



**‘Sustainable independent and
impartial news; in the Nations,
locally and in the regions’**

Ofcom’s public response to the DCMS Consultation

Consultation
response

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Introduction

Ofcom welcomes the opportunity to respond to the DCMS consultation on “Sustainable, independent and impartial news; in the Nations, locally and in the regions”, in line with our statutory duties. The 2003 Communications Act calls upon Ofcom to:

- conduct a review of public service broadcasting at least once every five years;
- to report on the extent to which the public service broadcasters have delivered the purposes of public service television broadcasting; and
- to make recommendations with a view to maintaining and strengthening the quality of public service broadcasting in the future.

Ofcom is required to consider the costs of licence obligations and the sources of income available to the broadcasters to meet those costs. Hence, in preparing this response, we have updated our Cost Benefit Analysis for the public service obligations on the Channel 3 network. This provides our current best estimate of when the net benefits of the Channel 3 licences taken together cease.

This Cost Benefit Analysis underscores the work we published as part of Ofcom's second Review of Public Service Broadcasting (“PSB Review”), undertaken over the course of 2008¹. This demonstrated that existing interventions to provide news for the regions and nations on Channel 3 are unsustainable and that additional funding would be required to fund any alternative that achieved a similar reach and impact with audiences.

This submission is based on extensive audience research on a range of issues connected to this consultation, and carried out in pursuit of our statutory duties.

- We are also publishing today a report on Local and Regional Media in the UK (“LRM”). This sets out research and analysis on the provision of media content for audiences in the UK's nations, regions and local communities. The report also discusses a range of potential opportunities and initiatives for sustaining a healthy and vibrant local and regional media sector in the future. The LRM report has been completed within the context of our existing duties and the Government's ongoing work in this area. The report also provides an evidence base to this DCMS consultation response².
- In July 2009 we published the third statutory annual report of Public Service Broadcasting³.
- In August 2009 we published the Communications Market Report⁴, offering industry, stakeholders and consumers a reference tool to track the development of the UK communications sector. The report also provides an important context for our work in furthering the interests of consumers and citizens in the markets we regulate.

¹ We published the Final Statement to the PSB Review on 25 January 2009. See http://www.ofcom.org.uk/consult/condocs/psb2_phase2/

² See <http://www.ofcom.org.uk/research/tv/reports/lrmuk>

³ See http://www.ofcom.org.uk/tv/psb_review/annrep/psb09/psbrpt.pdf

⁴ See <http://www.ofcom.org.uk/research/cm/cmr09/cmr09.pdf>

Question 1

“Do you agree that securing plural sources of impartial news for the Nations, locally and in the regions should be a key priority?”

Our response

Our research demonstrates plurality in nations and regions news is a priority for audiences

- 1.1 Our research demonstrates that audiences see the BBC as the cornerstone of public service broadcasting in the UK, and an important and valued provider of news for the regions and nations.
- 1.2 However, our research also shows that audiences want an alternative to the BBC across a wide range of public service programming. The PSB Review found virtually no support for a BBC-only future model of public service provision and identified strong support for some provision of public service content from more than one provider⁵.
- 1.3 Audiences regard plurality as important. They value access to alternative perspectives and different voices. They find this especially important for news, at UK and nations/regions levels, and current affairs. Audiences⁶ are aware of, and value, the differences between different providers. For nations/regions news, over four in five adults believe it is important to have more than one provider, rising to 90% in the devolved nations⁷.
- 1.4 Audience behaviour shows that plurality enhances reach and impact of public service content, with different broadcasters reaching certain audiences more effectively than others. The BBC is highly regarded for providing a range of different subjects and different styles with 82% of respondents agreeing that it offers programmes and content across a range of subjects and 66% of people feeling that it offers a wide range of opinions on subjects. It is however, less well rated for providing content meeting different tastes, reflecting different communities and offering content for younger audiences. The BBC also does not reach all audiences equally. Research undertaken for the PSB Review last year shows that in the first six months of 2008, 85% of viewers in multichannel homes watched 15 minutes of at least one BBC TV service in an average day. But only 75% of black and minority ethnic viewers did the same and only 67% of 16-24 year old viewers⁸.
- 1.5 This is consistent with other research in the field. The BBC Trust's consumer research shows support for plurality, with perceptions on the importance of plural

