new entrants.

Views on the objectives of a competitive fund

A2.91 Overall, respondents agreed that the main objective of a competitive fund should be to fill the gaps by funding programme genres the market would not provide. All3Media thought that competitive funding should be available for programmes that are endangered and or under-represented across all platforms.

A2.92 Discovery was fully supportive of competitive funding and set out their criteria for such a system. These included: maximising reach and impact; having a mission consistent with PSB objectives; flexibility in the system to accommodate innovation, whilst adapting to viewer behaviour; the potential fund should target 'gaps' in provision. Their proposed model of contestability had the BBC at its heart and would be responsible for jointly funding public service content, which would be shown first on a non-BBC network. They regard this as an extension of the BBC's proposed partnership approach.

- A2.93 Stv agreed that there should be competitive funding for UK origination from the Nations and regions. That would render such production more attractive to London commissioners and hence offset the bias towards commissioning from so called trusted and proximate sources in London.
- A2.94 Nickelodeon thought that competitive funding could play a role in providing drama and factual programming for older children. They would be interested in participating, as they believe they can provide reach and impact among children.
- A2.95 Similarly. Save Kids TV are enthusiastic about 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.
- A2.96 SCBG was supportive of a competitive fund subject to it being funded from existing sources. They also suggested a number of principles that the funding body should be guided by including transparency and having the funds open to all.
- A2.97 The UK Film Council strongly supported the introduction of competitive funding into the system, alongside a well funded BBC and Channel 4 adding that universal broadband coverage is key to extending the reach and impact of public service content in future
- A2.98 ACOD believed that PSB providers must have a duty to progress the interests of people who are older or disabled and to routinely anticipate inclusive practices. Broadcasters bidding for funds should be required to demonstrate how they would meet such a duty. Key performance indicators may be required for what is being delivered.

How the competitive fund might work in practice

- A2.99 Several respondents favoured a competitive funding solution in any future model of public service content provision and quite a few of these referred to their own experiences in competitive funding – either as bidders or managers of funds.
- A2.100 Teachers' TV highlighted the practicalities of competitive funding based on their own experience. In particular, they pointed out that bidding costs and contract management can be expensive for the bidder and expectations of each, need to be proportionate to value of contract. They argued that an ambition for contracts needs to be clearly articulated and therefore tendering needs to be transparent and defensible. Services take a while to establish and as a result the contracts should reflect this. In terms of the fund's governance, they recommended that it should be robust yet light-touch and performance management should be clear and easily understood with realistic measures of success.
- A2.101 The Arts Council England also referred to their own competitive funding mechanisms noting that if additional public service funding were to be made available the Arts Council could play a role in any administration or strategic overview of the funding.
- A2.102 Both a confidential respondent as well as ITN would commit to bidding to secure the contract for provision of regional news, if funding were available. The latter clarified that they would aim to manage any such contract on a normal commercial basis and suggested two alternatives. Firstly that funding should be allocated in a way which supports existing news suppliers in order to maintain current levels of plurality.

Alternatively they suggested a tender for news as Ofcom proposed in its phase 2 consultation document.

A2.103 ACNI and Northern Ireland Screen suggested that a UK-wide fund can be replicated at nations and regions level with local accountability and part of this fund could be ring fenced for delivery of indigenous language and local content. The fund should cater for a small number of long-term contracts for public service content for news but flexibility is also needed for short-term contracts when appropriate. ACNI argued that existing models in Northern Ireland (Irish Language Broadcast Fund) and the Republic of Ireland (Broadcasting Commission of Ireland's Sound and Vision Fund) show this works best when an independent body administers funding through competitive tenders with part funding from content delivery providers and when editorial control remains with the content delivery providers. ACNI pointed out that competitive funding should ensure local accountability and guarantee no political interference.

A2.104 A confidential response argued that specific amounts from the competitive fund should be earmarked for particular public service projects. Geographic sub-committees should then manage those funds according to the purpose for which it was earmarked e.g. a fund for nations' news, current affairs, arts programmes, children's or science programmes etc.

A2.105 NUJ Wales believed that an in-house ITV Wales programme-making offers many advantages but if this current model cannot be sustained and competitive funding were required, the NUJ argues that it would work best if it consisted of a small number of large ongoing contracts rather than many smaller contracts for individual programmes. In the longer term, NUJ argued that other organisations could bid for the opportunity to make news (and non-news) programming to appear on the ITV network if the channel maintains its mass-market appeal.

