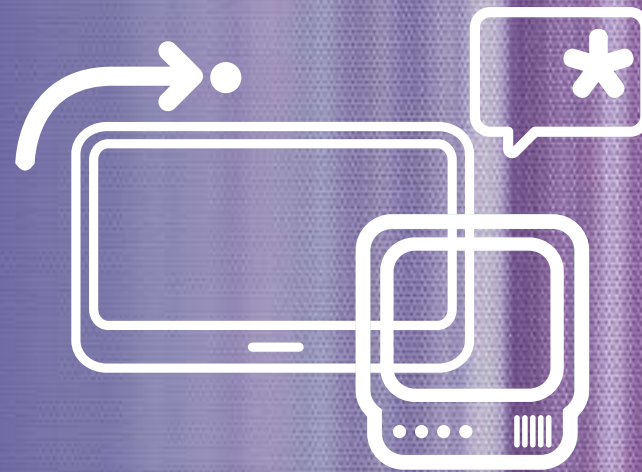


Phase 1 – Is television special?

Ofcom review of public service television broadcasting



Closing date for responses:
Tuesday 15th June

Contents

Foreword	2
Executive summary	4
The current effectiveness of broadcasting	4
Maintaining and strengthening public service broadcasting	8
How to respond to this consultation	13
Introduction	14
1. What do we mean by PSB?	18
The evolution of public service television broadcasting	18
The Communications Act 2003	18
Defining PSB	23
2. Current effectiveness	26
Output: what do the existing terrestrial channels provide?	27
Impact: viewing trends	43
Value: viewers' opinions and perceptions	48
Conclusions on the effectiveness of current delivery	56
Areas of concern	57
3. A changing environment	62
Market developments	62
Audience behaviour	64
The implications of change	66
4. The way forward?	70
A sustainable rationale for public service television	70
The conceptual framework in a digital age	74
Implications	75
5. Next steps – Phase 2	80
6. Questions for consultation	81
Effectiveness of the current system	81
Maintaining and strengthening PSB	82
7. Ofcom's consultation principles	83

Foreword

This is Ofcom's first statutory review of public service television broadcasting. Parliament has asked us to do two things. Firstly, to assess how well the existing public service broadcasters – the BBC, ITV1, Channel 4 (and S4C in Wales) and Five, taken together – are delivering the range and breadth of programming and audience needs that constitute public service broadcasting. Secondly, to make recommendations to maintain and strengthen public service broadcasting itself.

Our review is thus both retrospective and prospective. It covers a period of rapid change from the introduction of digital television six years ago; to the point where today, more than half of all households have digital, multichannel television; and it looks forward to the point of digital switchover – a process which will significantly alter the television broadcasting landscape.

This report is Phase 1 of our review and it focuses on the first of our tasks – how well the existing main terrestrial broadcasters are delivering on their objectives.

To carry out this task, we have conducted one of the largest ever audience surveys, to establish what the public think television should provide. We have consulted a broad spectrum of specialists and the professionals who make and commission programmes. We have also put together a comprehensive set of hard data, from the broadcasters and others, to enable us to make a wide-ranging analysis of the output of the main terrestrial channels over the last five years, to gauge their creative health and the extent of their editorial ambition.

Ofcom's core mission is to further the interests of the citizen-consumer. The results of our audience survey reflect that duality of interests. As consumers, we welcome the increased choice that competition has brought to television. But as citizens, we believe that television has responsibilities that go beyond simply serving individual viewers with the programmes that

they want. These responsibilities remain valued by all groups of viewers. Television is a special medium: it interacts directly with the society we are and want to be.

The evidence shows that, in the main, the broadcasters are continuing to deliver a wide range of quality television that informs, educates and entertains; with well-funded and well-regarded news output; and with a high proportion of home-grown, UK-made programming, especially in peak-time. However, the pressures of competition and of changing viewer behaviour are leading some of the more challenging or minority genres to be pushed out of peak-time viewing; and, overall, to more ratings-driven schedules with less originality and innovation than audiences wish to see.

These trends may well intensify as more and more homes become multichannel. In this Phase 1 report, therefore, we also advance some propositions that we believe will best serve to sustain and strengthen the vital qualities of public service broadcasting in the years ahead. These propositions will form the basis for fuller analysis and public debate in Phase 2 of our review.

Public service broadcasting, in the 'golden age' of television was characterised by two main networks – the BBC and ITV – with the funding, ethos and defined genres that lead to competition for quality. Absent of other competition, regulation as much as shareholder pressure determined output. The BBC kept ITV honest; ITV kept the BBC on its toes. Channel 4 energised the mix, bringing in a whole new group of independent producers.

As we move towards digital switchover, market conditions will change significantly; as most, then all, homes become multichannel. Audiences will continue to fragment, as more viewers take greater advantage of the choice available.

The shareholder-funded broadcasters – ITV and Five – will need to respond competitively or else they will diminish as investment engines for originated British content. They will continue to make a significant contribution to what we define as the purposes and characteristics of PSB (as will some of the output of broadcasters not currently classified as public service broadcasters). However, our regulatory approach to them needs to evolve. It is widely recognised in the industry, though less well appreciated outside it, that, at a certain point in digital take-up, the current balance of privilege and obligation, particularly for ITV, will so have eroded that, absent other measures, their public service broadcasting obligations will become commercially unviable. It is essential not to arrive at that point unprepared. In the meantime, we need to value carefully the benefits – and the costs – of the privileges of guaranteed spectrum and universal access to ITV and Five. We should focus regulatory intervention on those PSB characteristics to which citizens give the highest social value and maximum viewer impact; and not fund that which the market will anyway provide.

This puts an ever-greater premium on the BBC – and those who govern it – living up to the spirit as well as the letter of its remit. A publicly funded BBC needs to retain scale and viewer impact. It should be the standards-setter for the highest quality of public service broadcasting.

However, monopoly provision is never the most effective provision. The viewer, as consumer and as citizen, is best served by competition for quality. That competition for quality needs to be on a scale which conditions the BBC's response and its output. An

efficient, tautly run Channel 4 will have an important role to play. But a range of other options to reinforce competitive provision of PSB also needs to be looked at.

Plurality in commissioning is essential to create the demand and funding for original and innovative programming across a broad range of genres. Plurality in the creative supply of such programmes is equally important. Centralised studios and vertically-integrated broadcaster-producers may have suited the old duopoly. They should survive only on their own merits in the digital age. The independent producers will play a key role in 'competition for quality', and a strong independent production sector is an important part of the mix to deliver effective PSB.

We want your views and comments both now and on our Phase 2 report later in the year, when propositions will have hardened into firm proposals. They will shape what our review recommends to Government and to Parliament. We believe that greater choice will increasingly meet the needs of the viewer as consumer. It is to secure the best interests of the citizen that we must decide why, how and when we must intervene. Television matters – to all of us.

David Currie, Richard Hooper, Stephen A Carter

Executive summary

Introduction

Parliament has required Ofcom, the communications regulator, to review the effectiveness of public service television broadcasting and to report on how it can be maintained and strengthened. This is the first phase of our review. It sets out our initial conclusions about the effectiveness of broadcasting on the main terrestrial TV channels, and our initial views on how to maintain and strengthen the quality of public service broadcasting in a changing market, as we move into a fully digital world.

A matter of terminology

The term ‘public service broadcasting’ is frequently used and often abused. It has at least four different meanings: good television, worthy television, television that would not exist without public intervention, and the institutions that broadcast this type of television.

To avoid confusion, we will use the following convention throughout:

- When assessing the current effectiveness of the broadcasters, defined in the Communications Act 2003 as ‘public service broadcasters’, we will call them the ‘main terrestrial TV channels’. They are all the BBC’s licence fee funded channels, ITV1, Channel 4, S4C and Five¹.
- When we offer our emerging ideas on how to maintain and strengthen ‘public service broadcasting’ in the future, we will first define what we mean by the term. Thereafter, we will use public service broadcasting (or PSB) to refer to the purposes that PSB should achieve in society and the necessary characteristics of PSB programmes.

The current effectiveness of broadcasting

The Communications Act requires the main terrestrial TV channels – BBC One, BBC Two, ITV1, Channel 4, S4C and Five – to deliver programmes and services which cover a wide range of subject matters and which meet the needs and interests of many different audiences. Among other aims, they are expected to meet high standards, to educate, to inform, to entertain, and to reflect and support cultural activity in the UK. They should reflect the lives and concerns of different communities in the UK, and include an appropriate proportion of content made outside the M25 area.

We have examined the effectiveness of the main terrestrial TV channels from three broad perspectives:

- **Output:** have the main elements of programming, as set out in the Act, been provided by the relevant broadcasters?
- **Impact:** have they reached their target audiences?
- **Value:** are they appreciated by their target audience, and do they deliver benefits to society as a whole?

Our initial finding is that broadcasting on the main terrestrial TV channels has partially, but not completely, fulfilled the requirements of the Communications Act. There are some significant achievements, but also important shortcomings in effectiveness, partly due to the actions of broadcasters, and partly because viewers have drifted away from the more challenging types of programming, traditionally thought to be at the heart of UK television.

¹ Ofcom also has a duty to review the effectiveness of Teletext. We will conduct this analysis in Phase 2 of our review. We will also include a more detailed analysis of the BBC’s publicly funded digital channels.

Output

The main terrestrial TV channels receive 57% of total UK television revenue and continue to provide a wide range of high quality output. Competitive pressures are mounting, and while this has welcome aspects it has also had an impact on the balance of peak-time schedules (6pm to 10.30pm). We found that:

- Between 1998 and 2002, expenditure on programming by the main terrestrial TV channels rose by 19% in real terms. But excluding sports and movie rights, where inflation has been high, expenditure growth on programming was only 8% in real terms.
- The volume of UK-made programmes across their schedules increased slightly with the largest increase recorded by drama.
- A wide range of subject matters was covered; the range of broadly defined genres (or programme types) shown in peak-time in 2002 is little changed from 1998. All channels continue to mix entertainment with news, information and other factual material.
- High quality, accurate and impartial news and information services were provided. Spending on news resources also rose.
- Drama was a strong feature in peak viewing hours. Both the number of hours transmitted and the total expenditure increased.
- Innovative approaches to programme formats were developed, which defied traditional categorisation, such as ‘factual’, ‘entertainment’ or ‘drama’. But in important areas, the number of new titles launched each year fell and the range of subjects covered narrowed.
- Specialist programming on topics such as arts, current affairs and religion was increasingly pushed out of peak viewing hours.
- Expenditure on certain elements of programming also suffered: total expenditure on arts, children’s, religion and education programming fell.
- Within programme types, there was a reliance on those with more obvious popular appeal, for example soaps within drama, and factual entertainment within factual, as all the main terrestrial TV channels pursued a more ratings-led agenda.
- Overall, the hours of regional programming broadcast and expenditure on regional programmes rose over the period. But the UK nations fared better than the English regions, and the total number of hours of regional programming on ITV1 fell.

Impact

The main terrestrial TV channels accounted for the majority of viewing, even in multichannel (cable, satellite and DTT²) homes. But their effectiveness as a means of reaching large audiences with a wide range of programming diminished:

- Their audiences decreased: in 2003, the five main terrestrial TV channels captured around 76% of total viewing, compared with 87% in 1998.
- In multichannel homes, their audience share started lower and declined from 63% to 57% over the same period. DTT households were a clear exception to this trend: the main five channels' share remained in the region of 85%.
- They began to lose touch with some audience groups: their share among 16-34 year olds declined from 84% to 69% during this period, and in 2003, their share among non-white audiences was around 56%. Younger audiences and ethnic groups rarely watched mainstream news output.
- Their audience reach fell: in 2003, BBC One reached 80% of audiences in cable and satellite homes for 15 minutes or more each week, compared with 84% in 1998; the same channel reached only 75% of 16-34 year olds in 2003.
- Some of the more serious and challenging programme types were most affected by multichannel competition. *Horizon*, *Newsnight* and *The South Bank Show* all had a viewing share more than 50% lower in multichannel homes compared with homes with only the main terrestrial TV channels.

For all the decline in audiences, terrestrial channels still broadcast important events, such as the Rugby World Cup, which brought the nation together. They also offered initiatives such as *The Big Read* or *Restoration*, which had an impact beyond viewing figures.

Value

Our attitude survey showed that the public appreciated and valued television, but there were differing views about the existing output:

- The provision of entertaining programmes was seen as television's primary function, but beyond that there was substantial public agreement with the notion that the main terrestrial channels should support wider social purposes.
- The highest levels of support were recorded for news and information and for the provision of a wide variety of programmes across the schedules. Programmes targeted at a broad audience received strong backing.
- Programmes made in the UK and innovative, original output were seen to be important components of good television.

There was less support for the provision on the main terrestrial channels of the more specific elements of the Act's public service requirements and those which attract lower audiences:

- Specialist arts programming, programmes dealing with religion and other beliefs, and some types of regional programming were much less widely valued than news, drama and factual programming.
- Regional programming received mixed reviews: many people felt it was important, but there was evidence that audiences did not engage with much regional programming other than regional news.
- Programmes dealing specifically with minority interests were not widely valued by the rest of the population. There was more support for the representation of minority groups and interests within mainstream programming.

We also asked people how well they thought the main terrestrial TV channels were providing different types of programming:

- The provision of news and other programmes that keep the population well-informed is thought to be done very well.

2 DTT: Digital Terrestrial Television. Formerly ONdigital/ITV Digital, now Freeview. We will use the term 'DTT' throughout.

- Viewers thought that television lacked innovation and original ideas, relied too much on copycat and celebrity programming, and on occasion talked down to its viewers.
- There was a strong feeling that television was failing to provide an environment that could protect children from unsuitable content in the pre-watershed (9pm) schedules.

In-depth discussions with the public and with broadcasting professionals revealed widespread support for competition between the main terrestrial channels to provide the sorts of programming specified in the Communications Act. But different broadcasters were also expected to achieve different goals:

- The BBC was assumed by the public to have the most programming obligations, Five the least. Audiences gave ITV1 some leeway to pursue mass audiences with popular drama and entertainment.
- Channel 4's loyal viewers were clearer about its role to experiment and innovate than were viewers in general.
- Beyond terrestrial, only a small proportion of respondents saw a need to oblige cable or satellite channels to provide programming with a wider social purpose, although many were appreciative of the availability of such programming on these channels.
- Many viewers felt that there was not enough co-operation between the main terrestrial channels to avoid direct schedule clashes, and they resented some of the effects of competition – derivative formats and aggressive scheduling.
- Broadcasting professionals felt that the BBC had taken a more aggressive approach to winning audiences in recent years and was less different from other channels than it should be.

Maintaining and strengthening public service broadcasting

A changing environment

A fully digital world will fundamentally alter the shape of the market, and the role of the main terrestrial TV channels in it:

- As multichannel competition has increased, the terrestrial channels' share of the funding flowing into television has already declined from 65% in 1998 to 57% in 2002.
- In future, increased competition for audiences and revenues will continue to place pressure on the profitability of the commercial terrestrial broadcasters: ITV1, Channel 4 and Five. This will affect their ability to meet their regulatory obligations in the future.
- The TV licence fee is already questioned by viewers whose use of the BBC's services is declining. Dissatisfaction with the BBC's method of funding may increase and there is an additional question about whether the BBC's income will keep pace with rising viewer expectations for high quality content.
- Our research suggests that audiences, while supporting the obligations on the main terrestrial broadcasters in the Communications Act, prefer to watch a more entertainment-oriented mix of programming when they have the choice.
- They move around channels with much greater frequency, making it harder for the main terrestrial broadcasters to retain audiences for more traditional, serious or challenging programming.
- New technology, in the form of broadband and Personal Video Recorders (PVRs) is likely to cause further disruption, as viewers begin to create their own schedules and to avoid advertising.

These changes have profound implications. First, increasing competition for revenues is likely to reduce the funds available to broadcasters to meet their current programming obligations. Second, the fragmentation of the audience may weaken the justification for a large amount of direct or indirect public funding for broadcasting.

Over time, questions are bound to arise about continued public support for and investment in the provision of programming that fewer people watch, and that fails to reach large groups of the viewing public.

The definition and purpose of public service broadcasting

TV broadcasting and its regulation evolved over decades without always having a clear rationale. But we believe there are two simple aims behind the historic regulation of terrestrial broadcasters:

- Helping the broadcasting market work more effectively to deliver what **consumers** want to watch or want to have an option to watch.
- Providing the programming that as **citizens** we want to be widely available for as many people as possible to watch. Such programming secures the wider social objectives of UK citizens by making available TV which has broad support across the UK, but which would be underprovided or not provided at all by an unregulated market.

Consumer rationale

Most markets routinely provide the products consumers value and want to purchase. But in a world with only a limited number of free-to-view TV channels, an unregulated market is unlikely to provide such an outcome. Regulation was designed to ensure that a sufficient range and balance of programmes was provided on each terrestrial TV channel, alongside programmes that catered for minority as well as for mass audiences.

As digital take-up progresses, with multichannel provision, encryption systems and a wide variety of different models of consumption, the market failures associated with consumers not being able to watch

the programmes they would willingly buy are diminishing fast. We believe that in the future, public service broadcasting will no longer be needed to ensure consumers can buy and watch their own choice of programming.

There may remain concerns about the market power of some broadcasters, but in our view these are better dealt with by the application of competition law than through a large public intervention.

Citizen rationale

Even if the TV market provided all the programming that consumers desired and were willing to buy, it would probably not offer sufficient programmes that are valued by society as a whole.

Addressing under-provision by an unregulated market may become more important as the world becomes more complex, and social cohesion, cultural identity and aspects of the democratic process are under pressure.

We believe the purposes of programming in this category are:

- **to inform ourselves and others and to increase our understanding of the world** through news, information and analysis of current events and ideas;
- **to reflect and strengthen our cultural identity** through high quality UK, national, and regional programming;
- **to stimulate our interest in and knowledge of arts, science, history and other topics** through content that is accessible, encourages personal development and promotes participation in society; and
- **to support a tolerant and inclusive society** through the availability of programmes which reflect the lives of different people and communities within the UK, encourage a better understanding of different cultures and perspectives and, on occasion, bring the nation together for shared experiences.

Bridging the shortfall between what a well-functioning broadcasting market would provide and the wider ambitions of UK citizens is our definition of the enduring purposes of public service broadcasting. It constitutes a continuing rationale for PSB, one which, for the time being, retains widespread public support.

But if it is worth doing, it must be capable of reaching audiences and being appreciated by them:

- it must be high quality, original, innovative, challenging and widely available. These are what we refer to as the characteristics of PSB;
- it must be delivered on channels that have a high reach among and impact on their target audiences; and
- if it is to be publicly funded, it must be clear that the market would not deliver similar output, of the same quality, on the same scale.

We set out below a series of initial propositions from our Phase 1 research in three sections: a new framework for PSB; the immediate consequences of our Phase 1 research; and propositions for the transition to a fully digital world. These propositions are intended to stimulate debate and provoke responses. Our own programme of work will be designed to examine them over the coming weeks and months.

A new framework for public service broadcasting

1. PSB should in future be defined in terms of its purposes and its characteristics rather than by specific genres (programme types). Many of the most successful examples of broadcasting over the past five years have defied traditional categorisation. Audiences are, for instance, drifting away from specialist arts, religious and current affairs programming.
2. The purposes of PSB lie in underpinning an informed society, reflecting and strengthening our cultural identity, stimulating our appetite for knowledge, and in building a tolerant, inclusive society.
3. The characteristics of PSB must underpin its distinctive contribution. It implies programmes of quality, innovation, originality, challenge and wide availability. These are sometimes hard to measure, but vital to secure in all aspects of PSB.
4. Producing PSB with appropriate purposes and characteristics is not enough. TV currently plays a unique role in reaching millions of people. It must continue to do so if it is to justify significant public expenditure. This suggests that PSB is likely to have to deploy a creative approach which blends public purposes and popularity, that is serious in intent but accessible in style, and that finds new ways of leading audiences to interesting and challenging material.
2. A high priority should be placed on achieving digital switchover, to bring increased choice and competition and to enable the market to work more effectively on behalf of consumers. The case is set out in Ofcom's report on digital switchover (available on the Ofcom website: www.ofcom.org.uk). Achieving switchover should be given preference over some of the more marginal obligations currently placed on commercial terrestrial broadcasters.
3. There remains an important role for all the main terrestrial TV channels to play in delivering PSB prior to switchover. But regulation of commercial broadcasters will need to be made clearer and easier to enforce. The central components of PSB delivery on ITV1 and Five should be news, regional news (for ITV1) and original UK production; the aspects that have high audiences, that are valued highly by the public, and that can be effectively mandated.
4. Channel 4 will have a critical part to play, especially given the public desire for originality and innovation. Ofcom will pursue a close dialogue with Channel 4 to ensure the channel remains well-placed to deliver PSB purposes and characteristics effectively in the future.
5. In parallel, the BBC needs to reaffirm its position as the standard setter for delivering the highest quality PSB. The BBC Governors should take the lead in ensuring the BBC addresses concerns about derivative formats, aggressive scheduling, competition for acquired programming and a balanced schedule in peak viewing hours.

The immediate consequences

1. PSB must achieve reach and impact to be effective. It must be free to respond to the challenge of providing accessible and popular programming. This suggests that regulation should break away from narrow obligations specifying hours of certain types of programming across the schedule. Implementing this new approach to PSB will require a new framework of remits, accountability, measurement and qualitative judgement to ensure that programmes and television channels meet the purposes and characteristics of PSB. Ofcom will work with the commercial broadcasters to develop and introduce this new framework.
6. Our research identified a strong desire for a safe environment for younger viewers, especially on the main terrestrial channels. But audiences also told us that some early-evening programmes, including soaps, have an important social role to play in airing complex and controversial issues. We will undertake a thorough exercise to consider different approaches to regulation in this area.

7. Viewers and broadcasters appear to be uncertain about the role of programmes for the English regions, other than in news. We will also begin an investigation of the importance of national and regional programming, including consideration of how it is delivered.
8. We are in a period of transition from analogue TV to digital TV. All of the main terrestrial broadcasters still have substantial scope for the effective delivery of our definition of PSB. But during the next five years a new model of PSB regulation will need to emerge. If new institutions are to be created, or older ones reformed to play an effective role in the digital world, development should begin now rather than at the point of digital switchover.

