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Introduction

Parliament has asked us (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 often used and abused. It has at least four different meanings – good television, worthy television, television that would not exist without public funding, and the institutions which broadcast this type of television.

To avoid confusion, we will use the following meaning 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 channels funded by the TV licence fee, ITV1, Channel 4, S4C and Five.
- When we present our ideas on how to maintain and strengthen ‘public service broadcasting’ in the future, we will first define what we mean by the term. After that, we will use public service broadcasting (PSB) to refer to the purposes that PSB should achieve in society and the necessary characteristics of PSB programmes.

The current effectiveness of broadcasting

Under the Communications Act, the main terrestrial TV channels – BBC One, BBC Two, ITV1, Channel 4, S4C and Five – must deliver programmes and services which cover a wide range of subjects and which meet the needs and interests of many different audiences. Among other aims, they are expected to meet high standards, to educate, 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 percentage of programmes made outside the M25 area.

We have examined the effectiveness of the main terrestrial TV channels by considering three questions.

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 partly, but not completely, fulfilled the requirements of the Communications Act. There have been some major achievements but also some important shortcomings in effectiveness. This is 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 the UK television.

Output

The main terrestrial TV channels receive 57% of total UK television revenue and continue to provide a wide range of high-quality programmes. Competitive pressures are building up, and while this has welcome aspects, it has also had an effect on the balance of peak-time schedules (6am to 10.30pm). Here are our findings from our research.

Between 1998 and 2002, spending on programmes on the main terrestrial TV channels rose by 19%. But if we ignore sports and movie rights, which have seen a particularly high increase in spending, the increase was only 8% in real terms. The number of UK-made programmes across their schedules increased slightly, with the largest increase recorded by drama.

- A wide range of subjects was covered. The range of programme types shown at peak-time in 2002 has not changed much from 1998. All channels continue to mix entertainment with news, information and other factual material.
- High-quality, accurate and unbiased news and information services were provided. Spending on news resources also rose.
- Drama was a strong feature in the peak-time viewing hours. Both the number of hours transmitted and the total spending increased.
- New programme formats were developed, rather than just the traditional categories of ‘factual’, ‘entertainment’ or ‘drama’. But in important areas, the number of new titles launched each year fell and the range of subjects covered narrowed.
- More specialist programmes on topics such as arts, current affairs and religion were pushed out of peak viewing hours.
- Spending on certain aspects of programming also suffered. Total spending on arts, children’s, religion and education programmes fell.
- Within programme types, channels relied on those with more obvious popular appeal, for example, soaps within drama and factual entertainment. This is because all the main terrestrial channels took a more ratings-focused approach. Overall, the hours of regional programmes that were broadcast and spending on regional programmes rose over the period. But the UK nations did better than the English regions, and hours of regional programmes on ITV1 fell.

Impact

The main terrestrial TV channels accounted for most of the viewing, even in homes with cable, satellite and DTT. But their effectiveness in reaching large audiences with a wide range of programmes reduced in the following ways.

- Their audiences fell – in 2003, the main terrestrial TV channels captured around 76% of total viewing, compared with 87% in 1998.
- In multichannel homes, their audience share started lower and fell from 63% to 57% over the same period. DTT households were a clear exception to this trend – the main five channels' share stayed around 85%.
- They began to lose touch with some audience groups. Their share among 16- to 34-year-olds fell 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 programmes.
- 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- to 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 that was more than 50% lower in multichannel homes, compared with homes with only the main terrestrial TV channels.
- Even though the audience figures have fallen, 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 different views about the existing programmes.

- People consider television's main aim to be providing entertaining programmes, but they still believe that the main terrestrial channels should support wider social purposes.
- The highest levels of support were recorded for news and information,

What do viewers think of public service television?

and for providing a wide variety of programmes across the schedules. Programmes targeted at a wide audience received strong backing:

- Programmes made in the UK, and new original programmes, were seen to be important factors of good television.
- 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 programmes.
- Regional programming received mixed reviews. Many people felt it was important, but there was evidence that audiences did not watch a lot of regional programmes 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 programmes.