A2.106 The Broadcasting Sub-committee of the National Assembly for Wales favoured a competitive funding model, established through a body to allocate funds, with a budget and objectives set by Parliament. It would award funding through competitive tenders to meet identified deficits in provision of public service content, informed by consultation with audiences about their priorities. The sub-committee believed such a fund should be established in Wales and run by a commission, board or authority, with the appropriate governance arrangements in place, which would be responsible for making a strategic assessment of the nature and volume of public service content to be commissioned and ensure funding is directed to achieve as much reach and impact as possible.

A2.107 The ACS was concerned about the potential difficulty for viewers in identifying and locating PSB content. They thought that some content, such as news, still evidently needs to be readily available at set times on predictable channels. Other content, however, such as drama, comedy, factual and current affairs could be provided competitively but channel recognition would still remain important for many viewers. In the event of the disaggregation of content, ACS thought it would be necessary to brand programmes as public service content so that viewers could identify them as such.

Other views on competitive funding

A2.108 ULTV supported the principle of competition for funding but noted the most valuable asset of all is spectrum and argued that an ongoing subsidy to the incumbents can no longer be justified. New entrants should be encouraged to join the PSB family -

dedicated quasi-PSB channels could include local television; News; Sport; Children's etc. The free access to Freeview would underpin the system. Licences could be awarded on the basis of greatest commitment to UK production rather than highest cash bid.

Arguments against competitive funding

A2.109 Five believed there is only limited scope for competitive funding options and argued that PSB is best delivered via existing commercial broadcasters because alternatives will have little reach and impact. Five thought that the existing system is robust and that it could sustain PSB well beyond 2014.

A2.110 The NUJ opposes the competitive funding option arguing that it is inefficient and lacks the economies of scale institutions can deliver.

Q5.1. Do you agree with our findings that nations and regions news continues to have an important role and that additional funding should be provided to sustain it?

The fundamental importance of nations & regions news is undisputed

A2.111 The overwhelming majority of stakeholders stressed the importance of plurality in nations and regions news. Reference was made to Ofcom's research which showed that 90% of viewers in the devolved nations believe that television is an important source of news about their nation.

A2.112 NUJ Wales noted reviews of BBC and Channel 4 network news programming have highlighted the shortfall of news from Wales and the other devolved nations.

Additional funding and/or a new model is needed

A2.113 Channel 4 stressed their reliance on ITN's production infrastructure across the UK and believed that damage to the ITV network's regional newsgathering would have a knock on effect on Channel 4's own news service. They therefore argued that a new model must offer continued public service competition to the BBC in nations and regions news and where possible this model should build on the brand heritage and reach of the ITV regional licensees and ITN's regional production infrastructure.

A2.114 The NUJ noted that tax relief, levies and spectrum proceeds should be considered as potential funding sources.

Some stakeholders were more optimistic than Ofcom's analysis suggested

A2.115 Five argued that BBC partnership proposals should allow the ITV network to provide news in nations and regions for longer than Ofcom or ITV suggest. Five also believed that market-based options - such as collaboration with local radio/newspapers - should be explored.

A2.116 Stressing its commitment to regional news stv argued that due to its corporate transformation and operational re-structuring carried, the period for which their regional news obligations are sustainable is longer than previously asserted. However, stv reiterated that over time, direct funding would be needed in Scotland to address the future deficit of regional news.

A2.117 Scottish Screen also thought that Ofcom understated the true value of the range of Channel 3's PSB benefits. The respondent argued that the option of regional/national contracts with third party news supplier(s) warrants further consideration, as well as the option of continuing Scottish news from stv.

A2.118 UTV argued that any new licensee in the devolved nations (and indeed English regions) should be able to sustain high quality news in return for regulatory assets awarded with the licence. UTV suggested that licensees can cross-promote news content on other platforms and offer it - commercially or otherwise - to other organisations as means of maximising licence value;

Interest expressed by ITN in the provision of nations and regions news

A2.119 ITN asserted that their expertise in regional TV news output makes them well-placed to take on responsibility for managing the nations and regions news operations on the basis of commercially-viable contracts. ITN expects that provision would be on a full multi-platform basis and likely to include support directly, or indirectly, from local media groups.

The importance of local news services

A2.120 A number of stakeholders, with ULTV at the forefront argued that local television and local news in particular offer greater value to viewers and should be seen as complementary to regional television and not an alternative. ULTV asserted that if there is to be intervention in the market it should be at national and local level rather than national and regional.

A2.121 ACS pointed to the differences in the extent to which UK audiences value nations and regions news, adding that an increasing importance is placed on audiences' connections with their localities. Referring to the problems faced by major newspapers in Scotland, Scotland's distinctive parliamentary politics and the continuing salience of the constitutional question, ACS argued it is of crucial importance to ensure that there is high quality PSB journalism in the country.