Propositions for the transition to a fully digital world

Proposition 1

We need to examine the prospects for PSB funding and the case for seeking alternative resources. The existing commercial funding base for PSB is being eroded. Popular support for the TV licence fee may be jeopardised by increased audience fragmentation. So, new forms of explicit or implicit funding or support for PSB need to be considered for the longer term. These should include areas such as electronic programme guide (EPG) positioning, digital multiplex access, commercial TV's payments to the Treasury and other possible incentives.

Proposition 2

Competition in the provision of PSB is at the heart of an effective system. In a digital world, a single, monopoly supplier of PSB is unlikely to be the most effective model for delivering PSB purposes or characteristics, or for securing plurality of views and perspectives. We need to examine the case for sharing existing funding streams among a greater number of broadcasters and allowing broadcasters or producers to bid for PSB funding.

Proposition 3

Where public funding is necessary to secure the purposes and characteristics of PSB, different means of distributing funding should be examined. One option is to continue with direct allocations to designated broadcasters. A second is to make allocations through a new intermediary (a 'purchaser' of PSB) with either broadcasters or producers as recipients ('providers' of PSB). Both options need to be assessed as we consider the best model for delivering PSB in the digital future.

Proposition 4

We should continue to secure a substantial contribution to PSB by not-for-profit organisations in addition to contributions from profit-making broadcasters. This is because social purposes may be more easily achieved when the organisational aims within which commissioners and schedulers work are closely aligned with PSB purposes, rather than potentially in conflict with them.

Proposition 5

The market is likely to produce significant amounts of programming which meet both the purposes and characteristics of PSB, and which can be defined as PSB. Some programming (and channels) supplied without public intervention already contribute to PSB purposes. Prior to switchover, we should work to explore how many of the purposes and characteristics of PSB can be provided, without public intervention, by the evolving TV broadcasting market.

Proposition 6

Notwithstanding developments in the market, there is a strong case for the BBC to continue to undertake a wide range of activities to underpin the delivery of the public purposes and characteristics of PSB. But its range of activities needs to be reviewed periodically in relation to core PSB purposes.

- Where a high cost of delivery is associated with low viewing figures, it will be harder to justify continued public intervention. Alternative means of funding, such as subscription, should be considered for these services.
- Other activities, including secondary market distribution, studio and other production resources, and indeed production should be reviewed carefully against their distinctive contribution to PSB purposes.

Proposition 7

Every programme shown on the main commercial terrestrial channel's schedules need not always reflect PSB purposes and characteristics. In the case of the BBC, however, with its unique and privileged funding status, programmes should always strive to reflect the broad purposes and character of PSB to some degree.

Proposition 8

Channel 4 will need to overcome increasing financial pressure if its contribution to PSB is to be viable in a fully digital world. Internal efficiency and self-help must be the starting point. If necessary, a range of alternative options should also be considered, including new commercial initiatives, a share of contestable funding, a new source of direct funding, or a share of the licence fee. In considering these options, Channel 4's distinctive role and ethos should be maintained on a secure footing through its ownership status, covenants and expression of purposes.

Proposition 9

Independent producers make a major contribution to PSB purposes across most programme types. Apart from one or two specialist areas (e.g. news), our supposition is that there is more scope for independent production to enhance the delivery of PSB. Measures that need to be considered include raising the quota of programming which broadcasters must commission from independent producers.

Proposition 10

There are many significant challenges ahead. Once digital switchover has been achieved, public intervention to secure PSB may not be justified on its present scale, either because market failures are reduced considerably, or because it will prove impossible to secure the purposes and characteristics of PSB through television at a reasonable cost.

We would welcome responses to all the ideas set out in this executive summary: our conclusions about the effectiveness of the current system of television broadcasting on the main five terrestrial channels; and the propositions in the above section on maintaining and strengthening PSB in the future.

How to respond to this consultation

This report marks the end of Phase 1 of our review. It seeks views on the conclusions we have come to and the questions we have raised. Section 6 summarises the questions for consultation.

We are seeking views from all organisations and individuals who have an interest in the future of public service broadcasting, including:

- viewers;
- television broadcasters, channels and platforms;
- production companies;
- other media organisations;
- organisations in sectors that have close ties to television (e.g. sport, the arts, film);
- anyone with a commercial or employment interest in the broadcasting industry (e.g. trade unions, trade associations);
- consumer groups;
- anyone concerned about the importance of television to the economy; and
- anyone concerned about the importance of television to citizens.

In the course of Phase 1, we have already received submissions from a range of interested parties. Those views will be considered alongside the responses we receive to this report. Both will inform the next phase of our work.

More information about the PSB review and copies of the supporting documents to this consultation are available from Ofcom's website at www.ofcom.org.uk

Please send written or electronic responses, marked 'PSB review – consultation response' by **Tuesday 15 June** to:

Alex Towers
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: alex.towers@ofcom.org.uk

If you are a representative body, please summarise the persons or organisations represented. Electronic versions of responses would be appreciated. Any confidential parts of a response should be placed in a separate annex, so that non-confidential parts may be published along with the respondent's identity. If the whole of a response is confidential, including the name of the respondent, that should be clearly stated. Copyright in responses will be assumed to be relinquished unless specifically retained.

One of Ofcom's stated consultation principles (see page 83) is to allow ten weeks for responses. Since this is an interim report, and represents the first of two major consultation exercises in the course of the PSB review, we have shortened this period slightly, to eight weeks.

The Ofcom senior team with responsibility for this consultation and review are:

Ed Richards Senior Partner, Strategy and Market Developments

Robin Foster Partner, Strategy Development

Tim Suter Partner, Content and Standards

Ofcom has also appointed a Consultation Champion who is responsible for the quality of Ofcom's consultation process in general. Any comments or complaints about the conduct of this consultation should be addressed to:

Philip Rutnam
Partner, Competition and Strategic Resources
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: philip.rutnam@ofcom.org.uk

Introduction

Aim of the PSB review

1. The debates around the Communications Act 2003 produced a consensus view that:
 - public service television broadcasting (hereafter referred to as PSB) remains a vital part of the broadcasting environment, that needs to be supported; and
 - the pace of change in the television market raises new challenges to the existing model of PSB, and these challenges will need to be monitored closely.
2. The Act therefore requires Ofcom to carry out a review of the PSB environment at least every five years, with the first review taking place in its first year. The Act identifies a set of public service television broadcasters: all the BBC's TV services; ITV1; Channel 4; S4C; Five; and Teletext. Ofcom must assess how far these broadcasters, taken together, are fulfilling their role to:
 - inform, educate and entertain;
 - support production outside London; and
 - provide a suitable quantity of high quality programming to a diverse range of audiences across a wide range of genres (programme types).
3. We are asked to consider the costs of this provision, and the sources of income available to the broadcasters to meet those costs. We are then required to report on how the quality of PSB might be maintained and strengthened in the future.
4. This is a particularly important time to be reviewing the state of PSB. As the BBC's Charter comes up for review again, the market is undergoing rapid change. The main five channels still dominate the TV landscape but new models of delivery look as if they may supersede analogue terrestrial transmission within the next decade. For 20 years, since the arrival of cable and satellite, people have been predicting that a burgeoning choice of commercial channels would erode the viewing base for traditional, mass-audience network TV. In the last five years, however, that has become a real possibility. The speed of change has increased. At the beginning of 1998 no-one in the UK had digital TV. Today 50 per cent of homes have digital equipment and a wider range

of channels. Take-up continues to rise and audiences are fragmenting as a result. Emerging technologies such as video-on-demand, PVRs and broadband threaten to further erode the audience for network-scheduled programming. The major terrestrial broadcasters will have to adapt if they are to continue to prosper.

Our approach

5. The project consists of a 12-month programme of work broken into three phases, with a report and consultation at the end of each of the first two phases:
 - Phase 1 (Oct 03 to spring 04) focuses on measuring and assessing the **current position**.
 - Phase 2 (spring 04 to summer 04) will examine **prospects for the future** and their implications for PSB.
 - Phase 3 (late autumn 04) will put forward **proposals and recommendations** for maintaining and strengthening PSB in a digital world.
6. Ofcom's analysis is distinct from the concurrent review of the BBC's Royal Charter. However it is timed to dovetail with that work and elements of our review will inform the Government's conclusions.

The Phase 1 report

7. Our Phase 1 work focuses on measuring and assessing current provision but it cannot ignore the backdrop of tremendous change. This report therefore has four main sections:
 - **What do we mean by PSB?** How did the existing system develop? What does the Communications Act say? What are the different meanings of the term 'PSB'?
 - **Current effectiveness** What are the broadcasters providing? Are they fulfilling their remit? What do people watch? How satisfied are they? Is the system working?
 - **A changing environment** How is the market changing? How is that affecting viewing patterns? What are the implications of change?

- **The way forward?** What are the purposes of PSB in a digital age? Do they justify intervention on the current scale? What principles should guide us when we look at the longer term, in Phase 2 of this review?
8. This work establishes the issues for debate and the priorities for our future work programme, which are summarised at the end of the report in two sections:

Next steps Work we will pursue in Phase 2.

Questions for consultation Summarising the questions raised by our work so far.

Our research base

9. Television is a well-researched area. We have used many existing research sources but have also looked to build on this evidence base by:
- asking viewers what they think, through a quantitative survey of 6,000 individuals and a series of qualitative focus groups, interviews and deliberative forums;
 - analysing what viewers watch, through the audience data provided by the Broadcasters' Audience Research Board (BARB);
 - examining the information that public service broadcasters have given us about their output (in terms of hours and spend) over the past five years;
 - conducting interviews with broadcasting professionals, producers and other interested parties to gather opinions on the effectiveness of current PSB delivery; and
 - re-examining the concept of PSB, its purposes and the rationale behind it.
10. This report brings together the conclusions from each piece of work. More detail on the research findings is available in the supporting documents which accompany the main report. These documents are available on our website (at www.ofcom.org.uk) or on CD, on request.

Supporting documents

Volume 1: The role of television in society

- Introduction and approach
- A conceptual review of public service broadcasting
- Audience opinions and perceptions
- What people watch: television viewing behaviour

Volume 2: The current system

- The current system: a delicate ecology
- The effectiveness of the current system

Looking forward to Phase 2

11. This Phase 1 report takes stock of the current system and identifies the emerging trends, issues and potential areas for action. We have also proposed a conceptual rationale for PSB. We have identified the significant problems that the current model of delivery will face in the medium term and the crucial questions about the future of PSB.
12. Phase 1 has not involved any detailed analysis of S4C, Teletext and the BBC's digital channels. This will follow in Phase 2.
13. Phase 2 will also ask where the market is going; where to strike a balance between market and public service provision; what sort of intervention, if any, is needed; how much that intervention will cost and who should pay; and how broadcasters might be made accountable. That analysis will form the basis for a Phase 2 report, to be published this summer, which will contain a clear list of policy options for maintaining and strengthening PSB in a digital environment.
14. We welcome views at this stage on all aspects of the report and particularly in relation to the key consultation questions that are summarised in Section 6. Responses should be sent by **15 June** to:

Alex Towers
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: alex.towers@ofcom.org.uk



What do we mean by PSB?

1

1. What do we mean by PSB?

The evolution of public service television broadcasting (PSB)

15. In the earliest days of television, there was a widespread recognition that the new medium could have a significant social impact and should be harnessed for the public good. That approach was solidified over a lengthy period characterised by political consensus and a comfortable duopoly/oligopoly of main terrestrial broadcasters who faced little external competition.
16. Each new terrestrial channel that was established was designated a ‘public service broadcaster’ and subjected to a varied and constantly-evolving regulatory regime. The aim was to ensure that a free-to-air service was available to all viewers that:
 - provided particular genres of **programming** (e.g. news, religion);
 - delivered programmes with certain **characteristics**, including quality, originality, impartiality;
 - served particular **audiences** (e.g. children, Nations and Regions); and
 - supported the **UK production sector**.
17. Incrementally, and without any grand design, a functional system of public service broadcasting has developed. It encompasses three public corporations (the licence-fee funded BBC, Channel 4 dependent on advertising revenue, S4C given a combination of Government grant, BBC programming and advertising income) and two commercial networks (ITV, a federation of regional licences, Five, a single company but with limited coverage) as well as Teletext. In recent years, the BBC has added six new digital services. All these channels are subject to the same basic regulatory standards as any other UK broadcaster – to protect standards of taste and decency and maintain accuracy and impartiality. In addition, each ‘PSB’ channel has its own place in a hierarchy of additional programming and production obligations.
18. The existence of separate funding streams has created a competitive interplay between the broadcasters. The BBC exists to use public funds to set standards and establish high production values that the other channels have to match. The commercial broadcasters have pursued audiences in order to generate advertising revenue. In turn, this has encouraged the BBC to produce quality popular programming in order to compete for viewers and justify the licence fee. Channel 4, without either shareholders or a stream of public funding, has been given more freedom to innovate (indeed it has a statutory responsibility to do so). S4C has a particular responsibility to provide Welsh language programming.
19. The nation’s largest commercial broadcasters are given access to scarce terrestrial spectrum in exchange for certain PSB obligations. The BBC signs an agreement with Government that commits it to similar obligations in return for significant public funding. In practice this means that all terrestrial channels undertake to provide programming that mixes together elements of public service and entertainment and supports jobs and businesses in one of our largest creative industries.

The Communications Act 2003

20. The Communications Act does not reassess the underlying rationale for PSB. Rather, the Act offers firm support for PSB’s continued existence and attempts to define what sorts of programmes should be provided. It aims to protect the existing system of terrestrial channels in the new broadcasting environment that is emerging. To this end, it has tried to strengthen the commercial terrestrial broadcasters by deregulating ownership restrictions and lightening the load of content regulation. At the same time, however, all terrestrial broadcasters are tied to structural support for the UK production sector by quotas for UK original production, regional production and independent production.

21. The pattern of regulation remains detailed and complex. Figures 1 and 2 summarise the production quotas that apply to the analogue terrestrial channels and the BBC's digital channels respectively. Figure 3 details the programming quotas that currently exist for channels 1 to 5: the quotas for religion, documentaries, education, arts, pre-school, children's and multicultural programming will disappear under the new digital PSB licences to be issued at the end of this year.

Figure 1: Production quotas per calendar year, terrestrial analogue channels

Quotas (% of hours)	BBC1	BBC2	Channel 3	Channel 4	Five
Independent	25% across all BBC channels ³	see BBC1	25%	25%	25%
Total original ⁴	70%	70%	65%	60%	51% increasing to 60% in 2009
Original in peak-time	90%	80%	85%	70%	42%
Regional production ⁵	25% across all BBC channels	see BBC1	33%	30%	10%
Regional production (% of expenditure)	30% across all BBC channels	see BBC1	40%	30%	10%
Regional programmes made in and for the region	95% BBC1 & 2 together	see BBC1	90%		
European production ⁶	50%	50%	50%	50%	50%
European independent production	10%	10%	10%	10%	10%

3 From April 2005, BBC One and BBC Two will each have to achieve 25% independent production separately. The definition of 'independent production' excludes repeats, news and acquired programmes.

4 Original production, by this definition, includes repeats.

5 Regional production consists of network programmes made outside the M25, including repeats.

6 The Television Without Frontiers directive excludes news, sport and gameshows from the quota for European programmes.

Figure 2: Production quotas per calendar year, BBC digital channels

Quotas (% of hours)	BBC3	BBC4	CBeebies	CBBC	News 24	Parliament
Total original ⁷	80%	around 70%	around 80%	70%	90%	90%
Original in peak-time ⁸	70%	50%				
European	90%	around 70%	around 90%	around 75%		
Independent	25% across all channels ⁹					
Regional production	25% across all channels					
Regional production (% of expenditure)	30% across all channels ¹⁰					

7 Original programming on CBeebies, CBBC, Parliament and News 24 includes repeats of commissioned programming first shown on any BBC public service channel. On BBC Three & Four it excludes such repeats.

8 'Peak-time' for BBC Three and Four is defined as 7pm to midnight. Elsewhere it means 6pm to 10.30pm.

9 BBC Three has a separate, specific commitment to 25% independent production.

10 BBC Three will have a specific commitment to 33% regional production expenditure from April 2004.

Figure 3: Programme quotas per channel per week (including repeats)

	BBC1	BBC2	Channel 3 ¹¹	Channel 4 ¹²	Five ¹³
NETWORK					
News & weather	26 hrs 28 ¹⁴	no quota	7 hrs ¹⁵	4 hrs ¹⁵	9 hrs ¹⁶
Current affairs ¹⁷	7 hrs ¹⁸	see BBC1	1 hr 30	4 hrs	2 hrs 30
Religion			2 hrs	1 hr	1 hr
Children's total			7 hrs 30 ¹⁹		10 hrs 56
Children's drama			1 hr 26		46 mins
Children's information			1 hr		9 hrs 10 ²⁰
Pre-schools			1 hr 21		see footnote 20
Documentaries ²¹			1 hr 45		2 hrs
Education ²¹			1 hr 45	7 hrs	3 hrs
Arts ²¹			45 mins	n/a	30 mins
Schools				6 hrs 20	
Multicultural				3 hrs	
Network total	33 hrs 28¹⁸		22 hrs 15	25 hrs 20	29 hrs 40
Network peak-time					
News	5 hrs 16	no quota	2 hrs 24	4 hrs	2 hrs 41
Current affairs	2 hrs ¹⁸	see BBC1	40 mins	1 hr 32	12 mins
REGIONAL	126 hrs 12 ¹⁸	see BBC1			
News			5 hrs 30 ²²		
Current affairs			26 mins ²¹		
Other regional			2 hrs 34 ²¹		
Regional total			8 hrs 30²¹		
Regional in peak-time			3 hrs 17²³		

- 11 Original productions and commissions transmitted by the ITV network from 9.25am to midnight, except for religion which includes transmissions up to 1am.
- 12 All output, including original productions, commissions and acquired material transmitted all day.
- 13 Original productions and commissions transmitted from 6am to midnight.
- 14 Includes breakfast news.
- 15 Excludes breakfast news.
- 16 Includes news headlines.
- 17 Excludes consumer programmes.
- 18 BBC One and Two together, all regions.
- 19 Children's programmes including acquired should amount to not less than ten hours per week on ITV.
- 20 Includes pre-schools.
- 21 Indicative targets only for ITV1 and Five.
- 22 First-run programmes only, shown between 9.25am and 12.30am. These figures are for a typical English region. Each ITV Nation and Region has specific quota obligations, some of which are higher than these standard hours. The BBC regional programme quota applies in total across all Nations and Regions with no individual quota requirements set, although some separate targets are given in the BBC Statement of Promises.
- 23 This figure includes the requirement for a regional or sub-regional news programme of 30 minutes' duration each weekday plus the commitment to a number of other slots in peak-time on weekdays and weekends as specified in the ITV Charter.

22. The Act offers the first statutory definition of the purposes of public service broadcasting. It also spells out the remit for Ofcom's review. Figure 4 provides a summary:

Figure 4: The statutory remit for Ofcom's review²⁴

The purposes of PSB are:

- to deal with a wide range of subjects;
- to cater for the widest possible range of audiences – across different times of day and through different types of programme; and
- to maintain high standards of programme-making.

The fulfilment of these purposes is taken to mean that PSB will:

- inform, educate and entertain; and
- support an appropriate range and proportion of production outside London.

And that the following types of programming will be supported:

- Programmes that reflect UK cultural activity (through drama, comedy, arts, music and feature film)
- News and current affairs (domestic and international)
- Sport and leisure
- Education
- Science
- Religion (including acts of worship)
- Programmes addressing international and social issues
- Children's programmes
- Programming reflecting different communities, interests and traditions within the UK (including those of local communities in particular parts of the UK).

Ofcom's task is to:

- review the extent to which the existing public service broadcasters, taken together, have fulfilled the purposes of PSB over the period under review; and
- report on how the quality of PSB might be maintained and strengthened in the future.

In particular Ofcom is required to:

- Assess and analyse how PSB performance is changing over time – is it fulfilling its purposes, and if so in what manner?
- Examine the costs of PSB to the broadcasters, and the sources of income available to them to meet those costs.
- Offer conclusions on the current state of PSB in the UK.

For the purposes of this review the public service broadcasters are:

- all BBC TV services;
- S4C;
- ITV;
- Channel 4;
- Five; and
- Teletext.

24 Figure 4 provides a short summary of our remit. It is not exhaustive. See clause 264 of the Communications Act 2003 for the full legal position.

Defining PSB

23. The Communications Act establishes PSB as a large-scale public policy intervention in the television market – in terms of regulation, public funding and public provision. It also defines PSB in terms of particular terrestrial channels, as well as the specific types of programmes that those channels are asked to provide.
24. The problem with the term ‘public service broadcasting’ is that it has at least four different meanings: good television; worthy television; television that would not exist without some form of public intervention; and the institutions that broadcast this type of television.
25. To avoid confusion, we will use the following convention in this report:
 - In the first part of this report, when assessing the current effectiveness of those broadcasters defined in the Communications Act as public service broadcasters, we will call them ‘the main terrestrial TV channels’. They are: all the BBC channels; ITV1; Channel 4; S4C; and Five.²⁵
 - When we go on to discuss how public service television broadcasting might be maintained and strengthened in future, in Section 4, we will define what we think the term should mean. Thereafter, we will use public service broadcasting (or PSB) to refer to the concepts behind public intervention: the purposes that PSB should achieve in society; and the necessary characteristics of PSB programmes.

25 Ofcom also has a duty to review the effectiveness of Teletext. We will conduct this analysis in Phase 2 of our review.



