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Contestable PSB Funding: Delivering Diversity

Final report

PERSPECTIVE

Part of the Ingenious Consulting Network

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1. Introduction: the case for modification to the existing delivery structure for PSB

Introduction

In its current PSB Review, Ofcom has suggested that changes will need to be made to the way in which public service broadcasting (PSB) is organised and funded in future. Two of the three broad future options proposed by Ofcom include a measure of contestable funding, and Ofcom has invited stakeholders to respond to its assessment of the case for extending public funding.

Perspective was commissioned by Discovery Networks UK to consider how a contestable funding scheme could best work. It is important to stress at the outset that the views contained in this document are those of Perspective alone.

The case for change

Since 1955 the BBC has been subject to competition from the commercial PSBs, beginning with the launch of ITV in 1955, Channel 4 in 1982 and Five in 1997. In return for broadcasting licences which generated significant levels of advertising revenue, ambitious and costly public service broadcasting could be demanded from the commercial broadcasters.

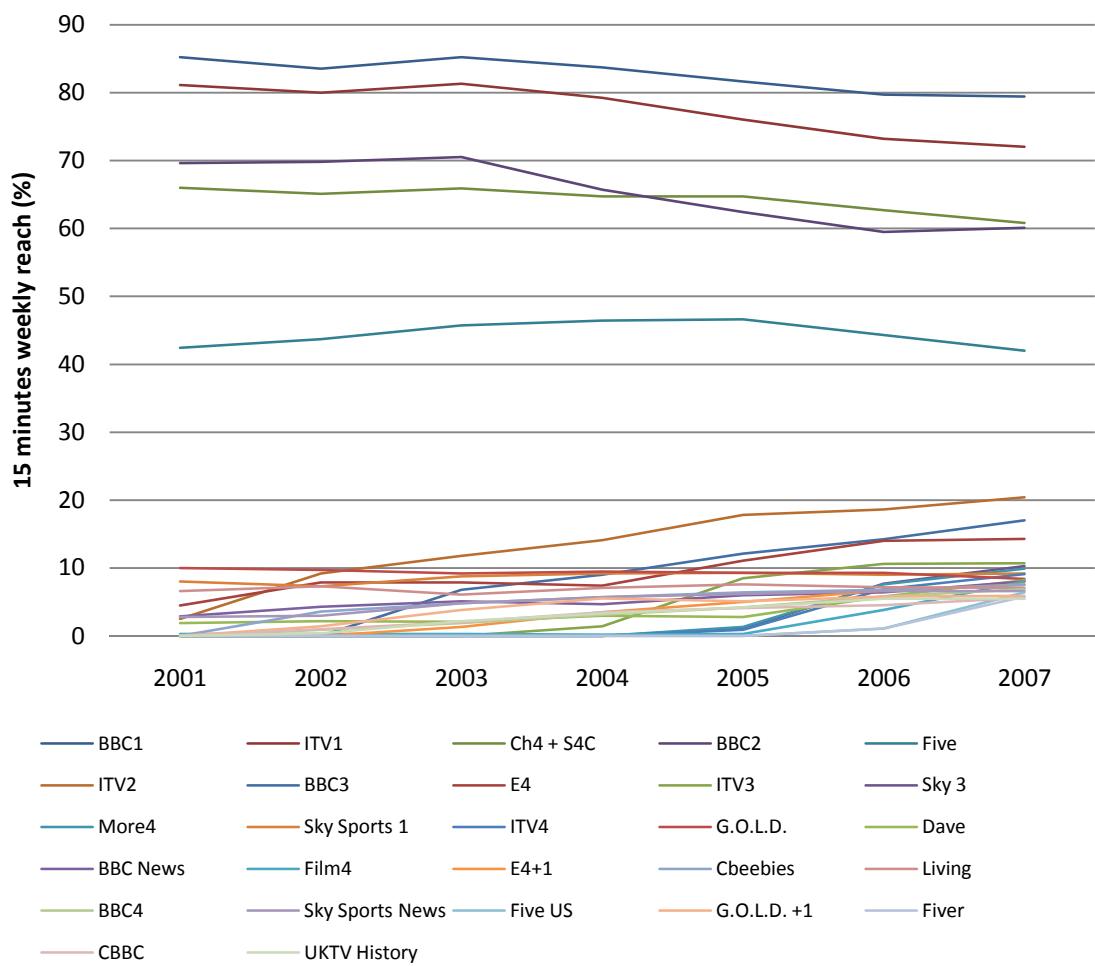
In the world of analogue broadcasting, the PSBs were able to deliver public service programming with reach and impact; with only a limited number of channels, there were strong and stable sources of funding in the licence fee and advertising revenues. However, multi-channel television, through cable, satellite and now through Freeview, and audio-visual media available online, are threatening the previous equilibrium.