Q5.3. Do you agree with our analysis of the future potential for local content services?

A2.122 A number of respondents supported the creation of local services noting that they foster local communities. However, opinion was divided among those who thought that provision of local content on broadcast platforms was feasible, and others who saw online provision as more suitable.

Proposals for local television services made, but spectrum auctions seen as a threat

A2.123 The Scottish Conservatives argued that the lack of local television is probably the biggest single failing of British public service broadcasting at the moment.

A2.124 ULTV, supported by the Local TV Institute, provided a comprehensive proposal for a "Channel Six" on Freeview as a means of delivering local television adding that such a channel would attract a variety of funding from bodies - including local and regional councils – for which local television "would be an invaluable communications asset". BBC partnerships were also seen as potentially able to provide opportunities for funding. ULTV called on the government to review the idea of a Citizens Broadcasting Fund to fund all local level communications projects. In Scotland alone,

it was estimated that a fund of £10 million is needed to ensure local television is transmitted on a local scale, as highlighted by the Local TV Institute in its response.

A2.125 The Fife and Tayside Local TV working group also supported the creation of a dedicated fund for local television, noting the potential availability of the switchover surplus in the current licence fee settlement. The respondent also thought a proportion of funding could be directed through local government for application towards national and regional media planning and information services. They strongly advocated that spectrum should be gifted, rather than auctioned, to appropriate licence holders based on an assessment of their suitability and capacity to provide the service. The group was concerned that an auction process with a reserve price of £25,000 would give an unfair advantage to major media groups whose resources far exceed those of local and regional media groups.

A2.126 Similarly, Dundee City Council argued that Local TV via DTT (through a 7th multiplex) will be essential to provide to provide maximum coverage for local services, as only 50% of the population in the area has access to broadband. This view was also supported by a few other respondents who wished to keep their responses confidential.

A2.127 Referring to the proposed Scottish Digital Network, the Scottish Government's view was that Ofcom should identify and provide suitable gifted or discounted spectrum as appropriate regulatory support to a public service broadcaster. They also thought the public would benefit if spectrum allocation could be configured in such a way as to enable both a high level coverage for the core digital channel as well as local television services as opt-outs from the schedule.

A2.128 The Welsh Liberal Democrats' party thought that post digital switchover broadcast spectrum should be allocated for community and regional television stations within Wales. The ACW was also keen to see local television services develop within Wales, for example, through the use of spectrum acquired under digital dividend review auctions or band manager allocations.

A2.129 GMG cited Channel M as a good example of a local service and welcomed consideration of interleaved spectrum being made available. However, they added that broadband delivery of local content should also be considered.

Economics for provision of local content remain challenging but opportunities exist on non-broadcast platforms

A2.130 Many stakeholders shared Ofcom's view that the economics of local content provision remain challenging and will undoubtedly need significant funding. ITN assessed that strong partnerships with local and regional papers would be the best way to provide the infrastructure and capabilities to successfully develop attractive web and digital TV propositions on a local level. They note that "ITN has already demonstrated its ability to work closely with newspaper publishers through our strategic alliance with the Telegraph Media Group – a unique partnership with ITN producing bespoke video programming for the Telegraph website."

A2.131 PACT also thought that independent producers should play an important role in providing content for local services online.

A2.132 Stv strongly supported the delivery of localness – be that online or on DTT – noting that it has already built services that extend its PSB remit, covering news and non-news, into the online space while it also aims to develop local content and services

on the mobile platform. The broadcaster noted that “the extraordinary market conditions make Ofcom’s preferred route of selling local spectrum to the highest bidder very challenging, not to mention calling into question the potential viability of burgeoning local television players”. It argued that the easy way to do this would be to develop non-broadcast obligations of relevant public service content.

A2.133 Screen England argued that more needs to be done to encourage independent online production and ensure it is produced to an appropriate quality; they also supported the notion that the opportunities for highly localised content services, enabled by new technologies, represent significant potential.

The commercial pressures on local radio and newspaper groups

A2.134 A few respondents, including UTV, highlighted the current commercial pressures on local radio/newspaper groups; They noted that existing local services do not provide the depth or breadth offered by the existing Channel 3 licensees and have little reach and impact in the markets they serve. UTV thought that the sheer size and impact of the BBC makes commercial operations near impossible on very local scale.

A2.135 ACS considered that while audiences appear to value local content services, intervention at this stage might distort the market. The Committee believed that local newspapers and radio stations are currently addressing this market and are increasingly adding video coverage to their websites and making their provision more sophisticated. In the interests of maximising openness, a wider set of organisations (including local authorities) might be encouraged to apply for licences for local television provision at a community level. ACS argued that if the provision of local content looks set to diminish (for example, due to market consolidation or a decline in local radio or newspaper businesses) intervention in the interests of securing greater diversity of provision may become necessary.