Current effectiveness 2

2. Current effectiveness

Overview

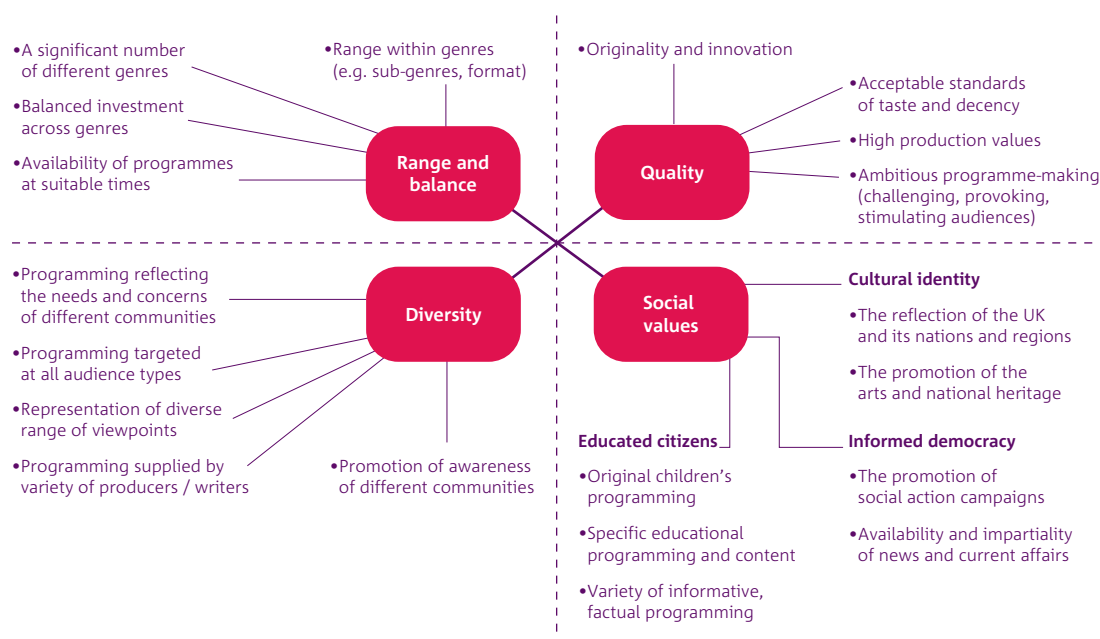
26. On consumers' behalf, the Communications Act asks the designated public service broadcasters to offer a wide range of programmes, catering for a variety of tastes and interests and sustaining high quality, original and innovative programming. On behalf of citizens, the Act requires the terrestrial channels to provide a range of socially beneficial programming – education, news, information and content which reflects different UK communities and cultures.

27. The four basic objectives that the Act identifies for PSB can be summarised as:

- **social values:** education, cultural identity, informing the democratic process, supporting a tolerant and inclusive society;
- **quality:** production values, standards, innovation;
- **range and balance:** treatment of a range of subject matters across different genres, sub-genres and formats at all times; and
- **diversity:** catering for different/minority audiences and communities.

These are set out in Figure 5.

Figure 5: Core purposes



28. It is a core part of our remit to test the efficacy of the existing PSB system, whereby the five main terrestrial channels are together asked to deliver these objectives as well as delivering more commercial programmes. We have assessed the effectiveness of the current model by asking questions in three areas:

Output: what are the main terrestrial channels providing? Is it in line with their current remit?

Impact: what are viewers watching on those channels? How effective are the broadcasters at reaching target audiences?

Value: what do viewers and broadcasting professionals think it is important for television to provide? How well do they think the broadcasters are delivering these objectives?

29. **Our initial finding is that broadcasting on the main terrestrial TV channels has partially, but not completely, fulfilled the requirements of the Communications Act. There are some important shortcomings in effectiveness, partly driven by the actions of broadcasters, and partly because viewers have drifted away from the more challenging types of programming, traditionally thought to be at the heart of UK television.**
30. This section summarises our findings in each area. More detail is available in the report's supporting documents: *The effectiveness of the current system* examines output; *What people watch: television viewing behaviour* analyses impact; and *Audience opinions and perceptions* is a study of the viewers' opinions about value. (These annexes are available on CD, on request.)

Output: what do the existing terrestrial channels provide?

31. Our starting point is to assess the pattern of delivery over the past five years. Have the schedules changed? Has the amount of spending been maintained? How does this vary between broadcasters and across different genres? One of the supporting documents published with this report, *The effectiveness of the current system*, contains a detailed analysis of trends which are summarised in this section. It is based on a major data-gathering exercise, to which all those channels with public service obligations and some other broadcasters contributed.²⁶ It is supported by a qualitative assessment of programming trends, reviewing previous research and interviewing producers, commissioners and others directly involved in the process. It allows us, for the first time, to present a review of the performance of all the main terrestrial channels taken together. The analysis covers the five-year period 1998-2002 and will be updated to include a further 18 months' data in time for our final report in the autumn.

Overall trends

32. Despite increased competition, the television services provided on the main terrestrial channels would appear to be in reasonably good health. While total revenues in the television industry increased in real terms by 11% between 1998 and 2002 (in line with an 11% increase in GDP), the income of the terrestrial channels increased by only 5%, and their share of total TV revenues dropped from 65% to 57%.²⁷ Even so, the amount spent on programming across the five main channels increased by 19% in real terms. Peak-time network spending increased by 16%. Programming spend in 2002 was 59% of revenue, compared with 53% in 1998. Expenditure by the commercial terrestrial channels (ITV1, Channel 4 and Five) rose 15.9% over the period – even as their advertising revenue fell in real terms. Across the five main channels, investment has gone into a

²⁶ Ofcom would like to thank all those who contributed to the data-gathering exercise.

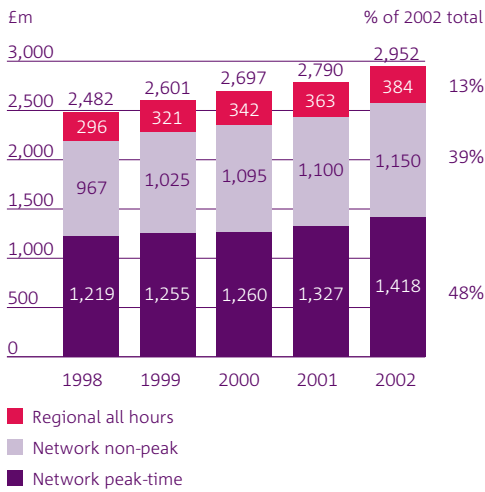
²⁷ See Figure 38 in Chapter 3 for more detail.

range of genres (programme types), and Figure 6 illustrates that it has gone into non-peak as well as peak-time.²⁸

33. Nevertheless, there has been a shift in the balance of revenues, towards the BBC. Licence fee income has risen by over 15% in real terms over the same period, and a greater proportion of it has been given to television. BBC One has therefore seen a particularly noticeable increase in programme spend – up 27%.
34. Increased programme spend does not necessarily mean increased quality – there are other factors to consider, such as the increasing cost of football rights and the cost of on- and off-screen talent. Excluding the costs of sport and film rights, overall spend has increased by just 8% in real terms.
35. The proportion of first-run original UK programming in the schedules also remains stable, as Figure 7 shows. There is still a range of terrestrial programming available that includes all the PSB genres identified in the Act. Figure 8 summarises the genre split in 2002, and illustrates the different contributions that different channels make to peak-time schedules. BBC One’s schedule is the most evenly split – mainly between drama, entertainment, general factual and news. ITV1 focuses more on drama and Five on films, while BBC Two and Channel 4 show less drama and proportionately more factual and current affairs programming.

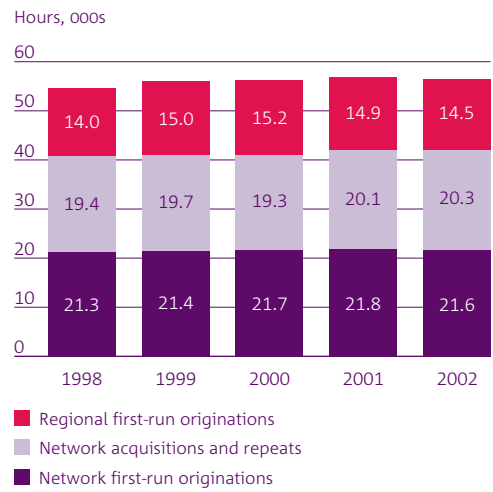
28 Peak-time is between 6pm and 10.30pm every day.

Figure 6: Total network programming spend – five main channels, (constant 2002 prices)



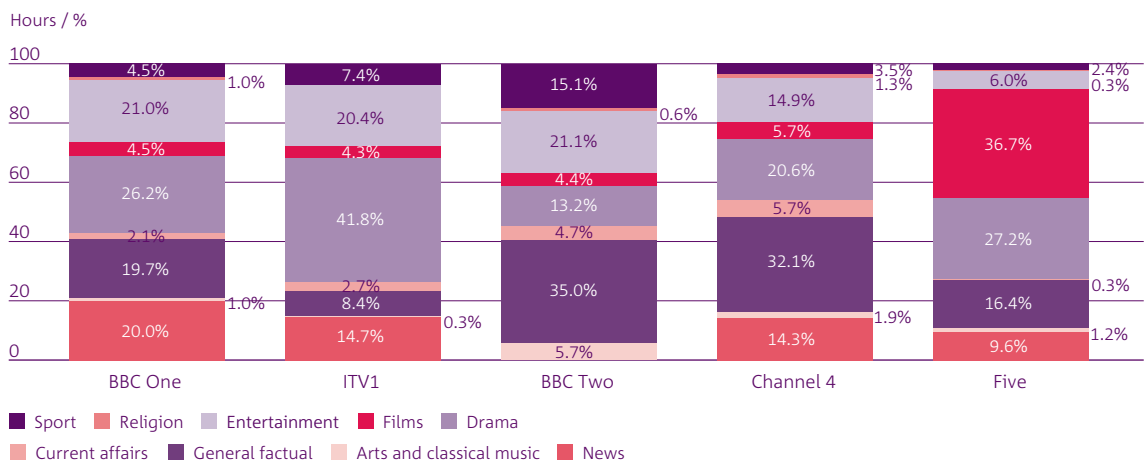
Source: Ofcom analysis of broadcasters' data.

Figure 7: Total hours broadcast on the five main channels 1998-2002



Source: Ofcom analysis of broadcasters' data.

Figure 8: Genres by channel – 2002 % in peak-time (excluding regional output)

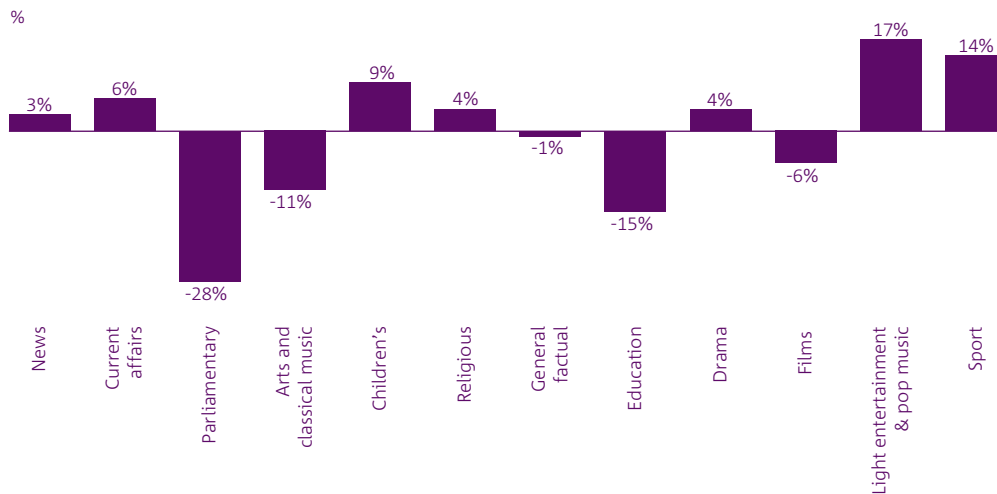


Source: Ofcom analysis of broadcasters' data.

Range and balance

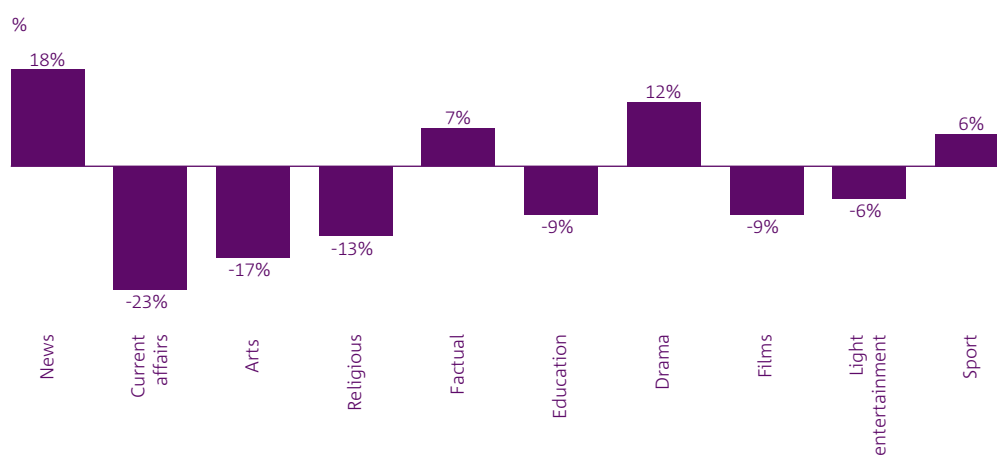
36. The overall position may look relatively stable, but there are issues that call for further consideration. Increased competition for viewers and advertising funding appears to have led to increasingly ratings-driven schedules over time. An examination of the hours of programming given to different genres provides some indication of the broadcasters' changing priorities. Figures 9 and 10 summarise the changes that have taken place, across all hours and within peak-time. They show a significant decline in specialist arts and education programming over the past five years as sport, popular music and children's programming have seen big increases. In peak-time, it is the more specialist genres that have suffered – current affairs, dedicated arts programming and religion.
37. In peak, aside from the shifting pattern of news coverage, it is factual, drama and sport which have prospered. This has meant more soaps (10.4 peak hours per week in 1998, 15.3 in 2002) and more reality shows. By contrast, less mainstream genres have suffered.
38. The peak-time provision of current affairs has dropped, reflecting a longer-term move out of peak hours. In peak-time, ITV1's *Tonight with Trevor McDonald* has adopted a more populist approach than previous ITV1 programmes like *World in Action*. The BBC and Channel 4 have moved their main current affairs strands – *Panorama* is now out of peak and there are fewer episodes of *Dispatches* – and as a result there are fewer politics, policy and international current affairs programmes in peak-time than there were ten years ago.
39. Aggregate audiences for current affairs programming remain low but stable. High profile investigative reporting remains in the schedules (for example, in peak-time series such as *Donal MacIntyre Investigates* on Five or one-off programmes like the BBC's *The Secret Policeman*) and can be an effective way of engaging audiences with serious subjects. There has also been an increase in the amount of analysis and explanation in news coverage (in particular *Channel 4 News* and *Newsnight*).
40. Dedicated arts programming has also been marginalised on the channels that have traditionally supported it – BBC Two and Channel 4. ITV1 has never shown a large quantity of arts programming, but from 1998 to 2002 its provision remained stable at around 0.7 hours per week – mostly in the form of *The South Bank Show*. Five, from a low base, actually increased its arts output from 0.5 to 0.7 hours per week, and began to put some of this programming in peak-time. Arts in peak-time on Channel 4, though, has fallen by 50% since 1998, to stand at 0.6 hours per week, as part of a policy to concentrate on fewer, higher-impact programmes. BBC Two's total arts provision is down 22%, and 11% of the programmes that remain are repeats (up from 4% in 1998). Arts programmes on BBC One were scarce between 1998 and 2001, at 0.8 hours per week, although both spend and provision increased in 2002/3. Purely in terms of hours broadcast, there is now more arts programming provided on dedicated, 24-hour commercial satellite channels than on all the main terrestrial channels and BBC Four put together. However, all the digital arts channels – BBC Four, Artsworld and Performance – have low budgets and a high rate of repeats.
41. It is worth remembering the limitations of a genre-based analysis of output. Some programmes defy easy categorisation by genre. For example, although the amount of light entertainment in peak-time appears to have declined, much of what constitutes 'factual entertainment' within the factual genre could equally be classified as entertainment. Contemporary and popular arts, now less evident in specialist peak-time programmes, are to some extent featured in factual and entertainment content. Indeed, some of the broadcasting professionals we spoke to argued that the only way to stem the decline in arts programming is to take a broader view of the genre. They suggested that wider audiences can be engaged with programmes that combine arts with aspects of entertainment (e.g. *Operatunity*), drama (*Michelangelo*), public campaigning (*The Big Read*) or popular presenters (*Rolf on Art*).

Figure 9: Percentage change in genre provision per week on the five main channels – all hours 1998-2002



Source: Ofcom analysis of broadcasters' data.

Figure 10: Percentage changes in genre provision per week, 1998 to 2002, on the five main channels – hours in peak-time



Source: Ofcom analysis of broadcasters' data.

Range and balance across individual channels' schedules

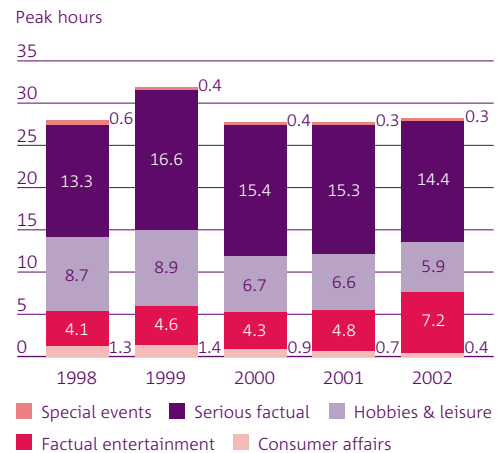
42. It is worth taking a closer look at the peak-time output of the five main channels, to examine these trends in more detail. Peak-time accounts for only 19% of all hours of output, but attracts 47% of all viewing. It is therefore the most competitive part of the schedule, and 55% of programme spend is allocated there, allowing a greater proportion of original programming and more scheduling variety than is observed in daytime.
43. The two main BBC channels have taken an increasingly aggressive, ratings-driven approach. BBC One has seen the biggest increase in budget over the period in question, and in 2002 its budget of £844 million was higher than ITV1's (£799 million). As more investment has gone into the channel, the major change in peak-time has been an increase (an additional 1.9 hours per week) in the amount of drama, particularly soaps and long-running series such as *Holly City*. The news has moved from 9pm to 10pm. Decreases are evident in factual, light entertainment and (to a lesser extent) current affairs and religion. On BBC Two there have been significant increases in light entertainment and factual (the latter partly linked to an increasing number of leisure programmes) at the expense of arts (down 22%) and drama (down 18%) in peak-time. The BBC has acknowledged these trends. The 2003/4 Statement of Programme Policy suggested there was room for a "further improvement on quality and distinctiveness" and in 2003 the Corporation made a concerted effort to show more arts, current affairs and religious programming.
44. Channel 4's output reflects the increasing popularity of 'factual entertainment' formats like reality shows and docusoaps. The amount of factual entertainment in peak has risen from 1.3 hours a week in 1998 to 4.0 hours in 2002. Peak-time factual output as a whole has increased by a third since 1998. The volume of peak-time drama (in this period, largely the soaps *Brookside* and *Hollyoaks*) also increased. Film, entertainment and arts programming has decreased in volume in peak. There has been a 40% reduction in the volume of religious programming (from a low base) and, while 43% of religion is broadcast in peak-time, the rest tends to be shown late at night.
45. ITV1's peak-time schedule has remained relatively stable over the last five years, although a longer-term trend has seen the channel's traditional mixed genre schedule come to rely more heavily on drama, which now accounts for 42% of peak output. The volume of networked current affairs in peak, in the form of *Tonight with Trevor McDonald*, has doubled as the programme has become a twice-weekly strand.
46. Five's peak-time schedule has run counter to the general trend, in becoming more varied over time. Five now shows arts programmes during peak hours, and significantly more news and drama than previously, while the volume of light entertainment has decreased. Current affairs has fallen away, however, as the *First on Five* strand has been dropped from the evening news programme.

Originality and innovation

47. Many of the broadcasting professionals we spoke to feel they are having to adopt an increasingly copycat approach in search of ratings, as they react to what they perceive as changing audience demands in the face of increased commercial competition. In factual and documentary programming, for example, they feel there is less acceptance of failure in individual programmes than there used to be, resulting in a narrowing of the range of subjects addressed. In peak-time especially, they say that there is more demand for trusted formats and entertainment value in all areas of programming.
48. Our analysis bears this out. For example, a high proportion of the increase in the volume of drama is accounted for by soaps, which constituted 55% of drama in 2003 compared with 47% in 1998, and contributed 15.3 peak hours per week in 2002 compared to 10.4 peak hours per week in 1998. The proportion of new drama titles has fallen steadily, from 47% of all drama in 1998 to 33% in 2002.

49. Figure 11 reveals a dramatic recent growth in the number of new ‘factual entertainment’ programmes – lighter treatments, such as reality shows (e.g. *Big Brother*) and docusoaps, that tend to attract higher audiences and have largely replaced consumer affairs programming. While ‘serious factual’ programmes (e.g. documentary strands like *Horizon*) have remained stable in terms of total peak hours, the number of new programmes in peak-time on BBC One and BBC Two has declined. Channel 4 and Five have increased the quantity of their factual output that addresses serious subjects, but they tend to have fewer viewers than BBC One. The total audience for serious factual content is therefore down 36%, while the factual entertainment audience is up 20%.
50. In news, programme-makers and commissioners warned us that competitive pressures and audience demands have altered the style and tone of news, as political journalism has been replaced by lifestyle, crime and consumer stories. Research is not conclusive on this point, however. Network news agendas remain relatively ‘broadsheet’ across the terrestrial channels and there is no evidence of a significant decline in foreign news coverage.
51. It is entertainment output that has seen more innovation than any other genre over the last five years, with the introduction and evolution of interactive cross-media formats such as *Pop Idol*. Some of the most original and more challenging programmes have arguably been those that blend together an entertainment format and a public service purpose. Examples of this approach include *The Edwardian House* and *Great Britons*. Similarly, the BBC and Channel 4 have extended the principles of ‘event TV’ to restructure schedules into themed days, seasons or campaigns with a public service purpose, such as *Your NHS* or *The Drug Laws Don't Work*. The ratings for such experiments have not always been high, compared to the mainstream programming they replace. However, as with interactive entertainment formats, they are often very well supported by web content, and are still reaching significant numbers of people.