The most striking effect of the emergence of new outlets for content has been a significant fragmentation of viewing. This has served to reduce the reach of all the PSBs. Furthermore, increasingly fragmented viewing threatens the advertising revenues which sustain the commercial PSBs. Along with the reduction in the value of their regulatory assets (such as free access to spectrum), this has undermined their ability to maintain their PSB commitments¹. Although, the BBC's income is not threatened by fragmentation, any substantial falls in the reach it achieves may weaken the broad support for the licence fee. In response to this fragmentation, the commercial PSBs have launched new channels to maintain their share and advertising revenues. These new channels are not classified as PSB channels.

Figure 1 below shows the reach over the last seven years for the most widely reached channels in the UK. It shows that for all the PSB main channels reach has dropped by 5% - 10%, with the sole exception of Five. However, reach has increased for a number of smaller channels, especially those based on Freeview.

¹ ITV has stated its desire to reduce its PSB commitments, especially expensive strands such as regional news.

Figure 1



Source: BARB

Based on observed trends, audience fragmentation is likely to increase, further eroding the reach of all the PSBs and, as a result, the funding available to the commercial PSBs. Therefore, the UK's PSB system may in future be unable to produce certain types of public service programming, and find it harder to reach certain audiences.

It is against this background that the regulator has recommended extending the sources of public service content by distributing public funding more widely. In the next section we examine whether institutional support for new PSB outlets or contestable funding which allows PSB content to be distributed across a wider range of outlets is better suited to addressing the creation of PSB content with reach and impact in the future.

In the following sections we provide an outline, at a high-level, of our proposal. For this idea to be an implementable option, much further work would be needed on the finer details of structures, organisation and processes. However, the fundamental concept is one that we believe merits wider discussion, which we hope is prompted by this document.

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2. The choice: further institutional support or contestable funding

Funding for PSB content can either be directed at institutions or used to support a range of content on outlets which may not be dedicated PSBs. Both methods of supporting PSB may have a role to play in addressing the additional needs for PSB provision which Ofcom has identified.

Institutional support

Institutional support has been the mainstay of the UK PSB system. Although there have been a number of sources of funds, including the licence fee, regulatory assets and direct grants from government, these have always been directed to particular institutions. In its response to Phase 1 of the current PSB Review, the BBC argued in favour of institutional funding: it “can support innovation, offer scale to ensure that public service content achieves reach and impact, be flexible, help ensure providers’ independence from political interference, attract people whose own values are aligned to meeting public purposes, and encourage the transfer of creative intangible skills.”

The BBC’s list includes some important benefits of having strong PSB institutions. However, as Ofcom rightly point out, “the media landscape is changing rapidly and audiences are increasingly fragmenting”. In such an environment, the only way in which large PSB providers may be to maintain reach might be through constantly launching new channels and platforms to appeal to ever narrower audiences at the fringe. Such an exercise may lead to a number of problems:

- **Cost** – channels to appeal to small audiences cost significant more per viewer than those which are truly broadcast in nature; and
- **Dilution** of the strengths of the institutional broadcaster – by attempting to cater to too many audiences the institutional broadcaster risks both not being as appealing to small audiences as more specialist broadcasters and diluting its main strengths in the pursuit of different audiences

Contestable support

There are a number of compelling reasons why contestable funding, used in association with strong PSB institutions, may provide a better means of ensuring some kinds of PSB content with wide reach and impact than institutional support alone.

In order to reach smaller, more specialised audiences with PSB content, contestable funding would work with the grain of how the industry is developing. With the advent of multi-channel television and the internet, content distribution platforms have come into being which are specialised in, and predicated upon, reaching particular audiences. Contestable funding would use these existing platforms to get PSB content to the audiences that existing PSBs find difficult to reach.

Furthermore, it is difficult to see how one or two institutional PSBs could maintain near universal reach across all genres as viewer fragmentation and migration to online platforms gathers pace.