Q.6.1. Do you agree with our assessment of each possible funding source, in terms of its scale, advantages and disadvantages?

Q6.2. What source or sources of funding do you think are most appropriate for the future provision of public service content beyond the BBC?

Q6.3. Which of the potential approaches to funding for Channel 4 do you favour?

A2.136 The majority of respondents broadly agreed with Ofcom’s assessment of each possible funding source. However, respondents had different views on how each possible source should be used in funding public service content.

A2.137 Some respondents also argued that Ofcom should acknowledge that in the new media digital age public service broadcasters need to be allowed a wider remit than the single broadcast platform.

A2.138 BSkyB does not accept that public service programming has to be free-to-view. Subscription content can play a public role as it does in other industries such as newspapers and the arts. They also argued that the starting point for addressing genuine market failures (which Sky does accept exist) should be the licence fee, which represents sufficient public intervention already

Regulatory Assets

- A2.139 Nearly all respondents referred to the existing regulatory assets – especially the value of DTT spectrum – as having real and lasting value even after DSO and should be the favoured funding source for public service content.
- A2.140 The BBC believed it is difficult to reallocate regulatory assets due to the unique value they deliver to individual broadcasters and thought that regulatory assets have most value if they are retained by the existing public service broadcasters.
- A2.141 Five thought the regulatory assets of the ITV network and Channel 4 were underestimated, especially in relation to their near-universal reach on a wholly owned multiplex.
- A2.142 ULTV thought that Ofcom's analysis undervalued the freeview capacity on Multiplex B. More generally ULTV argued that the values for regulatory assets calculated by Ofcom are based on incumbents and that these values may be much higher for new entrants.
- A2.143 BSkyB argued Ofcom should maximise the contribution of the commercial public service broadcasters based on their regulatory assets, potentially setting priorities for Channel 4 in areas where ITV1 may no longer deliver.
- A2.144 Many respondents including Discovery Networks highlighted the importance of EPG prominence on the reach and impact of channels and that its value should be used to encourage broadcasters to provide more public service content.
- A2.145 PACT noted that commercial sector broadcasters potentially gain a commercial benefit from transmitting public service content (such as increased audience share). In view of this, PACT thought that Ofcom might recommend a review of several areas of UK 'must carry' and retransmission rules noting that UK producers currently get no benefit from retransmission of their programmes.

BBC Partnerships

- A2.146 The BBC argued that regulatory assets and self-help schemes represent significant opportunities to fund PSB. The BBC also stressed that sustainable funding for PSB requires new sources of value to be found rather than the reallocation of existing funds.
- A2.147 In its response the BBC suggested several partnerships with other broadcasters under the categories of 'Production, Distribution, Exploitation, and Enabling' partnerships. Noting that its partnership proposals can deliver benefits to the public service broadcasters and to the wider market, the BBC cited areas of potential partnerships with Channel 4 that could be worth up to £10-20m of net value per annum with the potential to generate up to a further £20m by working with other parties. The BBC also referred to initial modelling by Deloitte which indicated that by 2014 their partnerships could generate over £120m of annual benefit to PSB beyond the BBC compared to a scenario without them.
- A2.148 However, the BBC added that it is important that these proposals do not diminish the BBC and the services it provides to audiences. The BBC Trust and Executive will take forward the partnership proposals with the other public service broadcasters and are inviting consultation and comments from the rest of the industry.

A2.149 Owing to the fact that the BBC Partnerships proposals were published relatively late in our consultation process, not many respondents offered detailed comments on these partnerships. Five considered the BBC Partnerships as interesting and potentially productive noting that they could underpin the PSB system for years to come. Five was particularly keen on cross promotion by BBC of public service content on other channels and saw partnerships as far more cost-effective than wholesale transfer of assets.

A2.150 Some respondents including the Arts Council, England welcomed the BBC's partnerships as "overdue" and would expect to see new partnership opportunities extended by the BBC to the major arts and cultural bodies whose purposes are aligned with the BBC's creative and cultural purpose.

A2.151 However, some were sceptical about the proposals. Channel 4 thought there was a strategic logic to some of the BBC proposals but noted that not all of these apply to Channel 4 and, where they do, it is hard to see how they would deliver tangible financial benefits.

A2.152 UTV was also sceptical about the potential for partnerships with BBC as possible way of reducing costs for commercial public service broadcasters. They argued that sharing of news resources, footage and facilities may have the risk of reducing plurality and impeding journalistic endeavour.