What do viewers think of terrestrial television channels?

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

- People think that news and other programmes that keep the population well-informed are done very well.
- Viewers thought that television lacked new and original ideas, relied too much on copycat and celebrity programming, and sometimes talked down to its viewers.
- There was a strong feeling that television was failing to provide an environment that could protect children from unsuitable programmes before 9pm.
- In-depth discussions with the public and with broadcasting professionals revealed widespread support for the competition between the main terrestrial channels to provide the sorts of programmes set out in the Communications Act. But different broadcasters were also expected to achieve different goals.

- Channel 4's loyal viewers were clearer about its role to experiment than other viewers were.
- Beyond the terrestrial channels, only a small percentage of viewers who responded believed that cable or satellite channels provide programmes with a wider social purpose, although many appreciated their availability 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.
- 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 change the shape of the market, and the role of the main terrestrial TV channels in it (BBC, ITV, Channel 4 and Five).

As competition from cable and satellite TV has increased, the terrestrial channels' share of the funding flowing into television has already reduced from 65% in 1998 to 57% in 2002.

- In future, increased competition for audiences and revenue will continue to place pressure on how profitable the commercial terrestrial broadcasters are – ITV1, Channel 4 and Five. This will affect their ability to meet their regulatory obligations in the future.
- Some viewers are already questioning the TV licence fee as their use of the BBC's services is reduced. Dissatisfaction with the BBC's method of funding may increase and there is an extra 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 more entertainment programmes when they have the choice.

- They move around channels with much greater frequency, making it harder for the main terrestrial broadcasters to keep their audiences for more traditional, serious or challenging programming.
- New technology, in the form of broadband and personal video recorders (PVRs) is likely to cause more disruption, as viewers begin to create their own schedules and avoid advertising.

These changes can have huge effects. First, increasing competition for viewers is likely to reduce the funds available to broadcasters to meet their current obligations in terms of the programmes they provide. Second, the fact that the audience is now breaking up 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 providing 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 how it is regulated have developed over decades. We believe there are two simple aims behind how terrestrial broadcasters have been regulated in the past.

- Helping the broadcasting market work more effectively to deliver what consumers want to watch or want to have the option to watch.
- Providing the programming that UK citizens want to be widely available for as many people as possible to watch. This kind of programming achieves the wider social aims that UK citizens have by making TV available which has broad support across the UK, but which would not be provided or not provided enough in an unregulated market.

Consumers

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

As more and more people pay for digital television with many channels, the market failures associated with consumers not being able to watch the programmes they would willingly buy are reducing fast. We believe that in the future, we will no longer need public service broadcasting to make sure consumers can buy and watch the programmes they want.

There may still be concerns about the power some broadcasters have, but in our view these are better dealt with by competition rather than through regulation and public funding.

Citizens

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

Tackling the lack of provision by an unregulated market may become more important as the world is becoming more complicated, the links between people in society are weakening and cultural identity is becoming blurred.

We believe the purposes of programming in this category are to:

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

Public service broadcasting should bridge the gap between what a well-functioning broadcasting market would provide and what UK citizens want. Public service broadcasting should reach audiences and be appreciated by them.

- It must be high-quality, original, new, challenging and widely available. These are what we refer to as the characteristics of public service broadcasting.
- It must be delivered on channels that reach their target audiences.
- 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 propositions from our Phase 1 research in three sections:

- a new framework for public service broadcasting;
- the immediate consequences of our Phase 1 research; and
- propositions for moving into a fully digital world.

These propositions should stimulate debate and provoke responses. We will design our own programme of work to examine them over the coming weeks and months.