The combination of large audiences available for scale channels and smaller fragmented viewing at the edges suggests a strong case for introducing a contestable element of funding to complement strong PSB institutions.

This is consistent with Ofcom's broad conclusion. In the PSB Review Phase 2 it states: "We agree that the existing public service institutions retain important roles, and that continued support for institutions with values aligned to delivery of public purposes should be an important element of any future model. However, our analysis is clear that a model in which institutions retain their current roles but with no new funding, and no flexibility to adapt to audiences' changing needs, will not deliver the vision based on audiences' priorities that we set out in our first consultation."

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3. Contestable funding: requisite principles

Any contestable funding scheme designed to deliver PSB content would need to be carefully constructed to meet a number of key criteria. In this section we outline the criteria that we believe any scheme would have to satisfy.

Positive criteria

Firstly, any new scheme should introduce **innovation and greater variety** into PSB. As such the support should not be used to reinforce existing provision, but should be deliberately designed to address perceived gaps.

Secondly, funds for PSB programming should only be spent when the resulting content already has an outlet for distribution. Therefore, support should only be given to **broadcasters or broadcasters in concert with producers**, so that maximum reach and impact with the relevant audience can be ensured.

Third, the system should reinforce the ideals of PSB. Support should be channelled to broadcasters or aggregators with **objectives that are consistent with PSB**, so that the funding creates content that is consistent with the existing content distributed by the funded body, as well as complementing the overall PSB system.

Fourth, the system must be **flexible and future-facing**, able to grow and adapt to the changing behaviour and needs of the viewer. A well-functioning contestable funding system should be able to respond to consumers' need more quickly than through the launching of new services by existing PSB institutions.

Finally, this system should **complement the existing PSB arrangements** and not replace them. It needs to grow out of, and build on, the successful ways in which the UK broadcasting system already commissions high quality content.

“Negative” criteria

In addition to these five positive criteria there are a number of negative criteria which any contestable funding mechanism should seek to minimise.

A common criticism levelled at contestable funding schemes is that while they can be effective at creating and distributing PSB content across a range of outlets, **they do not create an institution with the scale and presence** to justify the spending of public money.

Contestable funding schemes can be complex. Specification of the types of programming to be commissioned and the desired audiences to reach can be a difficult process to undertake. And the body created to distribute contestable funding runs the risk of becoming bureaucratic and expensive to maintain, which would result on funds being wasted on management rather than being invested in content. Any scheme should seek both to **minimise complexity** and to **avoid expensive bureaucracy**.

Finally, a contestable funding scheme can be susceptible to **gaming**. Applicants could modify their applications instrumentally to optimise their chances of funding, compromising the spirit, if not the letter of the funding policy. Therefore, any body controlling contestable funds should possess expertise in commissioning to ensure that monies are spent only on high quality PSB content.

The relationship to the BBC

It is our view, given the criteria listed above, that any new funding scheme is likely to be more successful if it the BBC is central to it. This is particularly true if the funding scheme uses any part of the BBC's licence fee: the debate over the last few months has demonstrated the political heat generated by any proposal to weaken the link between the BBC and the licence fee. However, we also believe that the BBC alone has the scale and presence, combined with programming and commissioning expertise, that the new funding scheme will need if it is to achieve reach and impact.

However, it is important, if the scheme is to meet the strict criteria we have set out, that the BBC's expertise must be exploited in a way that brings fresh content into being, rather than content that it might anyway have made. It is for that reason that the scheme we propose is built around the concept of establishing a "co-production" fund within the BBC, where BBC funding is used to co-produce output with other channels or providers. The key distinguishing feature, however, is that this is material which, while carrying some BBC branding, is nevertheless intended for distribution on non BBC outlets.

In the next section we explore in more detail how the scheme might work.