Industry Levies

A2.153 The idea of levies on industry received a mixed support by a range of different responses. While levies were regarded by several groups of respondents as a fair and appropriate way of sustaining PSB, it was not always clear which industries should be levied.

A2.154 Several respondents including UTV, VLV, ACNI and the Trades Union Congress (TUC) supported industry levies. It was suggested that revenues from such levies could be used to part fund a competitive funding model. TUC did not accept that such levies could lead to market distortions or that they will simply be passed on to the consumer.

A2.155 Industry groups such as BECTU and the Musicians' Union favoured industry levies on cable and satellite broadcasters and ISPs but with the caveat that any such levies should not interfere with other levy systems that are intended to benefit the rights' holders.

A2.156 Other stakeholders including SCBG, Five and Nickelodeon were opposed to the imposition of levies arguing that a small sector of the industry should not be forced to subsidise social outcomes. The BBC also argued that the use of levies would simply share the available funding for the sector rather than grow it.

Licence fee and switchover surplus

A2.157 The majority of respondents opposed using the BBC's core licence fee revenues for non-BBC public service content.

A2.158 However, other stakeholders including ITN, Ofcom's Advisory Committees for Scotland, Wales and Northern Ireland, as well as industry bodies such as PACT favoured using the switchover surplus to fund non-BBC services or part fund

competitive funding model (the Republic of Ireland was cited as an example where 5% of licence fee is put to a competitive funding model).

A2.159 More specifically, ACW argued that the digital switchover surplus should be divided between Scotland, Wales and Northern Ireland and estimated that broadcasting for Wales in English will require a minimum of £40 million per annum to secure and sustain a sufficient range of high quality output.

A2.160 Nickelodeon also thought that “if revenue is to be allocated to fill the gaps in children’s programming, this should be taken from the existing licence fee, or through the diversion of funding away from existing PSB programming that competes directly with commercial services”.

A2.161 Other respondents including Five and Equity rejected any redistribution of the switchover surplus. The VLV reiterated that Ofcom should not use the switchover surplus as that would undermine the link between licence payer and BBC

A2.162 The BBC Trust argued it is far too early to speculate on the use of the licence fee beyond 2013, given the current economic conditions and the potential need for funding to support the BBC's sixth purpose of driving digital Britain. They stressed that there is no certainty of the level of the licence fee in 2013 in the new settlement and therefore there is no guarantee that the switchover surplus will be available. The following points were also made by the BBC in their response:

- The BBC also argued 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.
- It described the link between the licence fee and the BBC as "complex". The BBC's research showed that 70% of people spontaneously mentioned the BBC when asked about "which broadcasters are funded by the licence fee".

Direct funding

A2.163 Direct funding was not one of the most popular funding options and a number of respondents including the BBC thought that direct funding through general taxation would be unlikely and not ideal in the current economic climate. However, respondents stressed that any public funding should be accompanied by clear remits and accountability for delivery.

A2.164 ACNI thought that direct government funding from Westminster should be used to support a national competitive funding model and devolved administrations for devolved structures.

A2.165 The Welsh Assembly Government argued that broadcasting is not a devolved matter and therefore, funding should be found from UK sources. It added that the proposed Wales Media Commission might have a role in distributing some existing Assembly Government expenditures in the creative industries field. It also argued that the restoration of the £25-£30m value to Welsh broadcasting likely to be lost between 2006 and 2013 should be a minimum policy objective. The proposed Wales Media Commission would require an annual investment of around £50m. In turn the Assembly Government anticipated that this would be able to generate considerable further investment from co-producers and other private sources.

A2.166 ACS noted that payment for public service content from public funds would be unpopular with taxpayers. That said, ACS thought it might be appropriate for the DCMS and Scottish Government to provide funding for a specific purpose.

A2.167 Five pointed to the examples of S4C and Teachers' TV and argued that any additional public funding (over and above regulatory assets and revised terms of trade and BBC partnerships) should be out of general taxation.

A2.168 Although opposed to direct taxation, Equity favoured a combination of direct funding through the Scottish block grant (for a Scottish channel) as well as some of the proceeds generated when the analogue spectrum is sold off. If successful, the group argued that this may also provide a model for increasing national production in Wales and possibly Northern Ireland.

Other sources

A2.169 UTV thought a reduction in advertising airtime would help drive up the price of airtime. It also thought that commercial value could be added to regional programmes by allowing minutes around such programming to be excluded from the total peak time/daytime maximum - thus allowing increased advertising minutes to be scheduled around this output - but not diminishing the overall total of peak time advertising permitted around the most profitable programmes.