A new framework for public service broadcasting

- 1** In future, public service broadcasting should be defined in terms of its purposes and its characteristics rather than by specific types of programme. Many of the most successful examples of broadcasting over the past five years have defied traditional categorisation. For instance, audiences are drifting away from specialist arts, religious and current affairs programming.
- 2** The purposes of public service broadcasting lie in an informed society, reflecting and strengthening our cultural identity, stimulating our appetite for knowledge, and building a tolerant society.
- 3** Public service broadcasting should have distinctive characteristics. It implies programmes of quality, new ideas, originality, challenge and wide availability. These are sometimes hard to measure, but vital in all areas of public service broadcasting.

4 Producing public service broadcasting 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 spending from public money. This suggests that public service broadcasting is likely to have to use a creative approach which blends public purposes and popularity, which is serious but yet still accessible, and which finds new ways of leading audiences to interesting and challenging material.

The immediate consequences

1 Public service broadcasting must be widely watched to be effective. It must be free to respond to the challenge of accessible but popular programming. This suggests that regulation should break away from narrow obligations specifying hours of certain types of programming across the schedule. Putting this new approach into practice will mean a new framework to make sure that programmes and television channels meet the purposes and characteristics of public service broadcasting. We will work with the commercial broadcasters to develop and introduce this new framework.

2 We should place a high priority on achieving digital switchover, to bring increased choice and competition and to allow the market to work more effectively for consumers. The case is set out in our report on digital switchover. We should give the switchover to digital TV preference over some of the less important obligations currently placed on commercial terrestrial broadcasters.

- 3** All the main terrestrial TV channels still have an important role to play in delivering public service broadcasting before switchover takes place. But we will need to make regulating commercial broadcasters clearer and easier to enforce. The central parts of public service broadcasting on ITV1 and Five should be news, regional news (for ITV1) and original UK production – the programmes that have high audiences, that are valued highly by the public, and that can be effectively controlled.
- 4** Channel 4 will have a critical part to play, especially given the public desire for originality and new ideas. We will work closely with Channel 4 to make sure the channel is in a good position to deliver the purpose of public service broadcasting effectively in the future.
- 5** The BBC also needs to reaffirm its position as the channel which sets standards for delivering the highest quality public service broadcasting. The governors of the BBC should take the lead in making sure the BBC looks at concerns about formats, aggressive scheduling, competition for acquired programming and a balanced schedule in peak hours.
- 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 complicated and controversial issues. We will carry out a thorough and open exercise to consider different approaches in how we regulate 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 investigating the importance of national and regional programming, including considering how it is delivered.
- 8** We are in a period of change from analogue TV to digital TV. All of the main terrestrial broadcasters still have a great deal of scope for delivering public service broadcasting in the way we want. But during the next five to ten years we will need to see a new model of public service broadcasting regulation. If new institutions are to be created, or older ones changed to play an effective role in the digital world, we need to see development now rather than when the digital switchover takes place.

Propositions for moving into a fully digital world

Proposition 1

We need to examine the prospects for public service broadcasting funding and the case for looking for other resources. The existing commercial funding for public service broadcasting is being eaten away. The traditional obligations on commercial broadcasters, set by the regulator, are being undermined by increased competition, falling audiences and a reduction in money generated by advertising. The BBC faces a similar problem – popular support for the TV licence fee may be put in danger by the same development. So, we need to consider new forms of funding or support for public service broadcasting for the longer term.

Proposition 2

Competition in providing public service broadcasting is at the heart of an effective system. In a digital world, a single supplier of public service broadcasting is unlikely to be the most effective way of delivering public service broadcasting. We need to examine the case for sharing the existing funding among a greater number of broadcasters and allowing broadcasters or producers to bid for public service broadcasting funding.

Proposition 3

If we need public funding to secure public service broadcasting, we should look at different ways of distributing funding. One option is to continue with direct allocations to certain broadcasters. A second is to make allocations through a new intermediary (an organisation which buys public service broadcasting) with either broadcasters or producers as those receiving funding ('providers' of public service broadcasting). We need to look at both options as we consider the best model for delivering public service broadcasting in the future.