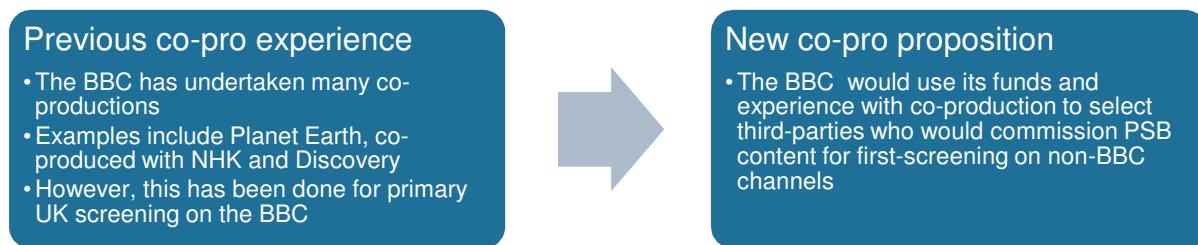
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4. Proposal: contestable funding centred around co-production with the BBC

Co-production is well suited to the production of PSB content, as it is an established and well-understood mechanism for defining shared interests. Furthermore, it typically establishes a lead producer with significant partners who have rights to demand specific aspects in the final production. As a method of creating content it can be used to fund both long-term and short-term projects.

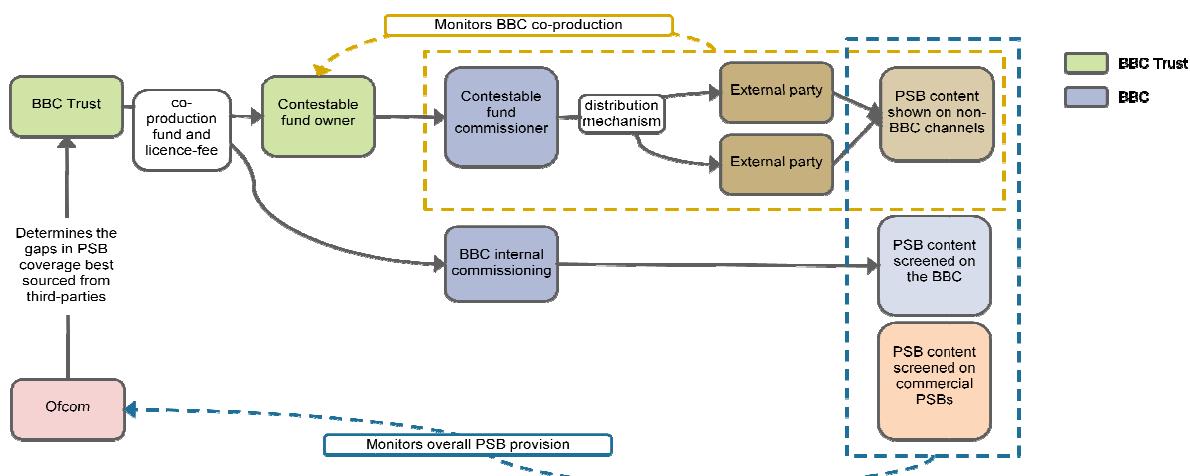
Our proposal for a workable contestable funding system envisages the BBC acting as a co-producer, using its money to fund the production of PSB content which would be created by external producers and screened or distributed initially on non-BBC channels and outlets. However, this content would clearly be BBC branded, and the BBC would share responsibility for its PSB values. Our proposal can be seen as a variant of Option 3 as articulated by Ofcom in Phase 2 of the current PSB Review. It establishes the BBC as a co-producer with a vested interest to ensure high quality and audience focus: and in particular, it gives the BBC the responsibility of ensuring that specific public service goals are both established and met.

Figure 2



A diagrammatic representation of our proposed system is provided in Figure 3 below.

Figure 3



The entities involved

Three major bodies would be involved: Ofcom, the BBC Trust and the BBC Executive.

Ofcom, with its responsibilities for monitoring the UK's overall output of PSB, would have a role to play, with the BBC Trust, of determining the gaps in PSB output (more detail is given below) which are best filled through contestable funding.

The **BBC Trust** would determine, with Ofcom, the gaps in PSB output best addressed through the contestable fund. Furthermore, it would determine the quantum of funding that would be required to meet these gaps. The contestable fund owner (CFO) would be part of the BBC Trust, and would be charged with administering and evaluating the performance of the fund.

The contestable fund commissioner (CFC) would be a part of the **BBC Executive**. This would be the actual commissioning body that would be responsible for the tendering process and the day-to-day co-production input and interaction.