Figure 11: Factual average hours per week of first-run programming: originations by sub-genre – peak-time



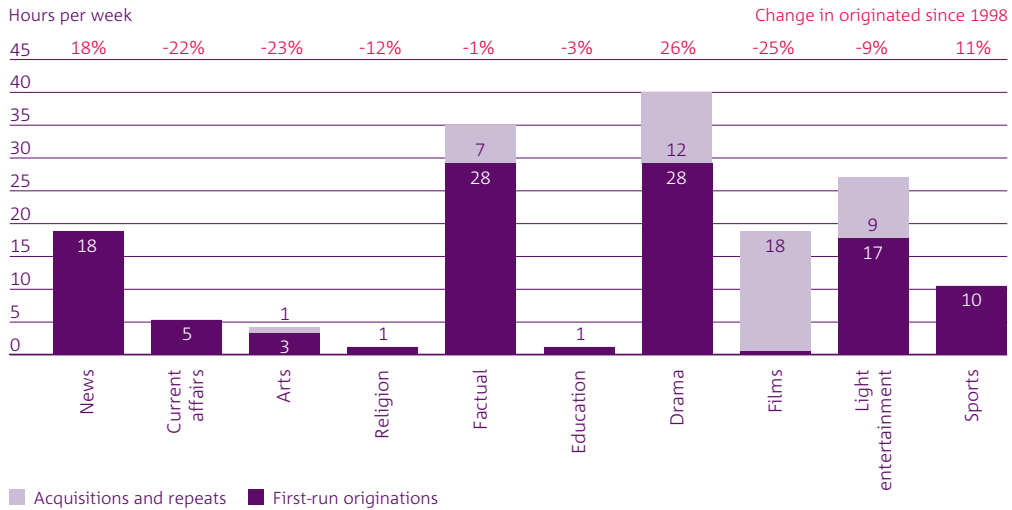
Source: Ofcom analysis of broadcasters' data.

52. The internet has been a huge growth area for broadcasters, and interactive digital services offer great potential for future change. Programmes such as *The Big Read* and *Restoration* show the potential that interactive services have to engage viewers more directly with subjects and campaigns they might not otherwise consider. (Phase 2 of our review will take a closer look at interactive services and the future role of Teletext, which remains a public service broadcaster.) Technological innovation has also been notable recently in landmark factual programming like *Walking with Dinosaurs* and *Pompeii: The Last Day*.
53. To support innovation, public service broadcasters are now also able to use digital channels to complement their analogue output. ITV2 and E4 have given viewers access to extended coverage of large-scale event TV. The BBC argues that BBC Three provides alternative comedies such as *Little Britain* or *Nighty Night* with a testing ground, so that the most successful can transfer to BBC Two.

Investment in quality

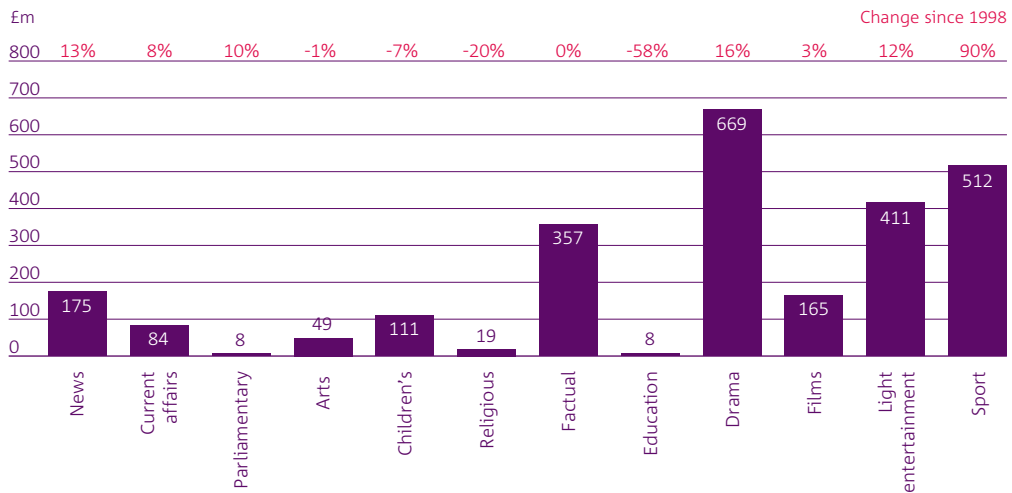
54. The amount of original production can be a useful, though not conclusive, indicator of quality. Although the overall level of UK original production has remained stable, some genres show a different trend. Across all hours, the most startling decline is in education programming, where the amount of new UK-originated programmes has fallen by 53% over five years. Figure 12 shows that in peak-time far fewer originations (as opposed to acquisitions or repeats) are seen in current affairs (down 22%), arts (down 23%) and religion (down 12%).
55. Figure 13 looks at the amount of money being spent on each genre across all hours. Religion, education and children's programming appears to be suffering. In contrast, notable increases can be seen in news, which has risen by 13%, and drama – up 16%. However, increases in spend on film (which is up 31% in peak-time) and sport (up 90% in total) partly reflect rights inflation.

Figure 12: Split of hours between originated programming and acquisitions/repeats – peak-time, 2002



Source: Ofcom analysis of broadcasters' data.

Figure 13: Total spend by genre on the five main channels – all hours (2002)

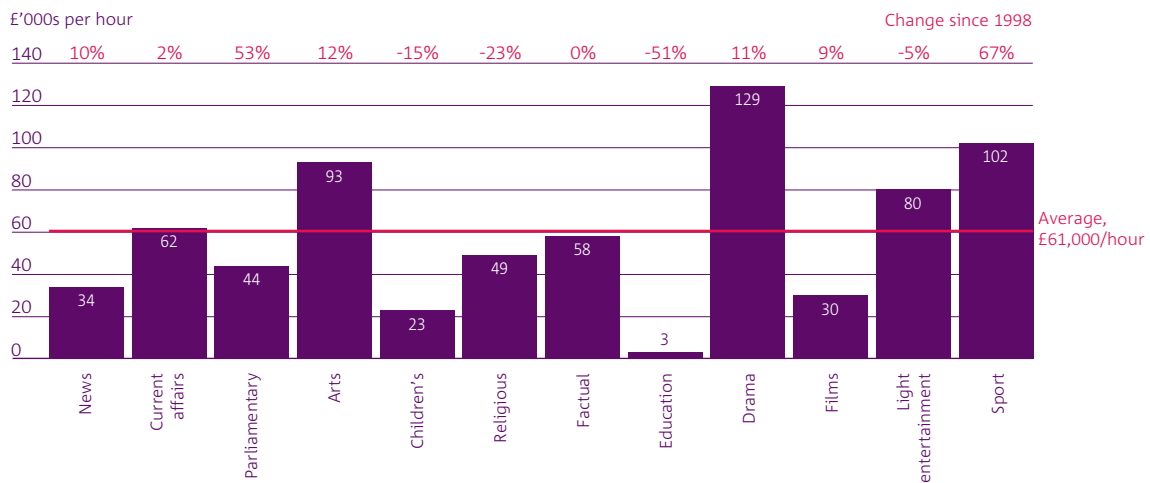


Source: Ofcom analysis of broadcasters' data.

56. A closer examination of spend per hour (Figure 14) implies that the scaled investment in children's, religion and education has decreased significantly. When the same calculations are made for peak-time, the big winners are sport (up 93%) and film (up 45%). However, current affairs (up 30%) and arts (25%) have also seen more investment per peak-time hour, although the number of hours of programming has fallen.

57. The decline in investment in religious programming is most evident on ITV1, where the budget has been cut significantly, more than halving costs per hour and resulting in an increased reliance on repeats (now 41% of programming compared to 5% in 1998). The BBC still makes over 95% of its religious programmes in-house, and spend on BBC Two more than doubled over the period.

Figure 14: Spend per hour – all hours (2002)



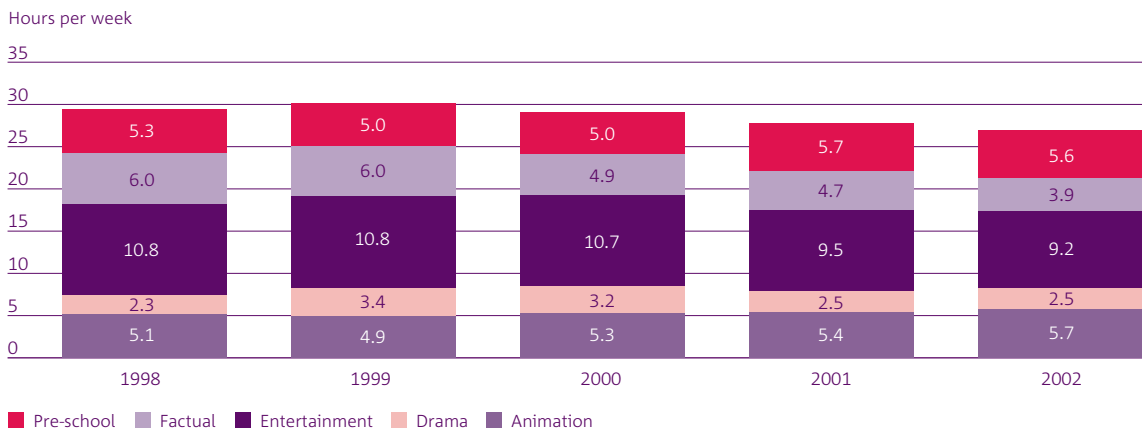
Source: Ofcom analysis of broadcasters' data.

Children’s programming

58. Children now have access to more dedicated programming than ever before (including several dedicated channels as well as an 8% increase in hours on terrestrial analogue networks, mainly Five and BBC Two). However spend on children’s programming on the main five channels has fallen by 8% in total, and Figure 15 shows that there are fewer first-run originations (10% less than in 1998, in fact). Within those first-run programmes, there is now a greater proportion of animation (which now

represents 13% of spend, up from 10% in 1998) and significantly less factual programming (of the sort represented by *Newsround*, *Art Attack* and *Blue Peter*). There is little programming catering specifically for children over the age of 12. All of these trends may reflect the enormous marketing potential offered by the most recognisable (often animated) children’s characters, which can reduce the price that broadcasters have to pay for content if they repeat a series more often.

Figure 15: Children’s – hours per week of first-run origination by sub-genre (five main channels)

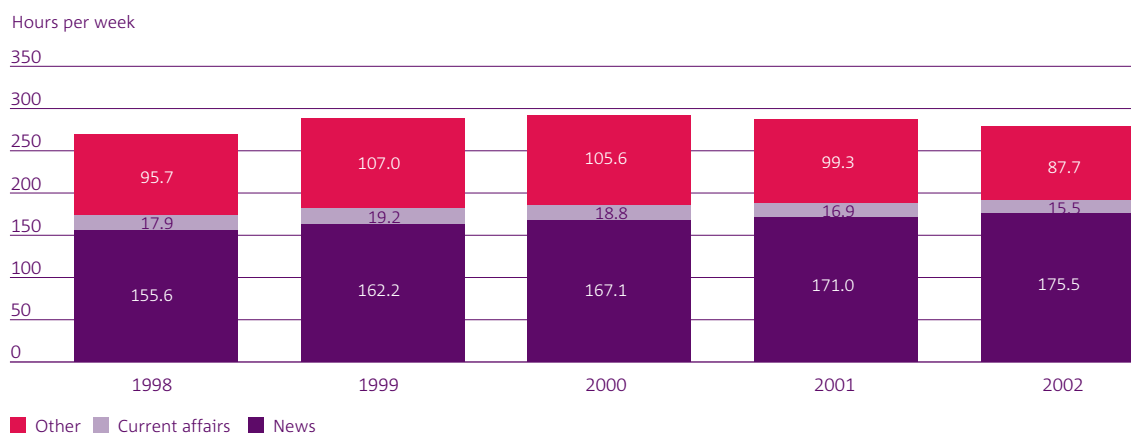


Source: Ofcom analysis of broadcasters’ data.

Programmes for different regional communities

59. The production industry is centred in London. ITV1 still produced 51% of its peak-time network schedule outside London in 2002, but the figure for the BBC was only 28% across BBC One and BBC Two, and for Channel 4 it was 30%. In total, 69% of first-run originated output (including independent as well as in-house production) was produced in London. The Nations are notably under-represented – a mere 2% of first-run network programmes are produced in Scotland, and 1% in Wales.
60. The data also highlights a question about the future of regional programming other than news and current affairs. Figure 16 reveals that the number of hours of such programmes has been falling steadily since 1999. This reflects cutbacks by ITV1, whose total regional hours decreased by 8% from an average of 171 per week in 1998 to 157 hours in 2002, as part of an agreement with the Independent Television Commission (ITC) to focus investment on fewer hours of better-resourced and scheduled output.

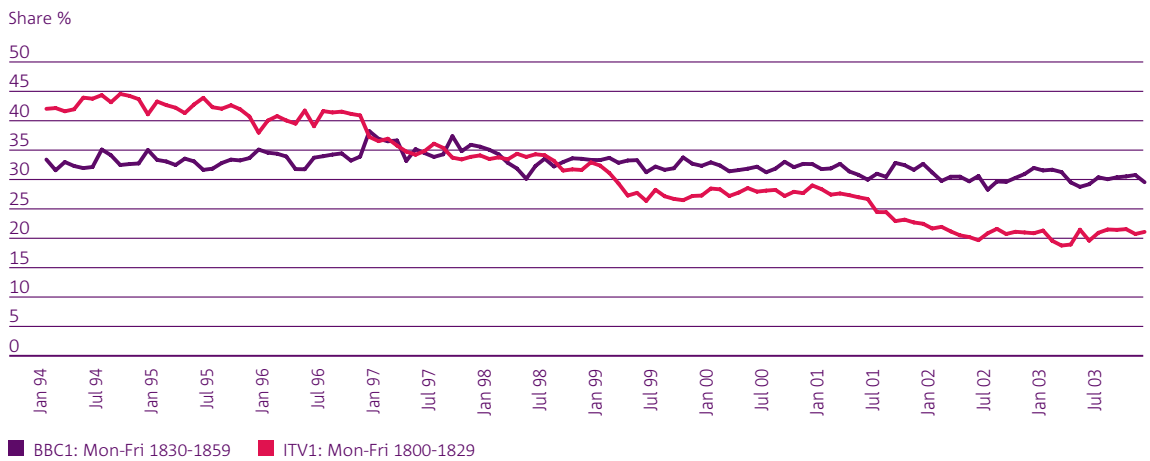
Figure 16: Regional programmes: hours per week by sub-genre (ITV1 and BBC)



Source: Ofcom analysis of broadcasters' data.

61. Given the decline in the number of hours on ITV1, the overall stability of regional programming output is due to a 23% increase in the amount of BBC output. The BBC has also been more successful at attracting audiences to some of its regional output. Figure 17 illustrates the dramatic decline of viewing to regional news on ITV1 over the past decade, even though the channel has maintained a steady volume of news and a flow of resources to it. In contrast, the BBC's viewing figures have been relatively stable.

Figure 17: Trend in audience share of ITV1 & BBC1 regional news, 1994-2003



Source: BARB

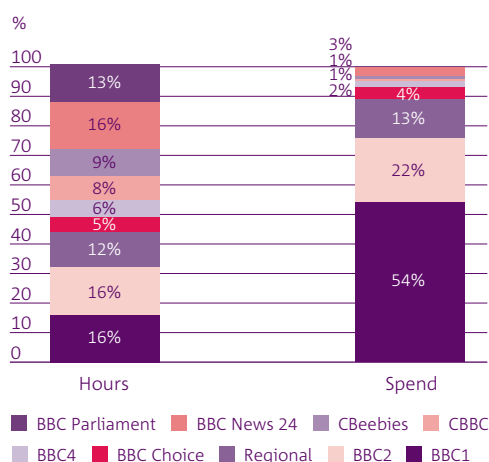
Programmes for different ethnic communities

62. According to ITC/BSC research in 2002 (*Multicultural broadcasting: concept or reality*) the majority of viewers have perceived an increase in the quantity of ethnic minority representation on screen. However, the same research suggested some ethnic minority viewers believe there is a lack of programming that they can identify as representing their culture or focusing on issues that are important to them.
63. There is no one objective definition of ‘multicultural’ programming, but programmes described as ‘multicultural’ appear on BBC Two and Channel 4, occasionally on BBC One and not at all on ITV1 or Five. The volume of such content has been reduced by 21% since 1998 and the total spent on it has declined, in real terms, from £6.8 million to £5.2 million. The amount shown by BBC Two fell by 53% in 2002, as 39 hours were transferred to the BBC’s digital channels.
64. Broadcasters suggest they are trying to increase representation of different ethnic groups in mainstream programming, including news and drama. Certainly there is less dedicated provision – the BBC has closed its African-Caribbean Unit and Channel 4 no longer has a multicultural commissioning editor.

Digital output

65. The PSB review is also asked to consider the contribution that the BBC’s new digital channels make to public service broadcasting. Those channels are:
- BBC Three: a mixed-schedule, entertainment-based channel for young adults;
 - BBC Four: a serious channel focusing on arts, culture and documentaries;
 - CBBC: mainly UK programming for 6-12 year olds;
 - CBeebies: education and entertainment programmes for children under the age of six;
 - BBC News 24: round-the-clock news and analysis; and
 - BBC Parliament: comprehensive coverage of all UK parliaments and assemblies.
66. The two columns in Figure 18 show that these channels now represent a majority of BBC programming hours, but still account for only a tiny minority of spending on television.

Figure 18:
BBC Channels hours and spend – 2002²⁹

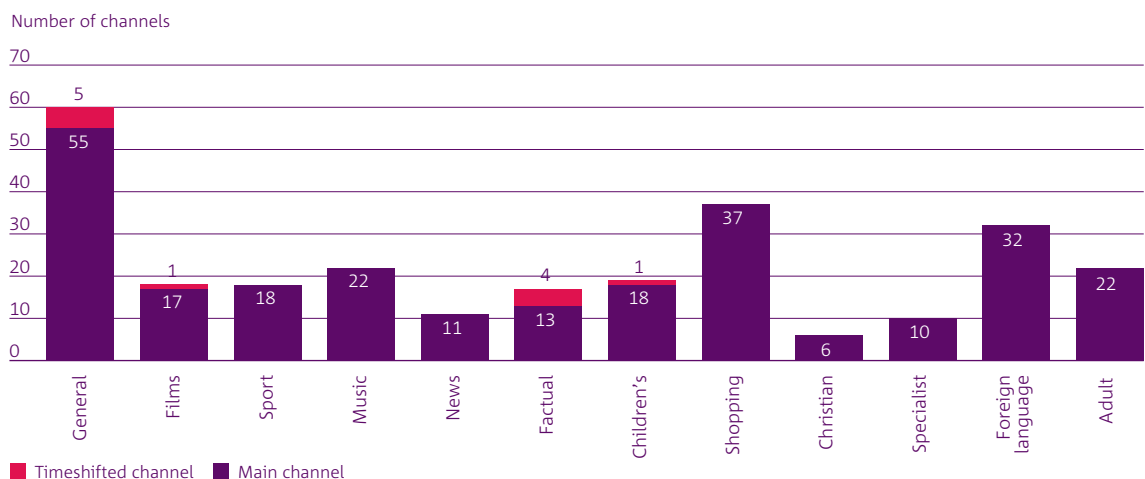


Source: Ofcom analysis of broadcasters' data.

29 BBC Three replaced BBC Choice in February 2003.

67. None of these channels has been in existence long enough to allow the sort of extensive analysis that we have undertaken for the main five terrestrial channels. However, the Government has already overseen an independent review of News 24 and the other BBC digital services will be reviewed in turn in the course of the Charter Review. One of the supporting documents to this report, *The effectiveness of the current system*, sets out a broad summary of the output of BBC Three, BBC Four, CBBC and CBeebies.
68. The new digital public service channels exist in a multichannel environment where commercial output is unregulated except for basic standards and tends to take a very different form from that on the main terrestrial channels. Non-terrestrial content extends the viewer's choice, providing a greater range of niche options (e.g. sport, music and film channels). Some of these – for example Sky News, Discovery, Artsworld – are of high quality, and contribute in part to the PSB purposes set out in the Communications Act.
69. As Figure 19 shows, however, by far the largest group of channels on the Sky platform are those that provide general entertainment (the same applies for cable). Aside from terrestrial spin-off channels like E4 and ITV2, much of the content available on those channels is low-cost, recycled US or UK material. However, there are signs that UK programme investment is gradually increasing, with new material on some of the children's channels, co-productions on the Discovery channels, and new lifestyle and entertainment programming on UKTV and Living.

Figure 19: Number of channels by genre available on Sky Digital (end 2003)



Source: Ofcom analysis of broadcasters' data.

Figure 20: S4C and its regulatory context

Sianel Pedwar Cymru (S4C) began broadcasting in November 1982 following Parliament’s decision, in the 1980 Broadcasting Act, to create a high quality Welsh language television service using the fourth channel in Wales. S4C broadcasts around 36 hours of Welsh language programmes per week, mostly between 6.30pm and 10pm, with re-scheduled Channel 4 programmes screened at other times. (Analogue Channel 4 is not broadcast in Wales.) Around ten hours per week of programmes (including the channel’s news service) are provided through the licence fee by BBC Wales. Other programmes are commissioned on commercial terms from ITV1 Wales and independent producers. S4C also enters into co-production agreements with a range of international and domestic broadcasters.

In its current Statement of Programme Policy, S4C promises that its Welsh language output will include:

- at least 30 minutes of news programming daily in peak hours during the week; with 15-minute bulletins on Saturday and Sunday;
- at least 100 hours of original drama each year;
- on average, at least an hour a week of factual programming in peak-time;
- at least 110 hours of original children’s programming per year; and
- at least one religious documentary series every year.