Proposition 4

We should continue to expect a substantial contribution to public service broadcasting by not-for-profit organisations as well as contributions from profit-making broadcasters. Not-for-profit organisations may more easily meet social purposes because their organisational aims are closely matched to the purposes of public service broadcasting.

Proposition 5

The market is likely to produce significant numbers of programmes which meet the purpose of public service broadcasting, and which we can define as public service broadcasting. Some programming (and channels) supplied without regulation or public funding already contribute to the purposes of public service broadcasting. Before switchover takes place, we should work to explore how many of the purposes and characteristics of public service broadcasting can be provided by the TV broadcasting market alone.

Proposition 6

Despite developments in the market, there is a strong case for the BBC to continue to carry out a wide range of activities to help deliver the public purposes of public service broadcasting. But we need to review their range of activities every now and then in relation to the purposes of public service broadcasting.

- If a high cost of delivery is associated with low viewing figures, it will be harder to justify continued public intervention. We need to look at other ways of funding, such as subscriptions, for these services.
- We need to carefully review the BBC's other activities, including studio and other production resources, and production to see how they contribute to public service broadcasting purposes.

Proposition 7

Every programme shown on a main commercial terrestrial channel does not always have to reflect public service broadcasting purposes and characteristics. In the case of the BBC, with its unique and privileged funding status, programmes should always aim to reflect the broad purposes and character of public service broadcasting to some degree.

Proposition 8

Channel 4 will need to overcome increasing financial pressure if its contribution to public service broadcasting is to be realistic in a digital world. It must become more efficient and help itself as a starting point. If necessary, it should consider a range of other options, including new commercial initiatives, a share of funding which is bid for, a new source of direct funding or a share of the licence fee. In considering these options, Channel 4's distinctive role should be maintained.

Proposition 9

Independent producers make a major contribution to the purposes of public service broadcasting across most types of programme. Apart from one or two specialist areas (for example, news), we believe that there is more scope for independent production to improve how public service broadcasting is delivered. Measures that we need to consider include raising the number of programmes 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 public service broadcasting may not be justified on its present scale. This is either because market failures are reduced considerably, or because it will prove impossible to achieve the purposes of public service broadcasting through television.

We have developed this plain English summary to help you understand the issues. It is not a formal or detailed account of our views. You can find our full report on our website at www.ofcom.org.uk. We would welcome responses to all the ideas set out in this summary. These include:

- our conclusions about how effective the current system of television broadcasting is on the main five terrestrial channels; and
- the propositions in the section on maintaining and strengthening public service broadcasting in the future.

We want your views on the conclusions we have come to and the questions we have raised. Section 6 summarises the questions for consultation.

We are looking for 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 (for example, sport, the arts, film);
- anyone with a commercial or employment interest in the broadcasting industry (for example, trade unions and 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 views from a range of interested parties. We will consider those views alongside the responses we receive to this report. Both will inform the next phase of our work.

You can get more information about the public service broadcasting review and copies of the supporting documents to this consultation from our website at www.ofcom.org.uk

Please send written or electronic responses, marked 'Public service broadcasting 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 organisation, please summarise the people or organisations represented. We would appreciate electronic versions of responses. You should place any confidential parts of a response in a separate annex, so that non-confidential parts may be published along with your identity. If the whole of a response is confidential, including your name, please say this clearly. We will assume you have no copyright in your response unless you have made specific arrangements.

One of our consultation principles is to allow ten weeks for responses. Since this is only an interim report, and represents the first of two major consultation exercises in the course of our public service broadcasting review, we have shortened this period slightly, to eight weeks.

Our senior team with responsibility for this consultation and review are:

Ed Richards
Senior Partner
Strategy and Market Developments;

Robin Foster
Partner
Strategy Development; and

Tim Suter
Partner
Content and Standards.

We have also appointed a Consultation Champion who is responsible for the quality of our consultation process in general. If you have any comments or complaints about this consultation, you should contact:

Philip Rutnam
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