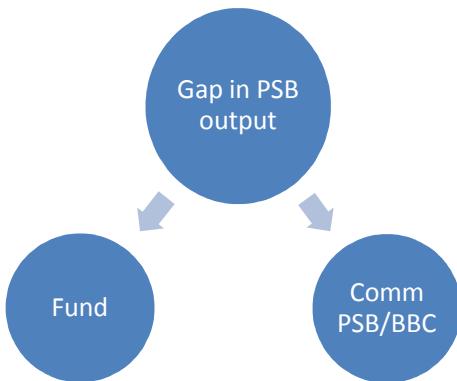
The process

Stage 1 – determining the gaps in PSB provision and the role of the contestable fund

Ofcom is required, under the Communications Act 2003, to report on the delivery of Public Service Broadcasting in the UK, not less than every five years, and, if appropriate, to recommend ways in which the quality of such provision can be maintained and strengthened. It has successfully established this as a process to determine the gaps in PSB provision, either in terms of genre, underserved audiences, plurality in certain genres or editorial approach. It has used its current review to express concern over programming for children, especially older children, serious factual programming and how to sustain plurality in regional news.

As Ofcom itself has concluded, some of the gaps may be better filled by programming broadcast by the existing PSBs, while some may be better suited to a contestable form of funding. For example, some genres due to the necessary scale and reach needed may be better suited for the BBC or a commercial PSB to take on. Discussions between Ofcom and the BBC Trust would then need to take place to establish the fund's areas of activity.

Figure 4



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Furthermore, this initial process of ascertaining whether a goal is best fulfilled by the fund or through an institutional PSB would tend to rule out the BBC or commercial PSBs being able to apply to the fund².

Stage 2 – establishing strategies to achieve the PSB aims and the

The contestable fund owner within the Trust would then establish a strategy to achieve the goals agreed by the Trust and Ofcom. Some aims could involve a short-term or limited involvement, using traditional broadcasting channels, for example, if a deficit of factual programming of a particular type were to be identified and the audience were relatively easy to reach. However, some of the aims might be more difficult to achieve, and might require a long-term effort and the building of a presence and brand to accomplish. For example, reaching older children and young adults may be more difficult as they are a fragmented audience who are increasingly choosing online platforms³ over television. Therefore, a strategy to meet this objective could involve a number of broadcast and new media outlets over a number of years.

The output from this process would be a stated set of measurable targets which the fund owner in the Trust can use to evaluate progress.

Stage 3 – determining the requisite quantum of funding

Once strategies to achieve the agreed PSB goals are in place, the Trust would establish the quantum of funding required in the contestable fund.

The digital switchover surplus of £130m per annum identified by Ofcom could be used in the first instance to provide support for the contestable fund. Ofcom has already suggested that it “could be used for other purposes after 2012 without in any way curtailing the BBC’s ability to deliver high quality public service content”. However, this would be dependent on whether the Government continue to levy this amount after switchover. We believe, however, that by keeping the fund within the scope of the BBC, it is more likely to be politically acceptable to the BBC itself as well as government.

More controversially, the core licence fee itself could be used if the Trust believed that the gaps identified could best be met by organisations other than the BBC. The BBC Trust could set aside a certain amount thought sufficient to meet the needs of the contestable fund.

Additional funding could come from a range of other sources, such as central government, devolved administrations, arts bodies and trusts and charitable foundations.

² This would also appear make sense on institutional governance grounds, as the ability of the board of a commercial PSB to take responsibility for its output might suffer if the BBC Trust were ultimately responsible for evaluation some of its content.

³ 16-24 year olds watched nearly an hour less TV each week in 2007 than they did in 2002 (down from 18.8 hours to 17.6 hours a week). This compared to an increase in viewing hours across all adults from 25.0 hours to 25.4 hours a week over the same period.

Stage 4 – commissioning content

Once the contestable fund owner within the BBC Trust has outlined the strategies for achieving the PSB goals and determined the quantum of money available, ownership of the actual commissioning and co-production of content will pass to the CFC. This body would be within the BBC Executive, rather than the BBC Trust, and should be headed by an experienced commissioning editor. The CFC would sit alongside the BBC's established commissioning processes, sharing its research and expertise.

The CFC would be responsible for meeting the goals set by the CFO. It would be in charge of the process by which entities would apply for funding, including how the work is parcelled up as well as the format of the bidding process.