The Broadcasting Act 1996 enabled the creation of S4C Digital, which screens around 80 hours of Welsh language programmes per week. It is available on digital terrestrial television (DTT) and digital cable in Wales and throughout the UK on digital satellite. (It does not carry Channel 4 programmes as this service is fully available on digital platforms in Wales.)

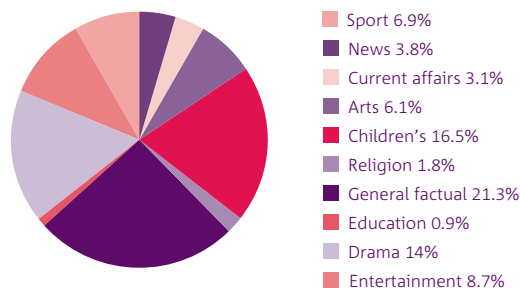
S4C and S4C Digital are regulated by the Welsh Authority. Its members are appointed by the Secretary of State for Culture, Media and Sport in consultation with the National Assembly for Wales, following open advertisement and competitive interview. The Welsh Authority is funded by central Government and since 1998 has received a ‘prescribed amount’ per year equivalent to 3.2% of national advertising revenue in 1997, adjusted to take account of inflation. In 2002, the Authority received £1.468m from the Department for Culture, Media and Sport. Prior to 1998, S4C’s funding increased in line with advertising revenues.

Under the terms of the 1996 Broadcasting Act, the Welsh Authority can engage in commercial activities and its wholly owned subsidiary, S4C Masnachol, generates additional income through advertising, sponsorship and programme sales. It operates S4C-2, a digital-only channel licensed by Ofcom, which provides coverage of proceedings from the National Assembly for Wales, in partnership with the BBC. The channel’s costs are borne by S4C Masnachol, rather than as part of the Welsh Authority’s statutory remit. S4C Masnachol also owns one-third of digital multiplex provider, SDN, through a subsidiary company.

S4C

70. Phase 2 of this review will involve an examination of the effectiveness of S4C as a public service broadcaster, in collaboration with the wider Department for Culture, Media and Sport (DCMS) review of S4C. Figure 20 summarises the origin, structure and remit of S4C and S4C Digital. Figure 21 sets out the range of genres currently delivered across both analogue and digital channels.

Figure 21: 2002 output – average hours per week by genre, across all hours, S4C and S4C Digital



Source: Ofcom analysis of broadcasters’ data.

Impact: viewing trends³⁰

71. Creating and scheduling programmes is only part of the story. For terrestrial channels to be effective, they have to reach viewers and make an impact. They do so with mixed results. The majority viewing share of the main five channels is a considerable achievement in a world of over 200 channels – over 85% of viewers in multichannel homes still watch something on one of those channels every night. However, as multichannel

television has taken off, the terrestrial channels’ share of the total TV market has decreased. Their share of revenues is decreasing and their total audience share has fallen. The five main channels now account for only 76% of all viewing, and within multichannel homes this figure is 57%. Figures 22 and 23 illustrate their declining impact, across all homes and within multichannel homes.

Figure 22: Total channel audience shares



Figure 23: Channel audience share – multichannel individuals only



30 One of the documents supporting this report, *What viewers watch: television viewing behaviour*, conducts a full and detailed analysis of viewing trends. This section of the main report summarises its findings. We are able to report viewing data for 2003, in contrast to our data on broadcaster output, which currently only runs to 2002.

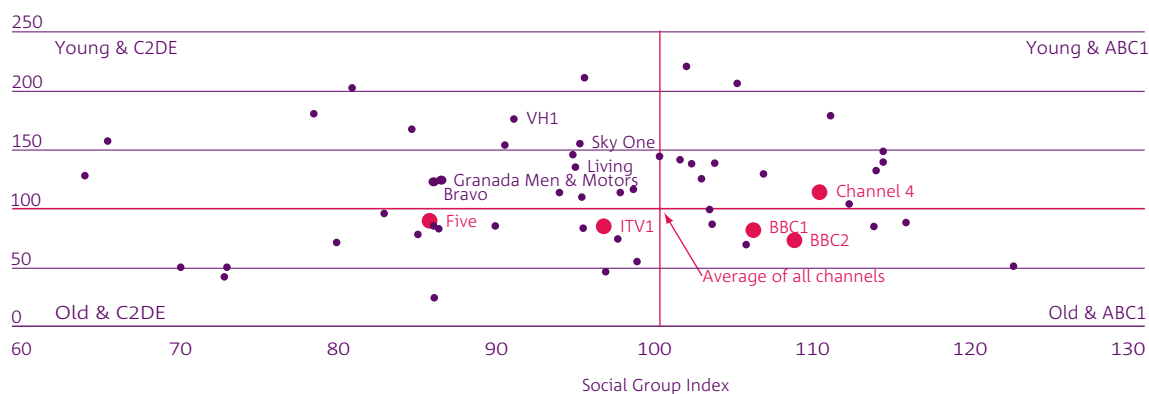
72. Even the most popular programmes struggle to sustain audiences on the scale they used to. In the late 1990s, the most popular programmes on terrestrial television could expect to attract audiences of 16-17 million; today, 14 million is a common ceiling.

73. Analysis suggests that a decline in viewing of the main terrestrial networks is particularly strong among younger audiences and ethnic minorities. The terrestrial channels' share amongst 16-34 year olds has declined from 84% to 69% during the period under analysis, while their share of the non-white audience is only 56% (partly reflecting the fact that a higher-than-average proportion of non-white households have multichannel TV). Although, between them, the main five channels reach most segments of the population, they do not serve young people particularly well. As Figure 24 shows, the main gap in audience provision by the five main channels appears to be in serving younger audiences in the lower socio-economic groups. These are better served by some of the multichannel providers

74. The reach of those channels is also affected by multichannel TV, as Figure 25 shows. In 2003, BBC One reached 80% of audiences in multichannel households for at least 15 minutes each week compared with 84% in 1998; and BBC One only reached 75% of the 16-34 age group in 2003. Similarly, ITV1 reached only 75% of audiences in multichannel homes in 2003, compared to 82% in 1998. Of the main terrestrial channels, only Five has increased its reach in multichannel homes.

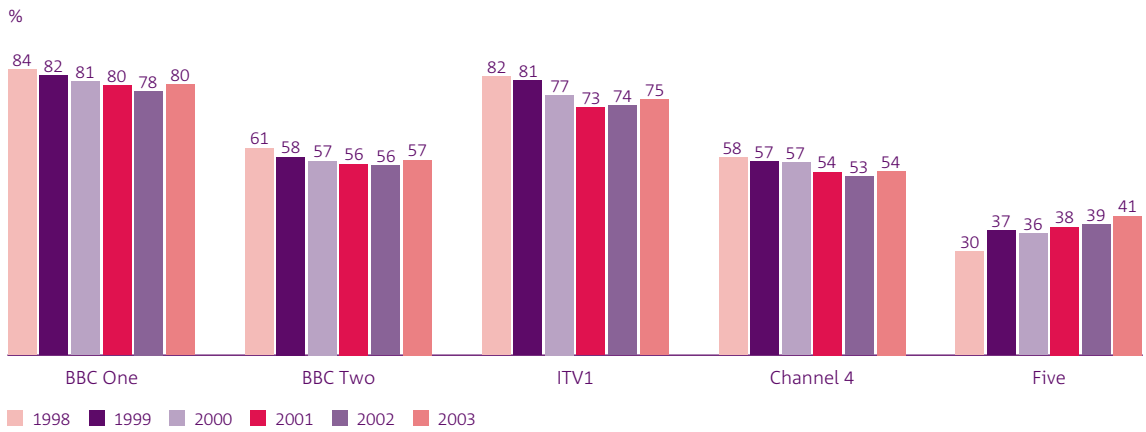
75. Figure 26 shows the decline in reach that occurs within some of the more challenging genres in multichannel homes. While network news still reaches more than half the population (and 24-hour news has been a significant growth area) the reach of current affairs and serious factual programmes drops by more than half, to around 20%. Arts programming shows an even more dramatic drop, to only 7%, although this may partly reflect the different viewing preferences of multichannel households.

Figure 24: Profile of analogue terrestrial channels: age and social grouping



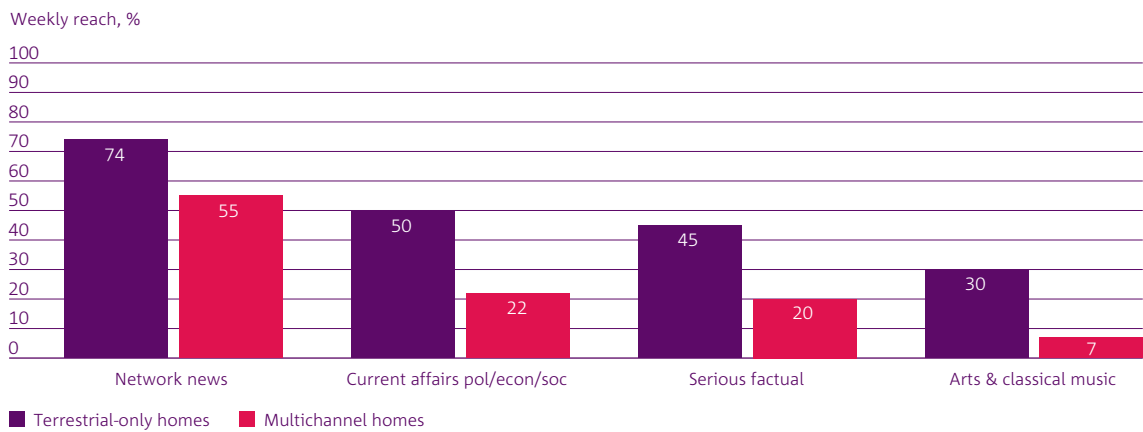
Source: BARB 2003

Figure 25: Fifteen-minute weekly reach of the terrestrial channels in multichannel households, 1998-2003



Source: BARB

Figure 26: Average weekly reach of selected genres of programming in terrestrial analogue homes versus multichannel homes (fourth quarter 2003)



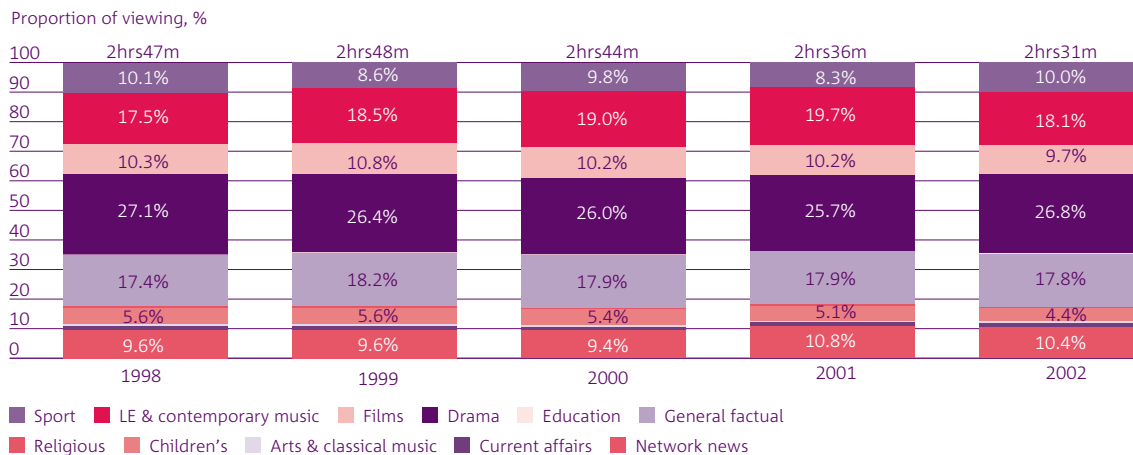
Cumulative reach (15 minutes+) across BBC One, BBC Two, ITV1, Channel 4 and Five

Source: BARB, Q4 2003

76. When people do watch the five main channels, their general viewing patterns remain relatively stable, as Figure 27 shows. Even in multichannel households, viewing of the five main channels fits this same pattern.

77. Within this pattern, however, it tends to be more challenging programming that suffers most drastically in competition with multichannel, whereas mainstream entertainment holds up reasonably well. Figure 28 illustrates this trend.

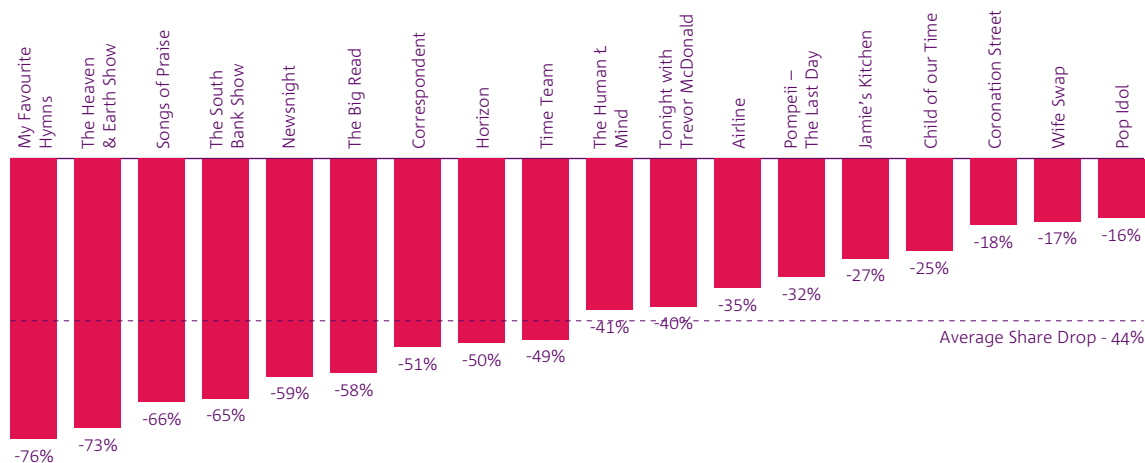
Figure 27: Split in total viewing to network programming on main networks



Based on individuals across the network/network programmes across terrestrial networks only

Source: BARB

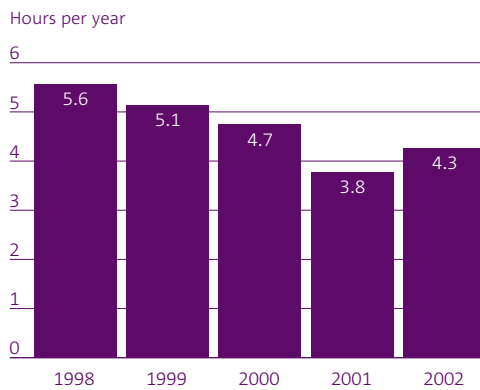
Figure 28: The share drop of selected programmes in multichannel households, 2002 / 2003



Source: BARB (Average series share)

78. In a genre like arts, a combination of this trend and the smaller amounts of dedicated output have caused the total number of hours viewed across the year to fall significantly. Figure 29 illustrates this trend.

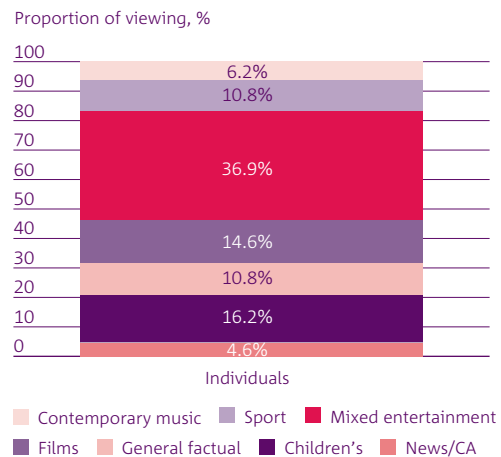
Figure 29: Average hours of viewing per year – arts and classical music (all homes)



Source: BARB

79. Figure 30 shows that when people switch to non-terrestrial channels, it is predominantly for entertainment. This means that total viewing in multichannel households is much more weighted towards entertainment programmes. Given the choice, it seems these viewers tend to move away from more challenging content towards that which is more accessible.

Figure 30: Split in hours of viewing to non-terrestrial channels, 2002



Based on individuals across the multichannel network. Based on **channel** classification. Mixed entertainment includes Sky One, ITV2, E4

Source: BARB

Value – viewers’ opinions and perceptions

80. The digital revolution has given viewers a hugely expanded choice of channels and services. We wanted to test the extent to which the current set of principles for PSB, as set out in the Communications Act, retained popular support. We therefore surveyed viewers’ opinions of the role of the terrestrial channels and then asked them how satisfied they were with the schedules as they stand. In addition to a quantitative survey of 6,000 individuals, we conducted six large-scale deliberative forums around the country as well as other, detailed research in the form of smaller focus groups as well as interviews with viewers and representatives with a special interest in a particular aspect of television (teachers and arts practitioners, for example). The detailed results are brought together in the supporting document *Audience opinions and perceptions*, and summarised here.
82. Our audience survey asked the public questions about the extent to which television should support the different elements within each of these groupings (for example promoting awareness and understanding, keeping the population well-informed). We also asked about the importance of specific genres of programming. We wanted to understand how people viewed the relative value of the various objectives set out in the Act.
83. Respondents saw TV primarily as a form of entertainment – 71% said it was their main source of entertainment. However, 55% said it was their main source of news and 58% said it was their chief source of knowledge about science, nature and history (a much higher percentage than for any other media). There was also clear and substantial support for the notion that there should be programming that offers something more to society than entertainment alone. Figure 31 shows that respondents overwhelmingly agreed that the main terrestrial TV channels should:

The role of television

81. Our qualitative research revealed that few people know what ‘public service broadcasting’ means. If anything, they thought it was primarily about public information programmes. We therefore focused our research on the more generally understood objectives that the Communications Act identified for PSB, using the four headings referred to earlier:

Social values

Quality

Range and balance

Diversity

- promote debate and keep the population well-informed (*social values*);
- constitute a high proportion of new, innovative, well-made, UK-originated programmes (*quality*);
- provide a ‘balanced diet’ of different types of programming at all times of day (*range and balance*); and
- include programmes that are targeted at a wide range of different audience groups (*diversity*).³¹

31 The fact that viewers support any such principles does not necessarily mean that any market intervention is needed to support their delivery. Many of the aspects of television valued by the public might well be provided in a competitive and commercial marketplace.

Figure 31: The role of television

Question: How important do you think it is for the main terrestrial channels between them to provide each of the following?

Component type	Component	% stating component is important*
Social value	News and other programmes that keep the population well informed	87
	A schedule of programmes that protects children from unsuitable content	85
	A variety of informative factual programmes	82
	Specialist educational programmes for children and adults	76
	Programmes that people will feel they have learned something from	74
	Programmes that promote fair and well-informed debate	71
	Programmes that protect our national heritage and keep traditions alive	71
	Programmes that promote or support social action campaigns e.g. Crimestoppers	68
	Live coverage of major political/social occasions e.g. Royal weddings, Golden Jubilee, the budget etc	62
	Programmes that promote or support educational and other public initiatives e.g. The Big Read or Restoration	58
	Programmes that promote participation in, and enjoyment of, the arts	48
	Quality	High levels of technical and professional skill in programme-making e.g. strong acting, good locations etc.
A high proportion of first-run programmes i.e. not repeats		80
Programmes that meet generally accepted standards of taste and decency		79
Programmes that make you think		77
Lots of new and innovative programme ideas		76
A high proportion of programmes made in the UK		74
Range and balance	A balanced diet of different types of programme (both general entertainment and other types) within the peak viewing hours of 6pm-10.30pm	84
	A choice of different kinds of programme across the main channels at all times of day	82
	A wide variety of different programme types e.g. news, sports, documentaries, entertainment, religious, arts etc.	82
Diversity	Programmes that are targeted at a wide range of different audience groups	80
	Programmes that reflect the needs and concerns of different regional communities within the UK	65
	The promotion of awareness and understanding of different communities	59
	Representation of a wide range of different political and social viewpoints	58
	Programmes for minority interests	57
	Programmes that reflect the needs and concerns of different ethnic communities within the UK	48
	Programmes that reflect the needs and concerns of different religious communities within the UK	44
	Programmes that reflect the needs and concerns of other minority groups such as the Countryside Alliance and gay people	35
General	Popular entertainment programmes	80
	Programmes that will appeal to most of the people most of the time	79
	Programmes that meet my personal needs	74
	At least some channels that do not carry advertising	74
	Live coverage of major or global sporting events e.g. the World Cup or the Olympics	70
	Live coverage of other popular sporting events e.g. Premiership football, Formula One, the Grand National	63
	Popular programmes from America	27

Source: Ofcom
Base: all respondents

* those stating component is either 'very' or 'quite' important

84. Figure 31 also shows that people see news and mainstream entertainment (in its broadest sense – programmes that are popular and entertaining) as the two key elements of the terrestrial schedule. They said that original programming was important to them. They wanted the main channels’ schedules to offer different types of programme at all times (rather than head-to-head competition). They also thought terrestrial schedules should protect children from unsuitable content.
85. These broad findings are remarkably consistent across all demographic and socio-economic groups and different TV audiences – those in multichannel households were just as supportive of the high level Communications Act objectives as terrestrial-only viewers. They were also backed up by our qualitative research. Figure 32 illustrates a few of the thoughts that members of the public expressed about the definition of a high quality programme.
86. When we asked viewers to choose between pairs of conflicting statements about television provision, the results were broadly consistent with Figure 31. Viewers wanted a *balanced diet of different programmes* (54%) more than a concentration on *the most popular programme types* (29%). They wanted programmes that target *a wide range of different audience groups* (56%) above *programmes that are targeted at a mass audience* (19%). They wanted a *high proportion of programmes made in the UK* (58%) rather than *the best programmes from the USA and other countries* (16%). They asked for *original and experimental ideas* (45%) above *tried and trusted favourite programmes* (26%).
87. However, at this stage of our research we need to treat these results with some caution, as we did not ask people to consider the costs of providing particular types of programming or their willingness to pay for it. Rather, we have focused on ascertaining the *relative importance* that viewers ascribe to the various elements of terrestrial television provision today, and their relative satisfaction with current delivery.