A2.170 Equity favoured BBC partnerships and industry levies as well as the possible use of investment quotas across a range of broadcasters, which could expand on requirements of the EU Audiovisual Media Services Directive.

A2.171 PACT noted that there might be scope for revising the application of copyright law to enable content creators to secure appropriate compensation.

A2.172 Some respondents including ACNI, VLV, Nickelodeon and Save Kids TV supported tax breaks as a potential incentive to enhance the production of children's programming.

A2.173 A few respondents thought that revenue from spectrum sold off after DSO, appears to have been overlooked in the context of PSB.

Funding for Channel 4 and the case for a "BBC Worldwide solution"

A2.174 Question 3 in section 6 in our consultation document asked respondents to describe their favoured approaches to funding for Channel 4.

A2.175 While many respondents reiterated their views about each funding source as expressed in previous questions, there were some specific references to Channel 4 worth noting:

- Channel 4 argued that the BBC Partnerships would not offer an adequate solution to its funding gap and that it needed additional scale.
- A large number of independent producers, and stakeholders such as ITN urged Ofcom to ensure that Channel 4 has a sustainable funding source which would enable it to continue its full-level public service activities.
- A somewhat contrary view was taken by Five which noted that Channel 4's existing regulatory assets are considerable - including its not-for-profit status –

and could not see the case for additional funding for Channel 4. Five thought that using regulatory assets taken from Five or ITV1 would destroy the public value of those channels. Five also argued that proposals to divert BBC Worldwide assets to Channel 4 are similarly misjudged – viewing this as just a form of top-slicing.

- A number of respondents noted that significant issues of accountability and state aid concerns would arise if Channel 4 were to receive public funding.
- ACNI noted that a long term funding structure for Channel 4 should be secured no later than 2010. It argued that Channel 4 should retain its existing regulatory assets and be allowed to compete for funding in a competitive funding model. However, ACNI thought that Channel 4 has not shown a strong commitment to PSB, particularly in Northern Ireland.
- A number of respondents including GMG and industry groups such as the NUJ, Equity and the Musicians' Union were against gifting BBC Worldwide (or its profits) to Channel 4 – Some of the reasons given against this solution were that it would:
 - be difficult and complicated to implement;
 - cause a reduction in funding for core BBC services;
 - be hugely detrimental to music in the UK (BBC Worldwide paid £2.3m to Musicians' Union members in 2007 and provides additional income to music writers).
 - lack adequate regulatory oversight by the BBC Trust.

A2.176 The UK Film Council favoured the BBC Worldwide solution while BECTU thought that collaboration with BBC Worldwide would be helpful but opposed any major transfer of value away from the BBC.

Additional points raised in stakeholder responses

Children's programming

A2.177 Channel 4 noted that it can contribute to providing content for older children

A2.178 Five gave a firm commitment to a minimum number of hours for UK originated children's programming.

A2.179 PACT sought clarification on Five's enhanced role for children's programmes and argued that programmes for older children make up a key shortfall in public service content. PACT suggested Ofcom should consider an extension to S4C's remit to cover English language children's programming.

A2.180 Save Kids TV welcomed Five's willingness to make a greater commitment to children's programming by moving from tier 3 obligations to tier 2, particularly in relation to content for older children. However, they also thought that the service Five is suggesting is not clear and despite a change in Five's regulatory status, they were concerned about the intense commercial pressures that Five's children's programmes would be subject to, and the extent to which mechanisms would be in place to protect them.

A2.181 Teachers TV were keen to emphasise that Ofcom has not addressed the importance of schools' TV to public service content. They explained how long-form video still remains relevant and useful to schools, albeit over a variety of distribution platforms (e.g. DVD, online).

A2.182 The Writers' Guild of Great Britain noted that the main general channels of all public service broadcasters should always have high-quality children's programmes.

A2.183 Screen England was concerned about the scale and speed of decline in children's television production. They would support special funding for children's programmes being set aside – perhaps under a complete funding structure – rather than focused on one lead provider as outlined.

Terms of Trade concerns

A2.184 A few respondents including PACT argued that consolidation has not led to producers exerting undue pressure on broadcasters. It was considered that bargaining power has allowed broadcasters to seek an array of additional rights to be bundled into the price they pay for the primary licence for no additional cost. PACT argued further that incumbent public service broadcasters have historically used their dominant position to stifle secondary markets by warehousing IP rights and seeking excessive holdback periods. This could exclude new entrants from developing new platforms and services. PACT believed that the quota for independent productions and the code of practice are still relevant and should be maintained.