We envisage that the CFC would make public the data on the gaps in PSB provision in terms of audiences, genre and editorial approach. It would then invite proposals from external bodies on content and distribution that would address these gaps. As stated above, broadcasters and producers or online platforms would individually or in concert submit costed proposals to the CFC for the funds necessary to create and distribute content. The CFC would select the best proposal, and then the winning bidder(s) could begin the process of creating and distributing content.

However, the job of the CFC can be more than just to allocate money from the fund. It could represent the BBC as a more active co-producer of PSB content, if necessary. This would involve building effective working relationships with the external co-production partners, developing ideas, protecting the brand of the BBC and promoting the ideals of PSB.

Stage 5 – evaluating the performance of the system

As is the case with the rest of the BBC's output, the performance of the content co-produced using the contestable fund should be judged by the BBC Trust. The measurable targets initially articulated by the Trust should form the basis of any test. The Trust should publically state how effective the work of the CFC has been in defining the genres identified, reaching the target audiences, establishing plurality, generating the required diversity of editorial approach and above all, the overall quality of the content generated.

Ofcom, in its overall appraisal of public service content in the UK, would take into consideration the evaluation of the fund by the Trust.

Further issues

The fund should be open not only to television broadcasters but also to online platforms. The amount of time that UK citizens are spending online is increasing, and this trend looks likely to continue, especially in younger audiences, some of whom already attach greater value to the internet than to television⁴. Therefore, it seems that online will have to become a greater part of the programming mix if PSB is to continue to have maximum reach and impact. Furthermore, we argued above that a fund must encourage innovation, and it is difficult to see how this could be achieved without taking advantage of the interactivity offered by the internet.

⁴ Those aged 16-24 who had broadband in their homes claimed that they would miss the internet (47%) more than TV (41%). Ofcom *The Communications Market 2008*

As we have stated in the introduction, we have only sought to outline the workings of our proposal at a very high level, with the main intention of stimulating debate. A number of key questions remain, including:

- what rights should the BBC retain over the finished piece of content? Since the fund would be seeking to fulfil public service goals, it is not obvious that the BBC should retain extensive commercial rights. However, to ensure that risks and rewards are shared, perhaps some sharing of rights would be advantageous in generating good quality content. Establishing a framework of rights under this proposal that aligns incentives towards the fulfilment of PSB goals is a key task going forward.
- should subscription and free-to-air channels access the fund on the same terms? Some subscription channels may have access to audiences which free-to-air TV cannot reach, for example the viewing of older members of the British South Asian community is disproportionately taken by channels such as Star TV and Zee TV. In such cases, a subscription channel could be better able to deliver the reach required than a free-to-air broadcaster. It might be that greater obligations should be placed on subscription channels receiving money from the fund. Again these issues would need to be addressed in the development of more concrete proposals.

5. Evaluating our proposal

Having outlined the structure and workings of our proposal we have evaluated it against the criteria, we set out at the start of this report, as well as the nine criteria that Ofcom has identified in the current PSB Review.

Judged against Perspective's criteria

In Figure 5 below we assess our proposal against the positive criteria.

Figure 5

Positive criteria	How addressed in our proposal
"should introduce innovation and greater variety into PSB"	Opening up the production and provision of PSB content to non-PSB broadcasters and online platforms should bring new ideas and variety into the PSB system. Specialist providers, who already cater to diverse audiences such as minorities and young people, may be able to bring innovative ideas to bear on how the ideals of PSB can be reflected in specialised content.
"funds for PSB programming should only be spent when the resulting content already has an outlet for distribution"	The CFC would have a simple rule that funding can only be given to a proposal if it has secured distribution.
"internal consistency and external coherence"	The CFC will be an experienced commissioner of content sitting within the BBC, the cornerstone of the UK's PSB system. As such it will be well placed to ensure that the content commissioned not only meshes with the broad scope of the applicant's activities but with the aims of PSB as a whole.
"flexible and future-facing, able to grow and adapt to the changing behaviour and needs of the viewer"	The contestable fund we have proposed is well suited to meeting the changing needs of UK citizens as their use of media changes and adapts over the coming years. If fragmentation remains at its current levels then the fund can remain relatively small. However, if viewing increasingly fragments the fund can grow to meet the challenge of ensuring near universal reach for PSB content.
"grows out of, and builds on, the successful ways in which the UK broadcasting system already commissions high quality content"	The BBC Trust would still play a key role in determining which aspects of PSB the BBC and which aspects other outlets might best be placed to deliver. In some ways this can be thought of as the distribution counterpart of the Window of Creative Competition (WOCC) in production, where the BBC concentrates its production budget internally on areas in which its scale and expertise gives it an advantage in producing high quality content and commissions externally where the variety of the independent sector provides an advantage.