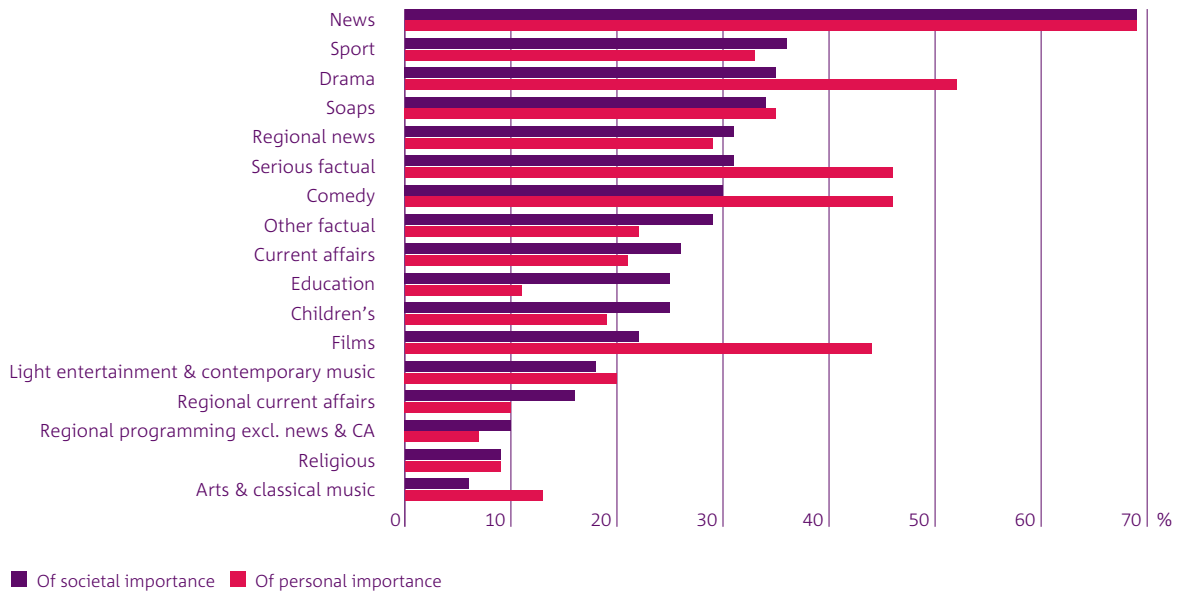
Figure 32: Definitions of programme quality

Production values	“When they’ve put time and effort into it. Good actors, good camera-work, good scripts”
Enduring	“When it stands the test of time. In 20 years’ time you’ll still be showing it”
Challenging	“Something that challenges the status quo, doesn’t conform to what people think”
Integrity	“Not a barmy adaptation: true to the story”
Safe environment	“Something I could leave my grand-daughter to watch quite happily”
Thought-provoking	“Something you talk about and think about afterwards”
Compelling	“Something you enjoy, look forward to watching the next week”
Enjoyable	“You want to sit there at the end of a stressful day and be entertained”

Source: Ofcom

88. We also asked people what particular types of programming they most valued on the terrestrial channels. We also wanted to identify whether there is a difference between what people value personally and what they think is important for society. Figure 33 shows that some clear preferences emerged.

Figure 33: The personal and social importance of programme genres

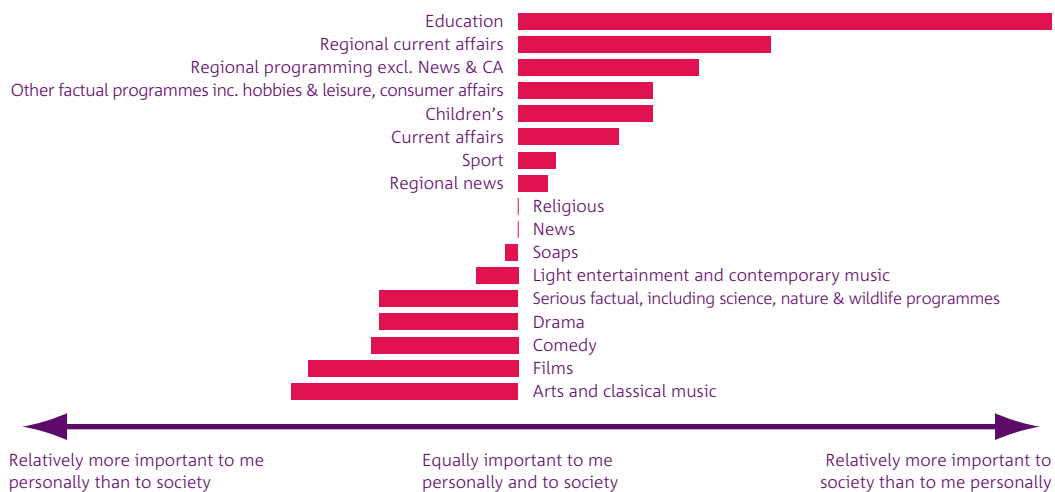


Source: Ofcom

89. At one end of the spectrum a great majority agree that it is important, for society and for individuals, for the main terrestrial channels to provide news and information. They also place a high degree of social importance on sport, drama and soaps, reflecting a belief that programming in these areas can offer more than simply entertainment.
90. At the other end, arts and religious programming are considered least important on both counts. In fact, Figure 31 tells us that suggestions that terrestrial channels should have to provide specific programming for different ethnic, religious and minority interests tend to be supported by fewer than half of survey respondents – there is more support for minority representation within mainstream programming. Few people consider education or regional programmes other than news to be very important to them personally, although more think they are of importance to society.

91. We need to look further at the areas where there is a significant disparity between the different ratings. Figure 34 is an illustration of these areas. It should be treated with caution, since our questionnaire did not ask respondents to make a direct trade-off in these terms, but the questions it raises are interesting. Where people indicate the genre is of greater benefit to society, are they implicitly recognising a broader social benefit (in economic terms, a positive externality) in education, current affairs, factual or regional programming?

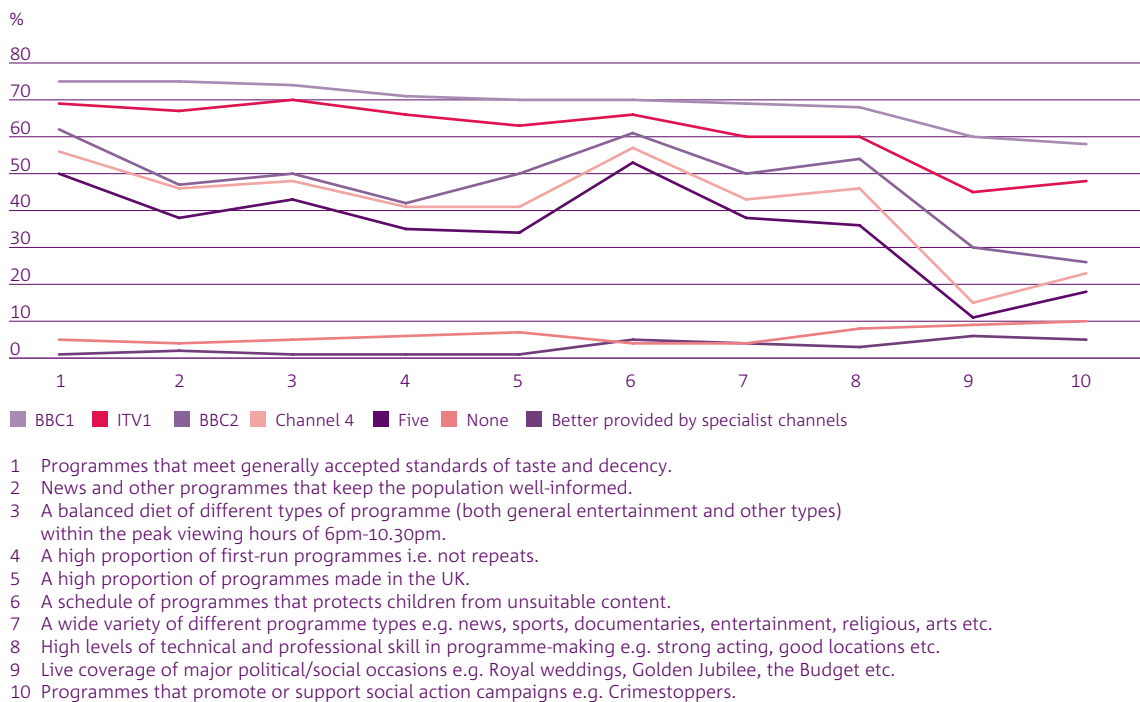
Figure 34: The relative personal and social importance of genres



Source: Ofcom

92. When people are asked about the different roles of existing channels, it is clear that they have different expectations of different channels, as shown by Figure 35. In general, those expectations mirror the existing hierarchy of channels, running from the BBC at the top to Five at the bottom, and it may be that people are simply describing what they see on screen. Expectations of the BBC remain extremely high across the board. For ITV1, they are slightly lower, although still substantial. When questioned, a sizeable minority of viewers say they feel ITV1 should be allowed to concentrate exclusively on entertainment and audiences, but the majority still want to see the channel obliged to deliver some specific forms of programming – particularly news, regional and children’s programmes. The most loyal Channel 4 viewers tend to recognise that it has a remit to be innovative and to cater for a more diverse range of audiences, although other viewers are less clear on this point.

Figure 35: Public perception of channels’ obligations



Source: Ofcom

93. In general, it is striking how little difference is observed between the attitudes of terrestrial analogue viewers and those of multichannel viewers, even though their viewing habits diverge. However, the two groups do have differing opinions of the role of specialist channels – only one in six terrestrial viewers thinks sport, arts and religious programming genres would be better provided by specialist channels, but one in four multichannel viewers subscribes to this opinion. The latter group are also more positive about the benefits of specialist services such as rolling news, even while they continue to endorse the importance of network news on the main channels. Satellite viewers also place a slightly greater premium on the entertainment value of TV – when asked to choose between different sorts of programming, they tend to opt for a larger dose of entertainment than their terrestrial counterparts.

Putting the survey findings in context

94. Qualitative analysis helps to put the quantitative research findings in some context. We held a series of deliberative forums around the country, with participants who broadly reflected the make-up of the population in each area. In large part, these validated the findings of the opinion survey. Participants from all backgrounds, even those with multichannel TV, were convinced of the value of large-scale terrestrial networks in providing a mix of mainstream entertainment and public service programming. They recognised and supported the principle that a plurality of terrestrial providers should compete with each other to deliver quality. When presented with options for change to the regulatory set-up, they were conservative, predominantly favouring the status quo wherever possible. When told that regulatory obligations might have to be reduced in some way in future, their preference tended to be for small-scale reductions across-the-board rather than a complete removal of obligations on any particular channel.
95. We also commissioned researchers from the University of Leeds to conduct focus groups.

Again the findings were consistent, and revealed a desire for stability. The Leeds research suggests that few people have an understanding of what public service broadcasting is, or how it might be regulated. They have a very clear view, however, of what should be provided. They see TV predominantly as a form of entertainment but also expect it to provide broader benefits to society as a whole – even if they themselves never watch it. In most homes, the terrestrial channels are turned to first. Access to free programming on these channels is considered a ‘right’, and higher expectations are attached to it – particularly on the licence fee-funded BBC as opposed to the ‘free’ channels.

96. The Leeds researchers found that in cultural terms, programming of a particularly ‘British’ nature is felt to be important. In Wales and Scotland there is also significant support for local production and for Welsh/Gaelic language services. Within England, regional news was supported but other regional programming only attracted support if it was considered to be of high quality. There tended to be more support for mainstream representation of minority groups than for specific minority programming. More generally, there were strong indications that people want the terrestrial channels to give them range and balance. The focus groups and our deliberative forums both revealed public irritation at the fact that head-to-head competition in the schedule can result in a reduced range of viewing options at any one time.
97. We also asked representatives of special interest groups (such as arts and sport organisations, charities and campaign groups) what they thought television should provide. They were overwhelmingly supportive of the principle that mainstream channels should be subject to public service obligations. They also see a potential role for television as a point of stimulus and direct engagement, able to encourage participation in other activities such as politics, sport, learning or local TV. We ought to consider whether or not this

should be made a specific aspect of public service provision in future, although it should be noted that the general public say they are less supportive of such programming. Specialists also expressed particular concerns about provision to old people (to whom TV is particularly important) and young people (who are felt to be particularly susceptible to the influence of mass media).

98. As our work proceeds, we need to investigate these findings further. What people say they value does not always correlate very closely to what they watch – viewing habits in cable and satellite homes, where there is a wider choice available, diverge sharply from the norm in terrestrial homes. Questions need to be tested and refined. What do people mean by ‘important’? How far do they think they get value for money? What sort of ‘balanced diet’ of programming do they envisage? What sort of protection do they think children need? Why is there less support for regional, minority, specialist arts and religious programming? How might these genres be redefined? Many more people appear to support the representation of ethnic minority groups in mainstream programming than think specific minority programming should be provided – is this the right model?

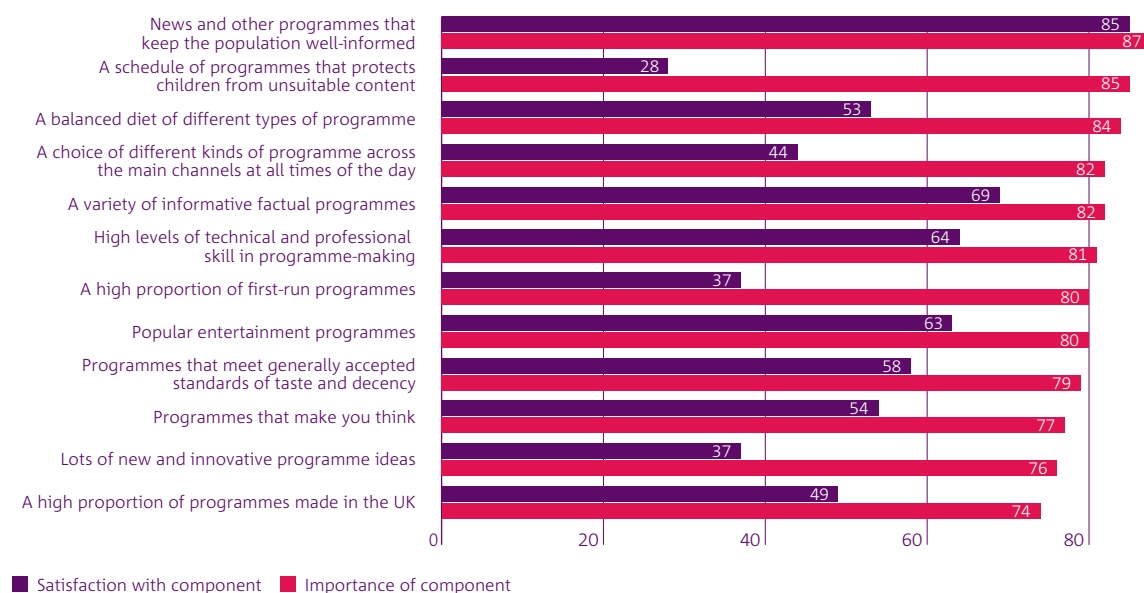
Audience satisfaction

99. We wanted to test whether the public were satisfied with the television they get, particularly the elements they feel are most important. Our research showed that, overall, most people are reasonably happy with the TV they receive, although satellite viewers are significantly more satisfied than terrestrial viewers. In terms of particular programme genres, while people are generally happy with the news and entertainment they receive from the terrestrial channels, very low numbers feel arts and religious programming is either important or satisfactory.
100. Although levels of general satisfaction are high, viewers are demanding and perceive a decline in

standards in some key areas. In our opinion survey, only 31% were satisfied with the level of innovation delivered by terrestrial TV. Apart from complaints about too many advertisements, the most common concerns in our audience survey were that there are too many reality shows and too many celebrity shows. These concerns were echoed by the participants in our qualitative research seminars, who held strong views about the increase in derivative formats on the main networks, and who complained that the broadcasters often underestimate their audience.

101. We asked people how well they thought the terrestrial channels were delivering the general objectives that they had ranked as important and, as Figure 36 (p56) reveals, some clear conclusions emerged. In addition to concerns about innovation and originality, the survey reflects a feeling that different types of programme are not always available at all times of the day (perhaps relating to dissatisfaction with head-to-head scheduling).
102. There is also clear concern about the programmes that children watch. Survey data shows that while 85% of people feel terrestrial channels should protect children from unsuitable content, only 28% of those people are satisfied with the level of protection afforded. Further qualitative work suggests that the origin of this concern is the sort of programming that children have exposure to before the watershed, in particular the soaps. Parents don’t feel they are able to stop their children watching drama that they feel is unsuitable, and nor do they feel there is enough quality provision for children in the evening schedules. However, in previous ITC/BSC research parents have noted the important role of soaps and similar drama at helping to introduce children to difficult topics, and our current research highlights the fact that people consider soaps to have a social purpose. We will need to explore this issue further in Phase 2 of our review.

Figure 36: Viewer satisfaction with selected public service components



Source: Ofcom

Conclusions on the effectiveness of current delivery

103. The existing system is delivering all of the four objectives that the Communications Act identifies for PSB, but only in part.
104. **Social values** are being upheld by the extensive provision of high-quality, well-resourced news and factual programming. There is also a robust commitment to UK-originated programmes (and UK producers) that help to strengthen cultural identities. There have been some innovative recent attempts to inspire audience engagement and participation in new areas of interest. However, specialist education and current affairs output has declined in volume and is a much reduced presence in peak hours.
105. **Quality**, measured in terms of programme spend and production values, appears to be relatively stable, at least in peak-time. However the most significant increase in spend appears to have been on sports rights, and neither viewers nor

broadcasting professionals feel quality is so evident in terms of innovation or creativity. Only in news and drama has the number of first-run original programmes increased.

106. **Range and balance** is broadly provided. The main terrestrial channels are still delivering all the genres of programming identified in the Communications Act's definition of PSB. However, within genres there has been a move towards a more populist approach (for example, soaps within drama, and 'factual entertainment') and peak-time schedulers face severe competitive pressure to focus on delivering large audiences. As a consequence, a narrower range of subjects is being addressed.
107. **Diversity** is provided in terms of niche and minority-interest programming. However, these are the genres that have been most obviously marginalised in the schedules. They also appear to be least valued by the public, although

our survey results may not be revealing high appreciation rates from the small audiences that regularly watch such programmes. The provision of regional programming is stable, although in genres other than news it appears to be less consistent in quality and less highly valued.

108. Our audience research suggests that viewers have spotted all these trends. They continue to see TV as a medium of social as well as personal importance. They appreciate quality, and value it when they see it. They have significant concerns, however, about the extent to which the broadcasters value their opinions – they feel that a large amount of programming is imitative and underestimates their intelligence.

Areas of concern

109. Our findings raise some emerging concerns in specific areas that we think need further exploration as part of Phase 2 of our review.

Education

110. The main terrestrial networks are supposed to inform, educate and entertain. Yet it is now less obvious that they fulfil the second of these aims, at least in the traditional sense. The amount of dedicated education programming has fallen sharply over the last five years, as has the amount of money invested in it. This need not be a problem if factual programming is delivering the same benefits in a more directly engaging way – our audience survey suggests far more people see the value in ‘learning’ as a general concept than feel ‘educational’ programming is important to them.
111. It may be that modern television is better suited to stimulating initial interest and engagement in a subject, rather than providing the sort of detailed, structured material that can work better online. However, we need to look more closely at this issue, and the extent to which the broadcasters need to improve the effectiveness of their provision.

Current affairs

112. Many current affairs programmes have been moved to the margins of the schedules and their viewing figures are not high. The definition of the genre is not clear. Should it include magazine-type formats such as *Tonight with Trevor McDonald* as well as more serious fare like *Panorama*? Do some documentary strands provide the same sort of service in a more accessible way? Can dramatisations of current issues provide a better way of engaging public interest? We need to ask whether there is a better model of provision that might allow broadcasters to contribute to a wider understanding of current affairs in future.

Regional programming

113. Regional programming was one of the founding components of ITV1, and in recent years the BBC has increased its commitment to programming for the Nations and Regions. Viewers still place a high value on regional news. In Scotland, Wales and Northern Ireland people still watch and value a range of national programming. In the English regions, however, there appears to be less support for regional programming other than news, both from the broadcasters and from viewers. Some feel that ‘regional’ news is not ‘local’ enough.
114. At present, therefore, it seems that a large number of regional programmes are providing low benefits at relatively high costs. Should we still expect the BBC and ITV1 to provide them to the same degree or would other media do the job more effectively? Are there alternative ways of producing them that can better engage the public? Is it more important for the regions to be properly reflected in network programming than for programmes to be made that are specific to each regional audience?
115. We also need to look in more detail at the pattern and quality of national programming in Scotland, Wales and Northern Ireland. In particular, we will engage with DCMS to put together a full assessment of S4C’s contribution, as a public service broadcaster, to Welsh language programming. We will undertake some work, during Phase 2 of the review, to investigate further and compare models of national and regional delivery.

Arts, religion and minority programming

116. Dedicated programming in these categories presents a dilemma. It is generally considered to be core PSB territory. However because of its very targeted nature, it attracts little widespread public support and risks being seen by producers and commissioners as ‘ghetto’ broadcasting. Low viewing figures mean that it is moved into unpromising slots in the schedule. Very little arts programming was provided on BBC One until its recent revival. Ethnic minority viewers’ perception that multicultural programming is declining raises questions about its provisions and also the best means of serving these interests.

Children and a ‘safe environment’

117. Children’s programming on the main terrestrial channels was widely appreciated by the audiences we surveyed and the new digital services are seen to offer additional value. Concern about children’s viewing was concentrated in a different area. An overwhelming majority of respondents in our audience questionnaire agreed it was important that on the terrestrial channels, children should be protected from unsuitable content. A comparatively low number thought that terrestrial TV was succeeding in this area. Our qualitative work reinforced the message, and it became clear that viewers have two areas of concern. First, they think pre-watershed content, particularly in soaps, is unsuitable for children. They don’t feel parents have the means to prevent such viewing (although our survey also revealed a widespread view that soaps can bring important social benefits). Second, they feel it would help were there to be more programmes targeted specifically at children (particularly older children, aged ten and upwards) at the equivalent point in the schedules.