⁵ See PSB Review Phase 2 annex 7: *The future of public service broadcasting. A deliberative research report*

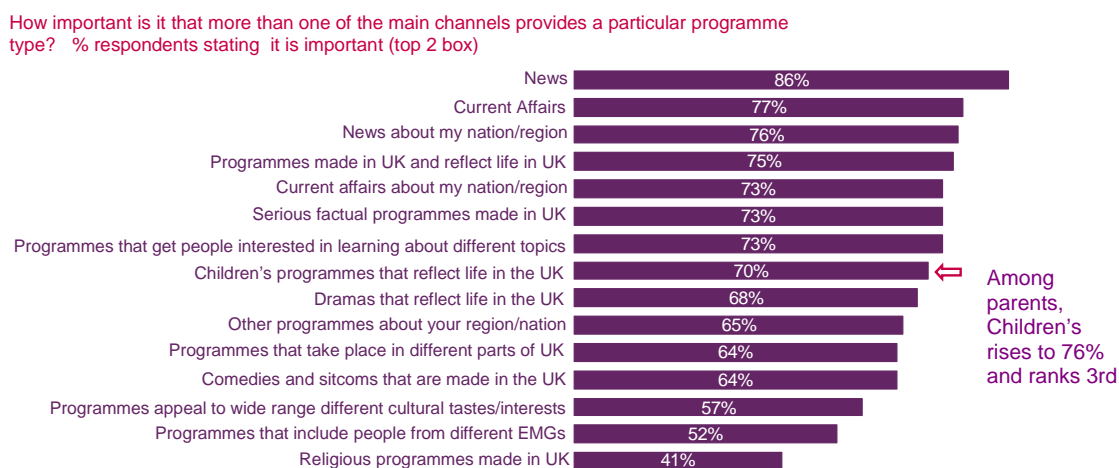
⁶ See PSB Review Phase 2 annex 7 and Phase 1 annex 5: *The audience's view on the future of public service broadcasting*

⁷ See PSB Review Phase 1 annex 5

⁸ See PSB Review Phase 2 annex 8: *Audience research pack*

provision varying by genre. UK /international news and nations/regions news are the highest ranking genre⁹.

Figure 1: The public's attitude towards plurality



Source: Reproduced from PSB Review Phase 1, Figure 10.

- 1.6 As figure 1 above shows, 76% of respondents say that it is important for more than one of the main channels to provide news about their nation/region. Plurality in this genre is the third most valued behind news and current affairs (both of which are likely to continue to feature plural provision for the foreseeable future)¹⁰. This finding was also reinforced by deliberative research conducted for the PSB Review.
- 1.7 Plurality of nations and regions news is more important to people in the devolved nations than in England. 82% of people in England agree that “it is important for ITV1 as well as the BBC to show news programmes about my nation/region”, which rises to over 90% in each of the devolved nations¹¹. In the devolved nations, in deliberative research in Phase 1 of the PSB Review, this genre was associated with cultural identity and thought to strengthen the democratic process.
- 1.8 Impartiality is a formal requirement for broadcast news, and research shows this is highly regarded by audiences. Ofcom's PSB Tracker survey asks respondents to give their opinions on the PSBs' collective delivery of the PSB purposes and characteristics. 85% of respondents believe that it is important that “news programmes are trustworthy” making it the highest scoring statement. Satisfaction levels with collective delivery are also amongst the highest¹².
- 1.9 Consumer research also indicates that audiences are willing to pay more for public service broadcasting to ensure plural provision is maintained. Both Ofcom and BBC Trust research¹³ has shown that audiences are prepared to pay for non-BBC PSB, in addition to the BBC, although the amount varied by study. In Phase 2 of our PSB

⁹ See BBC Trust response on behalf of the BBC to Ofcom's Second PSB Review Phase 2 (page 18)

¹⁰ See PSB Review Phase 1 annex 5: *The audience's view on the future of public service broadcasting*.