Perhaps most importantly, the contestable funding proposal we have developed places the BBC at the centre of the UK's PSB system for the foreseeable future.

Furthermore, in Figure 6 below, we also summarise how our proposal would address the three negative criteria that we identified in the section above.

Figure 6

Negative criteria	How addressed in our proposal
"does not create an institution with scale and presence"	The BBC would remain the central pillar of PSB in the UK and its scale should allow it to set the tone for the rest of the broadcast industry. Furthermore, since both the BBC executive and the contestable fund would come under the aegis of the BBC Trust, any potential conflicts could be more easily resolved.
"creates additional complexity, bureaucracy and cost"	Our proposal seeks to embed the entities that would manage the fund in existing bodies, exploiting their existing capabilities. Ofcom already monitors overall UK PSB output, the BBC Trust has explicit responsibility for licence-fee funded provision and the BBC itself is the largest commissioner of broadcasting content in the UK. This proposal would not necessitate the creation of an expensive new bureaucracy.
"contestable funding scheme can provide opportunities for gaming"	Establishing the BBC as the co-producer of commissioned content would remove many of the opportunities for gaming the system. The BBC would have a strong interest in ensuring the quality of the commissioned product which would carry the BBC brand. Furthermore public reviews by the Trust of the overall system could publicly identify those entities who have not worked in the spirit of the system. This would serve as a strong incentive for applicants.

Judged against Ofcom's criteria

Ofcom articulated 9 criteria that any new PSB settlement must fulfil. We have assessed our proposal against each of these criteria in Figure 7 below.

Figure 7

Ofcom's objectives	Relevant features of proposed scheme
Reach and impact	<ul style="list-style-type: none"> The proposed fund will be open to a large number of broadcasters, allowing the BBC to be proactive in ensuring that PSB content has the widest possible reach The BBC has a strong record of producing PSB and is well placed to help produce high-impact programming.
Plurality	<ul style="list-style-type: none"> Our proposal should allow a wide range of providers access to PSB funding and thus should allow many producers to compete for commissions.

Flexibility	<ul style="list-style-type: none"> This proposal should allow the PSB system to evolve with changing audience usage of platforms.
Value for money	<ul style="list-style-type: none"> Unlike Ofcom's option 3 in the PSB Review Phase 2, this proposal would not entail the creation of an entirely new body to manage the distribution of funds. The BBC already has skills in commissioning and oversight, in the Executive and Trust respectively. Programming could be made with little upfront investment from the fund if there are providers who would need only a small additional increment to create PSB programming
Governance	<ul style="list-style-type: none"> The fund would be under the management of the BBC, and would have to be run with transparency and accountability.
Complementarity	<ul style="list-style-type: none"> The fund would be used to commission programming where the reach and impact of current PSB programming is not proving sufficient. Therefore it will be used to make programming that otherwise would not be made.
Openness to new platforms	<ul style="list-style-type: none"> We propose that the fund should be open to content on new platforms as long as the reach and impact of content can be satisfactorily measured
Sustainability	<ul style="list-style-type: none"> The ultimate source of the funding is the Licence Fee, which, with the support of Parliament, is a sustainable funding source.
Audience support	<ul style="list-style-type: none"> The UK audience would need to gain confidence with the workings of a fund; however, the BBC brand on co-produced content should help inspire trust.

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6. Conclusion

However, as the arguments over the last six months have demonstrated, despite Ofcom's analysis of the likely need for a new PSB framework, there is little consensus about either where any contestable funding should come from, or how it should be positioned in relation to the existing players.

We believe that, if a contestable fund is to be established, it has a better chance of success if it is positioned in a direct relationship with the BBC, which is the major recipient of public funding in broadcasting and other creative content. The BBC needs to retain sufficient control over the way the licence fee is spent to remain consistent with its requirements under the BBC charter: but it could also be well placed to work with the market to deliver specific public purposes by bringing co-production money to the table.

We also believe that any scheme needs to be practical, and to work with the grain of how the industry operates. By building it around the already established processes of co-production, we believe the scheme set out in this paper meets those criteria.