118. A safe environment for younger viewers will remain an important part of the PSB framework. However, audience attitudes to standards are more diverse than they once were. The regulatory framework may therefore need to be more flexible in future. As we move into Phase 2 of our review, we will undertake a thorough and open exercise to consider different approaches.

Sport

119. Sport rates second only to news in terms of the importance people attach to its presence in the terrestrial schedules from the perspective of society in general. If this is taken to mean that viewers expect to see a large quantity of the most high-profile sports – those with the most expensive rights – it presents a problem for terrestrial channels working on ever-tightening budgets. However, our qualitative work revealed that there may in fact be an antipathy to excessive football coverage and an alternative vision of public service sports coverage, consisting of two elements. First, coverage of the major events currently on the protected list (listed events) – those that can contribute to a national, shared experience and therefore need to be universally available. Second, support for the sort of smaller sports that receive scant attention from subscription channels. This might support the desire of sport administrators to see TV encouraging a broader range of participation.

News

120. Our research shows that news is sustaining top-line investment and public support at present. Nevertheless, we need to look again at the issue of disengagement for younger and ethnic audiences that was uncovered by the ITC/BSC report *New news, old news* (2002). We ought also to consider how funding and impartiality/accuracy requirements could best be maintained in a digital world. At present the latter apply to all licensed broadcasters. Could they be made specific to an approved list of PSB providers in future, allowing more partial news coverage in other parts of a multichannel universe?

Innovation and quality

121. There is an overriding concern among viewers about the lack of original and imaginative programming. They resent being repeatedly presented with similar versions of the same format. They express frustration with competitive head-to-head scheduling. All of these points are recognised by producers, commissioners and schedulers within the industry. However, few people have the same definition of innovation, and few are able to suggest what the solution might be. What regulatory response might succeed in promoting innovation? Is there more scope for programming that encourages viewer participation? In broader terms, how should we measure quality and innovation? Is there a qualitative means by which a programme's contribution to the aims of PSB can be measured?

The overall system of terrestrial broadcasters

122. Our research suggests that the existing terrestrial networks have complementary roles, recognised by audiences. Viewers and broadcasting professionals both agree that competition between mainstream channels improves the quality of programming on offer. However, there are some clear concerns that merit further investigation:
- a lack of engagement with younger audiences and ethnic minorities;
 - the economic pressure that some more marginal public service obligations place on the commercial broadcasters' business models;
 - the BBC's approach to competition for viewers;
 - a lack of understanding of Channel 4's remit, beyond the channel's core audience;
 - the low reach and impact of the BBC's digital channels; and
 - the public service contribution of some other channels (for example, Sky News and Artsworld).
123. In Phase 2 we will examine these issues more closely, using more deliberative audience research and further discussion within the industry. We will also consider value for money and the public's willingness to pay for the range of output currently provided. In the meantime, we invite responses in relation to any of the points raised above.



A changing environment

3

3. A changing environment

124. The trends that we have observed in terrestrial television over the last five years are symptomatic of changes that will unfold more fully in the future. Phase 2 of this review will examine in more detail how the UK television environment will change over the next five to ten years, but in Phase 1 we have sought evidence of the emerging trends. This section examines key market and technology developments in terms of viewing behaviour. More detailed analysis is available in one of the supporting documents to this report, *What people watch: television viewing behaviour*.

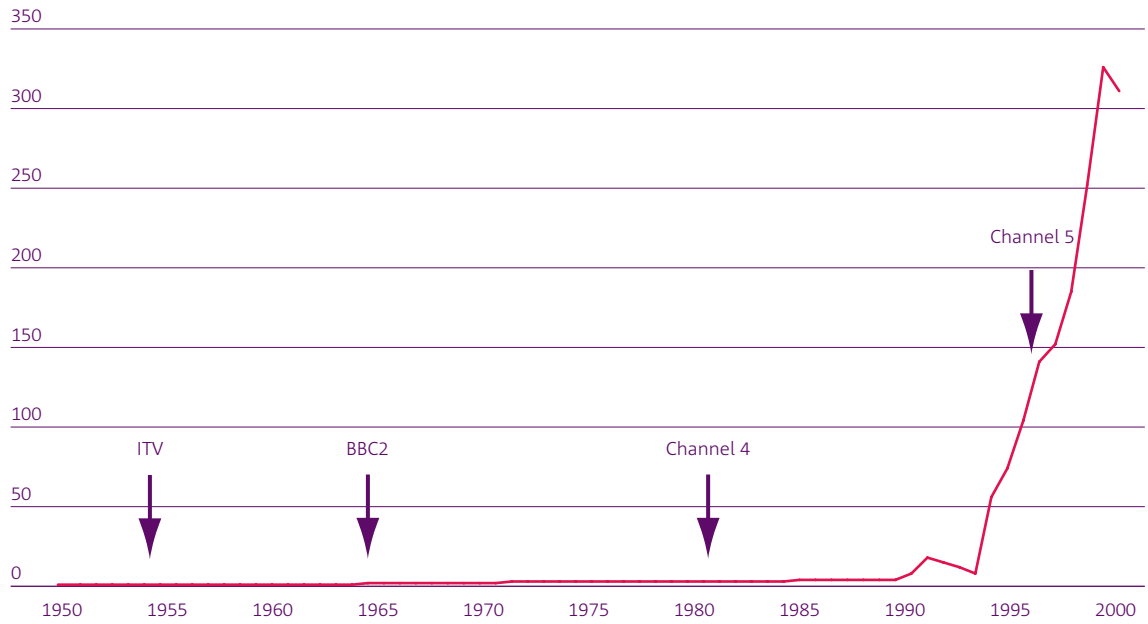
Market developments

125. New technology is increasing the scale of competition that terrestrial broadcasters face. As a consequence, commercial channels need to fight harder to gain the sorts of audiences that advertisers will pay for. The BBC has to join the battle for audiences in order to justify a universal, compulsory licence fee.

126. Fifty per cent of households already have digital television, and take-up has been extremely rapid (twice as fast as that of colour TV in its first five years). Take-up looks set to continue whatever date is set for switchover. At the same time, people are buying new and better televisions more frequently. The average age of a set dropped from five years in 1996 to 4.5 years in 2003. Other digital technology is increasingly competing for viewers' attention. Ownership of DVD players has exploded – reaching 45% of households in 2003 from a near standing start in 2000. A similar number of UK homes now have internet access and broadband connections are rising rapidly.

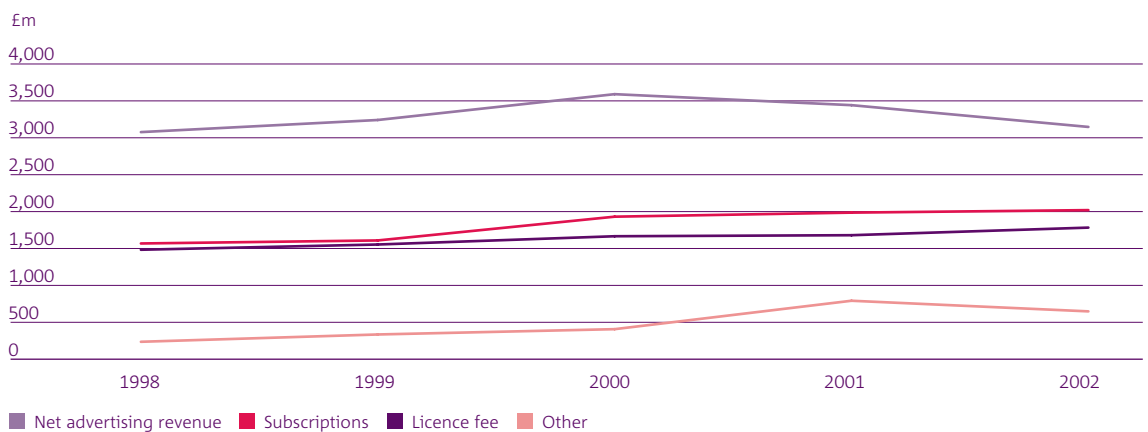
127. The growth in the number of channels (see Figure 37) and the competition between the different digital platforms has brought substantial new revenues into the television sector: for instance, BSkyB's subscription revenues now exceed the total amount raised by the BBC licence fee. The established terrestrial channels face ever-increasing competition for audiences and advertising revenue. As total revenues in the television industry rose by 11% between 1998 and 2002, their share of that funding declined from 65% to 57%. Figure 38 shows that it was subscription television that saw the real surge over the period, while advertising suffered in 2001 and 2002.

Figure 37: The growth in television channels in the UK, 1950-2002



Source: DGA; Ofcom

Figure 38: Sources of UK television revenue (2002 real prices)



Source: Ofcom analysis of ITC data; and of broadcasters' data

128. Even newer technology, in the form of personal video recorders (PVRs) and broadband, threatens to completely transform the viewing experience, towards a more fragmented, interactive and personalised model. Television may potentially be transformed from a passive schedule-led experience to an active consumer-led activity, where viewers are able to skip through adverts or buy their programmes directly over the internet, by-passing the broadcaster completely.
129. A key factor will be the future development of the DTT platform, which at present more closely resembles the traditional analogue experience than either cable or satellite. DTT is by far the fastest-growing digital platform at present, in the form of Freeview, with around one million households adopting it in the last quarter of 2003 alone. As Figure 39 shows, Ofcom's analysis suggests that DTT take-up is expected to be the major driver of future digital penetration.

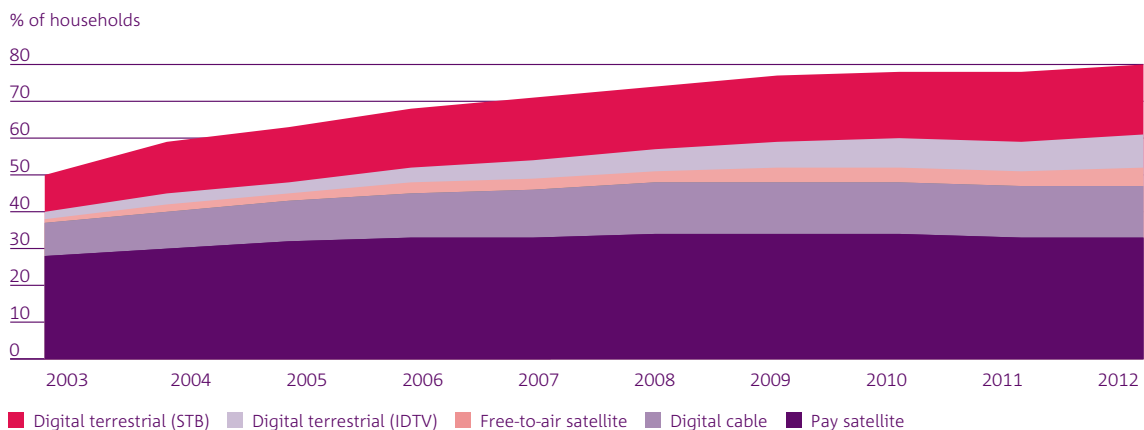
Audience behaviour

130. In Section 2, we described how multichannel TV had affected the viewing share of the terrestrial channels. In fact, the change is more substantial

than that; new technology is also affecting the way people use television. In multichannel homes, viewing habits have changed.

131. Cable and satellite viewers in particular watch more TV and they watch it in a more fragmented fashion. Older age-groups are reliant upon a relatively small number of channels for the bulk of their viewing: for over-55s, the five terrestrial channels account for 70% of total viewing even in multichannel households. For younger viewers, however, channel fragmentation is more advanced: under-34s in multichannel households now devote less than half their viewing to the main terrestrial channels.
132. Younger Sky viewers in particular are beginning to exploit digital technology to dictate their own schedules. Children in multichannel homes show little loyalty to discrete channels. In general, viewing habits are becoming polarised – different groups tend to watch different sorts of programmes and it is becoming ever more difficult for any one broadcaster to reach a large proportion of the total audience. Figure 40 shows the variety of viewing patterns adopted by different age groups with different multichannel options.

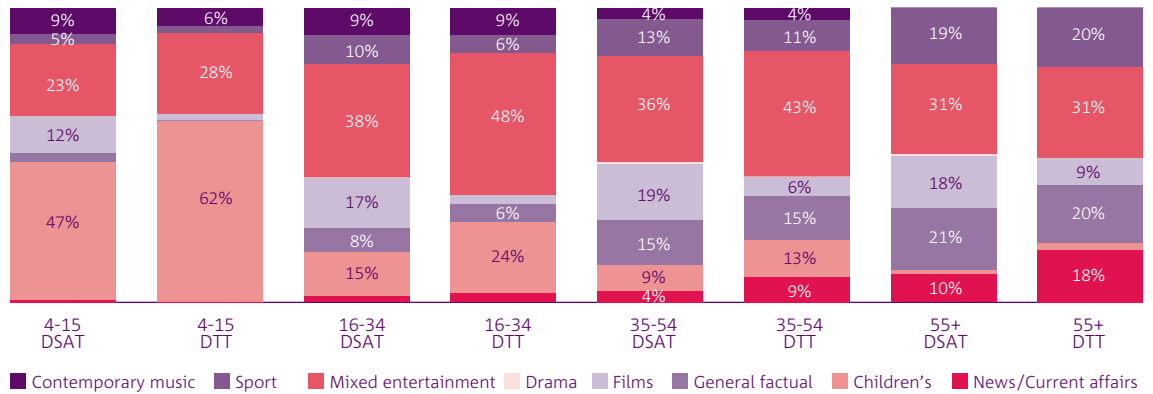
Figure 39: Ofcom central projection of DTV adoption, 2003 to 2012



Source: Ofcom

This projection is built upon assumptions about consumer attitudes, purchasing intentions, DTT coverage and platform operator strategies. The forecasts are indicative only.

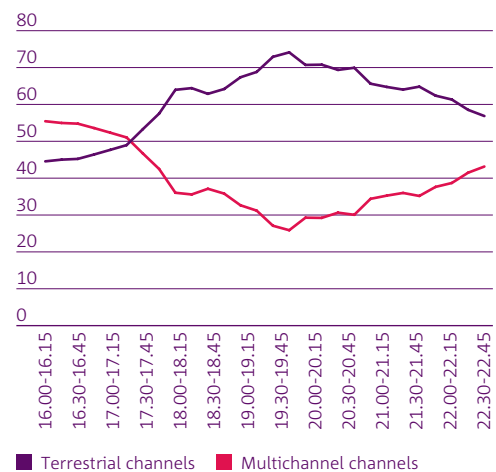
Figure 40: Composition of viewing to non-terrestrial channels, by delivery platform, 2002



Source: BARB

133. Peak-hours represent the best opportunity for terrestrial broadcasters to build an audience, but Figure 41 suggests they still find it difficult to maintain their share as the evening goes on. In this climate, the traditional practice of ‘hammocking’, whereby a serious programme was scheduled after more a popular offering in order that it could inherit a significant audience, is less viable.

Figure 41: Audience flow between multichannel channels and terrestrial channels, peak-time 2003



Source: BARB

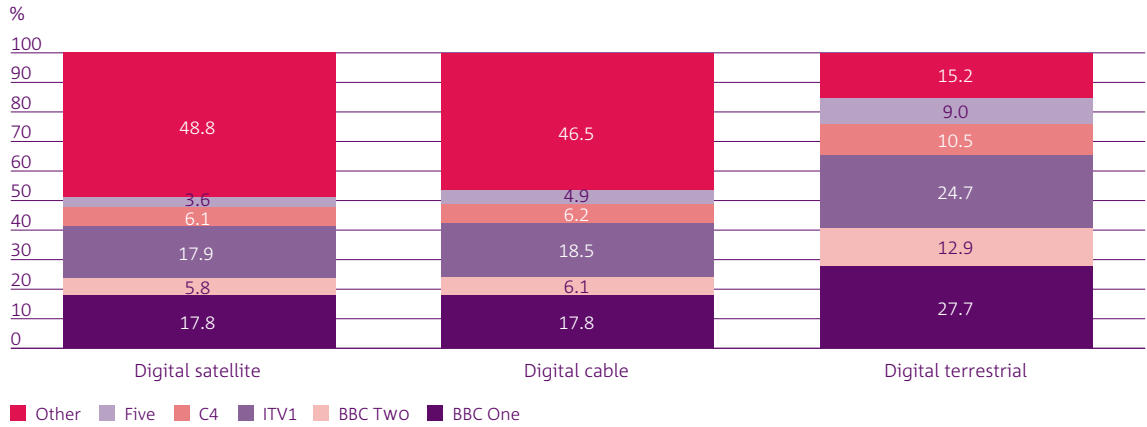
134. DTT is emerging as a very different environment from satellite or cable. Figure 42 shows that the traditional terrestrial channels do far better. However, it remains to be seen whether this is a form of conscious consumer choice (DTT consumers at present tend to be older, from higher social groups and more pro-PSB), or simply a reflection of the smaller number of channels on offer and the lack of premium content.

135. Changing consumer attitudes are also evident alongside changing viewing habits. People in cable and satellite homes plan their viewing less, flick around the channels more and (unsurprisingly) see more of a role for specialist channels. Overall, as Figures 43 and 44 illustrate, they are more likely to be satisfied with their TV but less likely to support the licence fee. It is not clear, however, whether their opinion directs their choice of TV package or the other way around.

The implications of change

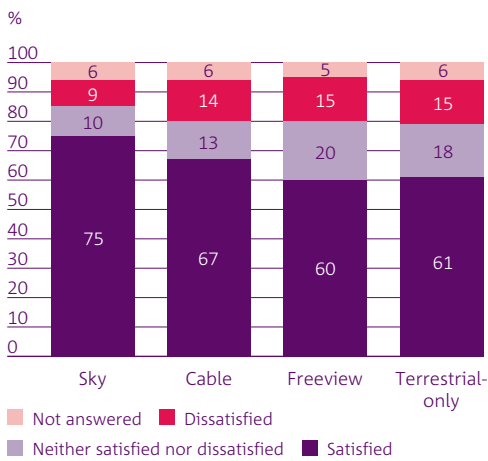
136. New technology has changed viewing patterns. Future technology threatens to do so in more dramatic fashion. In this context, the existing main terrestrial networks face an uncertain future. For the commercial channels, regulatory requirements may begin to weigh much heavier as the market becomes more competitive and advertising funding is squeezed. The licence fee may become harder to justify as fewer people watch the programmes it pays for, and over time licence fee funding may struggle to fund programmes sufficiently to satisfy viewers' expectations in a competitive market. Some of television's traditional strengths – its ability to provide a common reference point for society, or to bring people challenging content that they might not encounter elsewhere – become harder and harder to sustain as individuals begin to create their own schedules. The increasingly populist approach that was noted in Section 2 is a direct consequence of the commercial pressures that broadcasters now face, and those pressures will intensify as time goes on.

Figure 42: Channel viewing shares on multichannel platforms, 2003



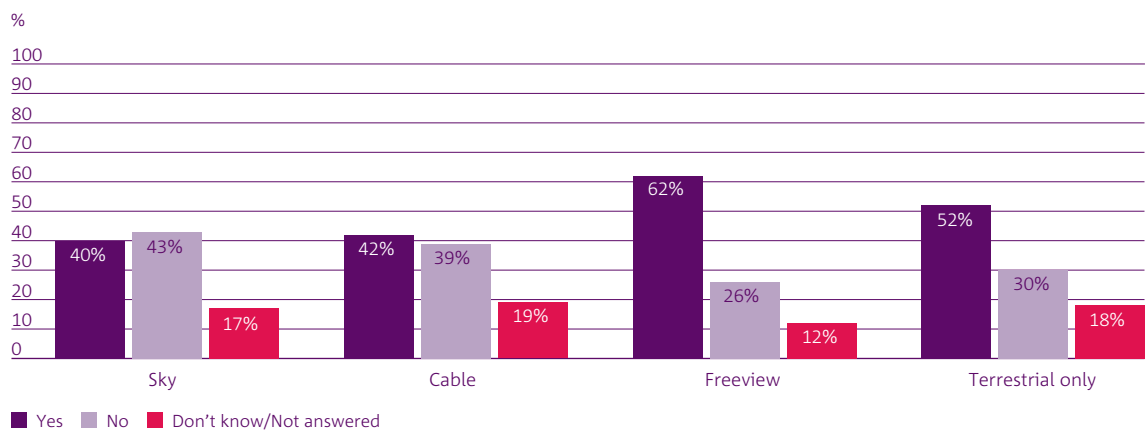
Source: Ofcom

Figure 43: Satisfaction with TV



Source: Ofcom

Figure 44: Support for the principle of the licence fee



Source: Ofcom



The way forward?

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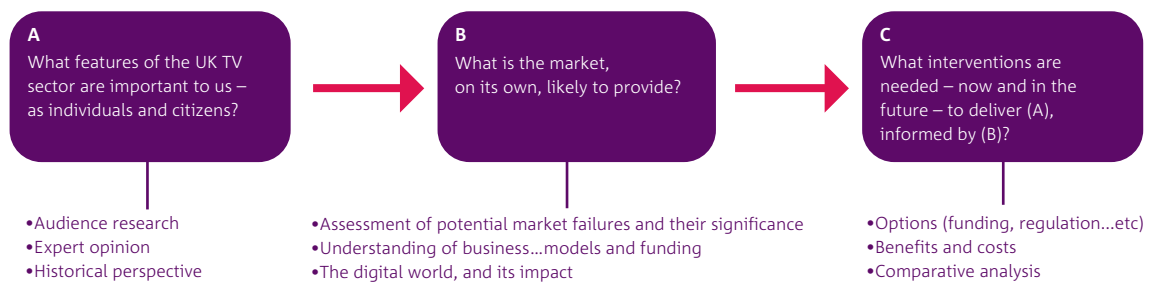
4. The way forward?