The importance of parity in indigenous language programming

A2.185 MG Alba and Scottish Screen expressed the view that BBC Alba should be given Freeview carriage, noting the inadequacy of the broadband and satellite platforms.

A2.186 Several respondents including POBAL and members of the public were concerned that Irish language broadcasting in Northern Ireland was not given enough funding/attention and called for an equitable treatment for Irish language broadcasting with Gaelic in Scotland and Welsh in Wales.

A2.187 In their response RTÉ said they fully support provision of TG4 services in Northern Ireland. They pointed out the role RTÉ has in Irish language broadcasting and emphasised the importance of indigenous language broadcasting in the context of identity.

A2.188 The Arts Council of Northern Ireland made a case for extending RTÉ availability in Northern Ireland post-DSO, noting that it significantly funds arts content and adds to plurality. The Council also supported the establishment of ongoing mainstream public funding for indigenous language broadcasting.

A2.189 ULTACH Trust supported the right of viewers in Northern Ireland to have access to Irish language programmes made and broadcast within the UK. ULTACH also argued for the necessity of an appropriate funding structure for the production of Irish language programmes - supporting the continuation of the Irish Language Broadcast Fund. ULTACH also claimed that it is inadequate to rely on a non-UK broadcaster, like TG4 to provide an essential part of the UK's public service system. They are also critical of Ofcom claiming that it failed to clarify its position and recommendations on Irish language funding, ULTACH goes on to suggest that funding levels for the ILBF should be increased incrementally, and inflation-linked to reduce the gap with provision for Welsh and Scottish Gaelic over the long term.

A2.190 The Ulster Scots Agency also referred to a lack of consistency in funding arrangements for indigenous languages and urged Ofcom to consider ways of strengthening and safeguarding Ulster Scots programming.

Northern Ireland

A2.191 The important contribution broadcasting can make to 'normalisation' in Northern Ireland was acknowledged by the Culture, Arts and Leisure Committee of the Northern Ireland. In similar vein, RTÉ also noted the opportunity DTT presents for broadcasters to contribute to the normalisation of society in Northern Ireland and indeed in the Republic of Ireland by allowing for the full expression of all traditions/identities on the island 'free to air' in both jurisdictions.

A2.192 Ofcom's Advisory Committee for Northern Ireland said that while there might be similarities with the other devolved nations, the specific characteristics of Northern Ireland as far as public service broadcasting is concerned needed to be addressed with the objective being to maintain plurality of public service broadcasting (including that provided by Republic of Ireland broadcasters available in Northern Ireland).

Out of London (OOL) production and portrayal

A2.193 A number of respondents including PACT expressed concern over the lack of focus in phase 2 on OOL production and portrayal. The Department and Committee for Culture, Arts and Leisure in Northern Ireland, as well as Ofcom's Advisory Committee for Northern Ireland and Northern Ireland Screen, were also concerned at the low levels of portrayal of Northern Ireland on the UK networks. They welcomed proposals to address this issue. The Committee noted that stakeholders point to the merits of establishing a PSB Fund with the Irish Language Broadcast Fund (ILBF) as an example of best practice.

Older and disabled audiences

A2.194 ACOD criticised Ofcom's second phase of the PSB Review for barely containing any reference to Older and Disabled audiences and stressed that these groups consume more public service content than any other demographic. ACOD also expressed concern over the lack of portrayal of these groups and was keen to ensure access services, mainstream and specialist programming is safeguarded.

A2.195 In its response, ULTV argued that Local TV is the one digital service demanded by even the most 'reluctant adopters' of digital technology and that consideration must be given in the PSB review to the interest of all citizens but especially the most vulnerable in society who most rely upon linear TV. Further that those who cannot read or write gain their information from television. It was also claimed that the greatest demand for local TV comes from low income sub-groups, the over 65's and those with minimal interest in digital technology.

Concern about provision of arts programming

A2.196 The Arts Council, England noted Five and ITV's rapidly reducing commitments to arts programming and Channel 4's reducing arts budgets are of great significance. They referred to the Broadcasters' Audience Research Board's (BARB) analysis in phase 2 which revealed that the arts as a genre has the highest proportion of viewers (50%) who choose to watch sources other than the BBC. They also expressed the belief that a new public service content economy has the ability, catalysed by increasing broadband access, to far better reflect, nurture and support the diversity of UK arts

and culture, a commitment enshrined within clause 264 of the Communications Act 2003. The Council added that as public sector organisations migrate online and use broadband opportunities to connect and engage with the public in deeper and more profound ways, it would be possible to view publicly funded media 'content' such as the work Arts Council England funds as public service broadcasting and media content.