137. This review has two objectives: first, to report on the effectiveness of the main terrestrial TV channels in meeting the requirements of the Communications Act; and second, to report on how the quality of PSB could be maintained and strengthened in the future. The latter objective provides an opportunity to consider alternative options for PSB.
138. This section puts forward what we think is a sustainable rationale for PSB. It also sets the scene for our Phase 2 work by outlining some of the important issues that we believe need to be considered in more depth. One of the supporting documents we have published, *A conceptual review of public service broadcasting*, sets out the analysis in this section in full.

A sustainable rationale for public service television

139. If we are to put forward proposals for maintaining and strengthening PSB in the future, we need to understand what purposes it should be serving.
140. When television was invented, politicians and broadcasters in the UK quickly recognised the power of the new medium. The limited amount of spectrum available, coupled with the absence of direct transactions between viewers and broadcasters, meant that a range of interventions were undertaken, aimed at meeting consumer and broader social goals. Intervention comprised not only regulation, but also public funding, public subsidy and public provision. Over time, the term ‘public service broadcasting’ came to refer to the whole range of terrestrial television institutions and content.
141. In the past 20 years, as the commercial sector has grown and evolved, the analytical focus has shifted to concentrate on market failures as a rationale for State intervention in television. The Peacock Committee (1986) emphasised the ideal of consumer sovereignty and saw PSB-style intervention largely as a temporary response to market failure in an age of limited spectrum availability. Public policy responses to these arguments, even those like the Davies Report on the Future Funding of the BBC (1999) that reached a different conclusion, have been proposed from a similar economic perspective.
142. As Figure 45 shows, the starting point for our definition of PSB is an appraisal of those aspects of television broadcasting which we think will remain vital, unique, and have something special to offer our society. This approach requires value judgements to be made about the desired role and remit of television in the UK – in other words, to identify what we believe to be a socially desirable outcome for television provision.
143. However, measures to secure public service broadcasting represent a potentially significant intervention in the market (whether in terms of subsidy, funding or regulation). We therefore also need a rigorous understanding of what the market, left on its own, would deliver – and of the nature and scale of the market failures that policy may need to address. Finally, we need to assess the likely effectiveness of a range of policy interventions available to address any enduring concerns. Figure 45 illustrates our conceptual framework.

Figure 45: Conceptual framework for our review



144. There are six areas where an unfettered television broadcasting market might fail:

- **Programmes are ‘public goods’.** The fact that programmes, once made and broadcast, can be consumed by additional viewers at little or no additional cost to the broadcaster causes problems for the market mechanism. It means that if the price of a programme is set to cover the (high) total production costs, a viewer may be excluded from watching it even if they value it more than the (very low) marginal cost of making it available to them. In economic terms, this is neither an efficient nor desirable outcome.

In addition, until the advent of encryption and conditional access technology, there was no way of limiting the number of people who watched a programme and thus no way of charging viewers only for the specific programmes they watched.

In such circumstances, the most efficient pricing approach may be a compulsory flat fee paid by all – along the lines of the licence fee.

- **The shortcomings of advertiser-funded TV.**

For some time, advertising was the only source of commercial income for TV companies. In this model, broadcasters are motivated by the need to deliver viewers to advertisers in sufficient numbers, not by satisfying the preferences of different groups of viewers (except when a certain group is particularly attractive to advertisers, e.g. 16-34 year olds). Where spectrum is scarce and there is a limited number of channels, this is likely to cause broadcasters to cluster in the middle ground, depriving viewers of the sort of range and balance they might want.

Even when there are more channels to choose from, the strength of preference that a smaller number of viewers have for a particular programme or range of programmes might not be captured by the price that advertisers are willing to pay to screen it.

- **A tendency towards monopoly/oligopoly.** Economies of scope and scale are inherent in broadcasting and will tend to encourage the concentration of ownership in large, often vertically-integrated companies. The result of an unregulated market might therefore be reduced competition, less choice for viewers and either higher prices or lower quality than would be available in a competitive market.
 - **A lack of consumer information.** Programmes are ‘experience goods’ – it is argued that viewers cannot make informed decisions about whether to watch programmes they have not yet seen. Without regulation, broadcasters would tend to respond by supplying a narrow range of tried and trusted, immediately recognisable programme types rather than taking risks.
 - **The presence of externalities.** An individual’s viewing can have additional benefits for society as a whole, for instance through his or her engagement in the democratic process as a more educated citizen. However, each individual may not account for such benefits when making viewing choices. The market will therefore tend to under-provide programming that yields this kind of broader social benefit.
 - **The provision of merit goods.** Individuals themselves can get more value from a programme, for example in terms of news and information, than they realise. However, because they do not always appreciate that value, they would not necessarily choose to pay for such a programme in an open market. Again, the market, left to itself, would tend to under-provide this sort of programming, since the individual does not recognise its full value when exercising consumer choice.
145. Looking at these problems together, PSB intervention over time can be seen to have had two main aims:
- First, to help the broadcasting market work more effectively to deliver programmes that **consumers** want to watch or want to have an option to watch.
 - Second, to provide the programming that as **citizens** we want to be widely available for as many people as possible to watch. Such programming secures the wider social objectives of UK citizens by making available TV that has broad support across the UK, but which would be underprovided or not provided at all by an unregulated market.
146. The consumer-focused objectives of PSB have traditionally been to address the shortcomings of advertiser-funded TV, a lack of consumer information and the problems inherent in the delivery of public goods by ensuring that broadcasters deliver:
- a sufficient range and balance of programmes across all the networks;
 - programmes which cater for minority as well as for mass audiences;
 - competition for quality of content as well as for audiences and advertising revenues; and
 - an efficient means of delivery, in the absence of mechanisms to restrict consumption.
147. The citizen-focused objectives can be seen as those measures needed to make sure television delivers sufficient positive externalities and merit goods, by giving all citizens access to programming of wider social value. There has been much intense debate about the precise nature and importance of these social purposes. We suggest there are four core purposes at the heart of any enduring case for PSB:
- **to inform ourselves and others and to increase our understanding of the world,** through news, information and analysis of current events and ideas;

- **to reflect and strengthen our cultural identity**, through high quality UK national and regional programming;
 - **to stimulate our interest in and knowledge of arts, science, history and other topics**, through content that is accessible, encourages personal development and promotes participation in society; and
 - **to support a tolerant and inclusive society**, through the availability of programmes which reflect the lives of different people and communities within the UK, encourage a better understanding of different cultures and perspectives and, on occasion, bring the nation together for shared experiences.
148. To meet these broad social purposes, PSB programming needs to have certain characteristics. It should be widely available to all citizens. It should be innovative, original and of high quality. Aspects of it should challenge viewers. These characteristics are most likely to be delivered if there are a range of different providers – to encourage competition and to ensure we have access to a reasonable plurality of views and perspectives.
149. However, defining the objectives of PSB is different from justifying public intervention. Any large intervention in the market is likely to be expensive, to distort the market for commercial provision and to divert public resources from other potentially valuable uses. This perspective implies that intervention to support consumer and citizen interests must also satisfy the following criteria:
- it should result in programming that would not be delivered by commercial operators alone;
 - the policy and regulatory tools available must be able to secure its provision;
 - once provided, it must be effective (that is, enough people must watch and be influenced by it); and
 - its costs, including costs due to market distortions, should not be disproportionate to the benefits.
150. Some would argue that public intervention in broadcasting has a third purpose, an economic rationale that goes beyond the interests of consumers and citizens: to support a healthy UK production sector. Our initial view is that a healthy UK production sector should emerge from a healthy TV broadcasting market with the appropriate public policy intervention. It should not be the goal of such an intervention. A healthy production sector might be a goal for publishing, the music industry or other sectors, but we do not direct large-scale public funding towards those industries.

The conceptual framework in a digital age

151. The digital revolution has the potential to transform the debate about the rationale for PSB intervention, and to address many of the market failures identified above.
152. In a fully-digital world, the arguments that the market is failing consumers will become far less convincing:
- **The ‘public good’ problem can be largely resolved.** Encryption and conditional access systems allow broadcasters to charge consumers directly for their television and to adopt more sophisticated pricing policies that can reflect the differing values that individual consumers put on individual programmes. For example, the first showing of premium content can be priced much higher than subsequent showings, bringing more viewers to the programme for each of the different release ‘windows’.
 - **Advertising-funded programming should become more diverse.** The problems of advertising funding are most extreme in a limited channel environment. When there is a wide range of channels, it will make economic sense for some of them to target niche audiences rather than aiming for the over-populated middle ground. The range of programming available should broaden.³²
 - **Information problems are mitigated.** There are now very many ways for consumers to find out about a programme before they watch it – from guidance and criticism in the press, to dedicated listings magazines and the internet. On-screen electronic programme guides (EPGs), in particular, allow the viewer to actively search out new experiences, and will become more and more interactive and user-friendly as time goes on.
153. Recognising these trends, the Davies Report on the Future Funding of the BBC argued in 1999 that competition concerns would become more significant. It proposed that, even as spectrum became less scarce, a structural tendency towards monopoly would persist. While this may well be true and while it may have implications for programme quality, it is an issue best addressed by competition policy. If competition rules are properly applied, digital platforms will open the broadcasting market to far greater competition than existed before. Market concentration is not a justification on its own for large-scale PSB-style intervention.
154. After switchover, therefore, the economic efficiency argument for wide-ranging public intervention to support large-scale public service broadcasters, on the basis of supporting consumers’ interests, seems likely to be weaker. Ofcom is committed to promoting digital switchover, in order to bring increased choice and competition to the market.³³ At present, however, almost half of all UK households still rely on only four or five analogue channels. The process of transition from analogue to digital will continue for another five years at least. Until switchover has taken place, some of the consumer-related market failures will remain relevant. We need to address the issues surrounding continued PSB provision for this transitional period as well as preparing for a digital future.

32 Although the interests of some core audience groups (e.g. those with low purchasing power or low propensity to consume) will never be of significant interest to advertisers. To the extent that they have different viewing preferences to those of more affluent viewers, these interests may be under-served by advertiser-funded channels.

33 See *Driving digital switchover: a report to the Secretary of State*. Ofcom, April 2004.

155. Even after switchover, the broadcasting market is likely to exhibit market failures caused by the existence of externalities and merit goods. As a result, programming that has wider social value, and which most of us would like to see provided, would either be under-provided or not provided at all. Further, there is an argument that where the market delivered programming of quality, range and balance, much of it would probably be provided on a pay-per-view basis, only for those who could afford it. The free-to-air terrestrial channels, dependent on dwindling advertising income, might provide only the most mainstream forms of programming.
156. The rationale for a continued investment in PSB is that only with such an intervention would TV serve UK citizens adequately. PSB is important because television is uniquely placed to reach large numbers of people with great impact. If that is no longer possible in a digital world, of course, the case for continued PSB provision would be much diminished.

Implications

157. If PSB is to be maintained and strengthened, we will need to develop proposals in each of the following areas:

Purpose and definition

158. We will need to determine the extent to which television – in the digital age – can effectively deliver the purposes and characteristics of PSB outlined above. We will also need to identify the areas in which TV has a comparative advantage compared with other means of delivering similar goals.
159. If PSB is to be effective, we think that PSB values need to be reflected in a wide range of programme types, not just programming traditionally thought to be ‘beneficial’: citizens’ interests can be met through many programme types and indeed may be most effectively met via programming which viewers think will entertain them as well as ‘make them think’. The challenge for broadcasters will be to develop programming that is both challenging and accessible, and which engages large numbers of viewers, rather than small minorities.
160. We will also need to reach a final view as to whether there are continuing consumer market failures in a digital world, and what measures are needed to protect consumer welfare in the transition to digital. Our current view is that we should encourage a fast move to digital switchover and ultimately a reliance on competition law to address any remaining concerns here – but that the transitional period will require continuing support for range, quality and diversity on the main terrestrial networks.

Scale of intervention

161. The scale of PSB in the future needs to be examined carefully. Our current view is that PSB programming, if it is worth providing at all, should be available to a wide audience and be widely appreciated. With this in mind, our initial view is that the delivery of PSB purposes will still require a significant intervention in the market. However, we recognise that the risks and costs of a continued large-scale intervention should be carefully weighed. In Phase 2 of this review we will model what the market would look like without intervention, to inform our assessment.

Delivery

162. We need to assess the best way of delivering PSB, given the changing economic and competitive pressures in the market. Our current view is that it will be important to ensure continuing plurality of provision of PSB. Competition for quality between broadcasters should continue to be encouraged.
163. Different channels have different core audiences which can help PSB reach the widest range of viewers. This should be taken into account in determining the most effective means of providing PSB to harder-to-reach audience groups.

Funding

164. In a tougher competitive climate, advertising revenue may fall if audiences decline and TV advertising becomes less effective. Alongside commercial pressures, the licence fee may face greater resistance as the market delivers more, and/or subscriber fees rise.
165. Our current view is that we need to ensure that adequate funding is available to support the continued plurality of supply and also to ensure that PSB provision is able to keep pace with market expectations. This suggests the need to examine divisibility and contestability of existing funding, as well as the potential for tapping into new or different sources of funding. We will also need to examine options for distributing funds directly to programme makers as well as to broadcasters.

Other forms of regulation

166. Alongside explicit funding of the BBC, we currently extract PSB obligations from commercial broadcasters in return for privileged access to spectrum. Our current view is that we will need to revisit the nature and scope of these deals in the near future – both to review the extent to which they are still economically feasible, and to assess how best to specify and then enforce the resulting contracts.

Consumer protection

167. The general public expressed a strong view about the need for a protected space for younger viewers, especially on the main terrestrial channels. Our current view is that this will remain an important part of the PSB framework. But audience attitudes to standards are more diverse than they once were. This suggests the need for a more flexible framework in future. For example, many channels might opt voluntarily to observe Ofcom approved standard codes of practice – and be recognised explicitly as part of a wider PSB family for doing so. Others might choose to opt out of the guidelines, as long as they observed clear procedures for provision of warnings and/or complied with requirements for restricted pin code access.

Transitional measures

168. We must also respond to the shortfalls identified in our assessment of current provision, against the background of the economic realities we have identified. Ofcom will need to examine the extent to which current licence conditions are adequate to ensure the continued effective delivery of PSB in the commercial sector. Possible areas for consideration include: more focus for ITV1 and Five on those elements of PSB that matter most to viewers, including news, regional news (for ITV1) and original UK production, while recognising – for ITV1 at least – that high quality, popular drama and entertainment is its central contribution to the PSB mix.

169. For Channel 4, the challenge is to sustain a distinctive and innovative remit in a more competitive world. We will need to establish a continuing dialogue with the channel which ensures that provision. The particular responsibility of the BBC in extending choice should be reviewed and perhaps more tightly specified in the context of both its role as a standards setter for high quality PSB and of changing expectations for delivery of PSB in the commercial sector.

Costs and benefits

170. Finally, any proposals for intervention in the provision of PSB must as far as is feasible be guided by a clear understanding of the relevant costs and benefits. We must understand better what the market would provide in the absence of intervention, and ensure that the proposals for PSB are then proportionate to the benefits likely to be delivered. We must assess the costs that any intervention could impose on the market – crowding out private investment, for example, or inefficient production – and include this in our overall analysis. This will be an important element of our Phase 2 work.
171. In the executive summary to this report, we have drawn these implications out into some more concrete ideas about the immediate consequences and some propositions for development in Phase 2.





5. Next steps – Phase 2

Phase 2 will attempt to draw together all the questions we have identified into a further batch of work in five main areas. As in Phase 1, we will combine rigorous research methods with extensive public and industry consultation.

Improving the current system

- Further research to investigate the Phase 1 findings and the areas of concern that we have identified.
- Consideration by the Ofcom Content Board of different approaches to programming for the Nations and Regions (including the role of S4C) and a safe space for children.
- Analysis of how existing weaknesses in these areas of PSB delivery might be addressed.
- An assessment of the public service role of Teletext.

The role of the market

- Market modelling to establish the possible future scenarios and their implications for PSB and the wider television market. In each scenario, we need to ask what the market alone might deliver and where there is a need for intervention.

The scale and scope of intervention: defining PSB

- An examination of the different forms that PSB intervention might take in future.
- An assessment of the impact that each option would have on the wider commercial TV and media industries, including for instance the production sector.
- A cost/benefit analysis. How many of the benefits can be meaningfully quantified?
- A comparison of alternative approaches to public service broadcasting in other countries.

Delivery, funding and accountability

- An analysis of funding dilemmas, options and the public's willingness to pay.
- The range of delivery options that the available funding could sustain.
- Modelling possible regulatory approaches.

Transition

- Mapping the route to a fully digital environment. What will or should change, and when?

6. Questions for consultation

Effectiveness of the current system

Overall conclusion

The first half of our Phase 1 report examines the effectiveness of the current system, and concludes that broadcasting on the main terrestrial TV channels has partially, but not completely, fulfilled the requirements of the Communications Act. There are some important shortcomings in effectiveness, partly driven by the actions of broadcasters and partly because viewers have drifted away from the more challenging types of programming traditionally thought to be at the heart of UK television.

Question 1: Do you agree with this overall assessment of the current system?

Output

We have examined the output of the main terrestrial channels in detail, and found that while levels of spend and original UK production have been stable, a risk-averse approach has reduced innovation and narrowed the range of programming. News, drama and new ‘cross-genre’ formats have prospered but dedicated arts, current affairs, education and religious programming is under threat.

Question 2: Do you agree with our interpretation of the data provided to us by broadcasters, and the key findings we have set out?

Impact

We also looked at the changing audience share and reach of the main networks, concluding that changes in the market could be threatening the ability of the main networks to continue to deliver the components of PSB as set out in the Communications Act.

Question 3: Do you agree with our analysis of audience trends, and the challenges posed by digital TV and changing viewer behaviour?

Value

We examined the views of the general public and of broadcasting professionals, and found that there is strong public support for programmes of social value as well as those they like to watch themselves. Social value is attached to soaps, sport and drama as well as news and information.

Question 4: Do you accept this interpretation of the role of television in society?

Relatively low value is attached by the public to dedicated programming in arts, religion and education. We found there was a preference for including the interests of and portrayal of minority groups in mainstream programming, rather than in specialist programming.

Cable/satellite channels and the internet are not yet seen by many as suitable vehicles for the provision of what are thought to be the main components of PSB.

Question 5: What are the implications of these responses for broadcasters and for this review?

Interaction between terrestrial broadcasters

Both the public and the broadcasting professionals we spoke to told us that a range of broadcasters should exist to compete for quality as well as for ratings.

Question 6: Do you agree that competition for quality between the main terrestrial networks is an important aspect of the current system, but that it has been put under strain by increasing competition for viewers, even from the BBC?

Maintaining and strengthening PSB

We have set out some ideas for maintaining and strengthening PSB in future, and would like your reaction to them.

A sustainable rationale

We argue that in a digital world, many of the consumer market failures that justify intervention in the broadcasting market will disappear. In contrast, we suggest that there are enduring citizenship concerns which will continue to call for some public intervention in the television market.

Our suggested definition of PSB is informed by these concerns, and can be described in terms of some broad purposes and core characteristics, which we set out in the main body of this report.

We also argue that to be effective, PSB programming should have reach and impact – it should continue to be consumed by and influence large audiences and, as such, it will need to be both popular and challenging, serious in intent and accessible in style.

Question 7: Do you agree with this analysis, and think that this definition provides a good basis for considering the future provision of public service broadcasting and the means of funding and delivering it?

Question 8: Can the challenges of reach and impact be successfully met in a digital world of fragmenting audiences and revenues?

Immediate issues

We have identified a number of immediate consequences of Phase 1 of our work.

These include the need to move away from a genre-specific approach to regulation; more focus by the commercial networks on the most highly valued aspects of PSB; the need to introduce a new approach to measuring, monitoring and assessing PSB; and the need for the BBC to reaffirm its position as the UK standards setter for high quality PSB provision. We also note the importance of achieving digital switchover as a means of delivering better choice, competition, quality and range to consumers. We have identified the need to conduct further work on broadcasting for the Nations and Regions, and the provision of a safe environment for children.

Question 9: Do you agree with these conclusions about the immediate priorities, and are there other issues you think we should be considering?

Propositions for transition

Finally, on pages 11-12 we have set out ten propositions for further consideration in Phase 2 of our work. We invite responses on all of these as a core part of our Phase 2 work.

Question 10: Do you agree with our propositions? What considerations should we take into account in our further analysis of them?

7. Ofcom's consultation principles

There are seven principles which we will follow for each written consultation.

Before the consultation

1. Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

During the consultation

2. We will be clear about who we are consulting, why, on what questions and for how long.
3. We will make the consultation document as short and as simple as possible, with a summary of no more than two pages. We will try to make it as easy as possible for respondents to give us a written response. If the consultation is complicated, we may provide a shortened version for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.
4. We will normally allow ten weeks for responses, other than on dispute resolution.
5. There will be a person within Ofcom who will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. This individual (who we call the consultation champion) will also be the main person to contact with views on the way we run our consultations.
6. If we are not able to follow one of these principles, we will explain why. This may be because a particular issue is urgent. If we need to reduce the amount of time we have set aside for a consultation, we will let those concerned know beforehand that this is a 'red flag consultation' which needs their urgent attention.

After the consultation

7. We will look at each response carefully and with an open mind. We will give reasons for our decisions and will give an account of how the views of those concerned helped to shape those decisions.

We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish on our website all of the responses we have received.

We would prefer for people and organisations to give us views which they would be happy to see in public. However, if those who have responded to a consultation tell us that some or all of their views must stay confidential, we will respect this.

We will also:

- list these seven principles in every consultation document that we publish;
- run a consultation helpdesk – to help organisations such as small businesses and consumer and community groups make their views heard in response to our consultations; for more details contact Philip Rutnam on 020 7981 3585, and;
- keep a table on our website at www.ofcom.org.uk listing all current consultations, those recently closed and (as far as possible) those we are planning in the near future. The table will include a brief summary of each document.



Riverside House
2a Southwark Bridge Road
London SE1 9HA
Switchboard +44 (0)20 7981 3000
Facsimile +44 (0)20 7981 3333
www.ofcom.org.uk