A2.197 The Arts Council of Northern Ireland was similarly concerned saying that current PSB provision has not served the arts well in an increasingly fragmented media market. This is a priority which should be recognised by Ofcom.

Religious programming

A2.198 In a joint response, representatives of the Church of England and the Roman Catholic Church argued that there is confusion and inconsistency about the way religious output is viewed and its value to audiences. They thought that "religious programmes suffer from a lack of investment, being scheduled at unpopular times and being given relatively little prominence".

The importance of international programming

A2.199 The International Broadcasting Trust (IBT) believes that the public service broadcasting review should be used to rethink the current approach to international programming, particularly of Channel 4. They are concerned that international programming is increasingly migrating to digital channels. They believe that Ofcom should review the ways it measures international programming by broadening the scope of Purpose 1 to include factual programmes and Purpose 4 to include different cultures internationally not just the UK. They believe that children's programming plays an important role in delivering international stories to this age group and believe that further intervention needed to increase originations.

List of non-confidential respondents

This list excludes individuals who responded to the consultation

ACOD
Advantage West Midlands RDA
All3Media
Alliance Party of Northern Ireland
Angus Council
Arts Council England
Arts Council of Northern Ireland
BBC / BBC Trust
BECTU
Brighton and Hove City Council
British Film Institute
BSkyB
Campaign for Press and Broadcasting Freedom

Canan Limited
Carlisle City Council
Casarotto Ramsay & Associates Ltd
Celador Films Ltd
Channel 4
Channel 5 Broadcasting Ltd
Church of England and the Catholic Bishop's Conference of England and Wales
Comhairle na Gaelscolaiochta
Committee for Culture, Arts and Leisure
Commonwealth Broadcasting Association
Comunn na Gaidhlig
Cultural Diversity Advisory Group to the Media
Cumbria County Council
Department of Culture Arts and Leisure, Northern Ireland
Discovery Networks UK
Dumfries and Galloway Council
Dundee City Council
Edinburgh Chamber of Commerce
Equity
Fife and Tayside Local TV Working Group
Film and Television Freelance Training
Finestripe productions
First Light Movies
Flair Leisure Products Plc
Freeform Productions
FutureLab
Green Bay Media
Guardian Media Group
Hardcash Productions
Holler Digital LTD
Holywood Irish Society
Hotbed Media Ltd
Independent News and Media (Northern Ireland)
Institute of Local TV and Scottish Local TV Federation
International Broadcasting Trust
Isle of Man Communications Commission
ITN
LG Communications
Littleloud
Media 19
Mentorn Media
MG ALBA
Musicians' Union
National Assembly for Wales' Communities and Culture Committee

National Institute of Adult Continuing Education
National Union of Journalists' Parliamentary Group
NESTA
Newspaper Society
Nickelodeon
Northern Ireland Screen
Nottinghamshire, Mansfield & Nottingham Trades Union Council
National Union of Journalists (NUJ)
National Union of Journalists (NUJ) Nottingham branch
Ofcom Advisory Committee for Northern Ireland
Ofcom Advisory Committee for Scotland
Ofcom Advisory Committee for Wales
openDemocracy, Pickled Potlitics, Liberal Conspiracy and Ekklesia
PACT
Performers' Alliance Parliamentary Group
Pinewood Shepperton
Plaid Cymru
POBAL
Presbyterian Church of Wales
Princess Productions
Queen's Film Theatre
Quicksilver Media
Raidió Fáilte
RNID
RTE
Ruby Films
Satellite and Cable Broadcasters' Group Ltd
Save Kids' TV
Scottish Chambers of Commerce
Scottish Conservative Party
Scottish Council for Development and Industry
Scottish Enterprise
Scottish Government
Scottish Highlands and Islands Film Commission (SHIFC)
Scottish Screen
Screen England
Shed Media
Skillset
Social Democratic and Labour Party
South West Screen
Steve Boulton Productions
Stonewall
STV
TAC-Teledwyr Annibynnol Cymru

Teachers' TV
Tern TV Productions
Testimony Films
The Character Group plc
The Church of Scotland
The Country Channel
The Saltire Society
The Walt Disney Company Limited
Think Bigger! Ltd
Tobar Productions
Trades Union Congress (TUC)
True TV and Film Ltd
TVE
UK Film Council
UK Music
Ulster-Scots Agency
ULTACH Trust
United for Local Television
Universal Music TV
UTV
Vivid Imaginations Ltd
Voice of the Listener & Viewer
Welsh Assembly Government Broadcasting Advisory Group
Wales Executive Council of the National Union of Journalists
Welsh Language Board
Welsh Liberal Democrats
Writers' Guild of Great Britain