¹¹ See PSB Review Phase 1 annex 5

¹² See http://www.ofcom.org.uk/tv/psb_review/annrep/psb09/psbrpt.pdf

¹³ See BBC Trust response on behalf of BBC to Ofcom's second PSB Review Phase 2. Differences between Ofcom's and the BBC's studies on the amount audiences are willing to pay are likely to be related to a range of reasons including differences in methodology as well as the changes in economic circumstances between the timing of the two studies,

Review¹⁴ research showed that 78% of audiences were willing to pay for PSB¹⁵ on ITV1/C4/Five in addition to the current licence fee for the BBC. When audiences were presented with options for PSB provision (i.e. BBC only at current licence fee or a mix of BBC and non-BBC PSB at more than the current licence fee) only 12% consistently chose the BBC-only option at the current licence fee.

- 1.10 Our results showed that audiences value PSB on ITV1, Channel 4 and Five sufficiently to be prepared to pay for it from both a personal and from a citizen perspective. The average amount they were prepared to pay was between £3.30 and £3.50 per month, with no significant difference between responses from a citizen perspective and from a personal perspective. In comparison, just over four in five respondents were prepared to pay for the BBC in both the personal and citizen questionnaires. The average value was £13.87 per month from a citizen perspective, and £11.56 per month from a personal perspective (the latter being in line with the current licence fee).
- 1.11 This study adds to the body of work on willingness to pay for public service broadcasting, which includes studies by the BBC and the DCMS¹⁶. The context that participants are given greatly affects the results of any survey. For example a critical element in our survey was to spend time explaining to participants what the choices are, by giving clear explanations of PSB, as well as of current broadcasters' obligations, funding mechanisms and the future challenges to the current system.
- 1.12 Plurality of news is also important from a citizen perspective. Parliament has put in place media ownership rules to govern ownership of television, radio and newspapers. Their aim is to help protect plurality; giving citizens access to a variety of sources of news, information and opinion so that they can participate in democracy in an informed way¹⁷.

Local content and particularly local news is also valued - for which Regional TV is the main source for many adults

- 1.13 New research published in Ofcom's LRM report has found that nearly half of all adults consider regional television to be their main source of local news. Regional TV news is also the most commonly used source of local media – watched daily by four-fifths of UK adults and at least weekly by 92%¹⁸.
- 1.14 Our research has found that consumers also see regional TV and local newspapers as being important to society¹⁹. Respondents in deliberative research were asked whether they would be prepared to support various forms of local media in the future

¹⁴ See PSB Review Phase 2 annex 6: *Assessing the value of public service programming on ITV1, Channel 4 and Five*

¹⁵ PSB defined as UK news, current affairs, children's, documentaries, regional news, other regional programmes, C4 UK drama and comedy, C4 experimental programmes

¹⁶ For example, see *Willingness to pay for the BBC during the next charter period: A report prepared for the Department for Culture, Media and Sport* (The Work Foundation, 2006); Barwise, Professor Patrick, *The BBC licence fee bid: what does the public think?* London: BBC Government Unit (2006); *Measuring the value of the BBC: a report by the BBC and Human Capital* (2004); Ehrenberg-Mills, *The value of the BBC* (London Business School, 1990); *Willingness to pay for viewing television* (Radio-communications Agency/ DTI 2000)

¹⁷ Ofcom has a statutory duty to review the operation of the media ownership rules and recommend any changes to the Secretary of State. A review is currently underway. See

<http://www.ofcom.org.uk/consult/condocs/morr/morrcondoc.pdf>

¹⁸ See <http://www.ofcom.org.uk/research/tv/reports/lrmuk>

¹⁹ Local media deliberative research, April 2009

through external funding. The sources which gained most support were regional TV and local newspapers. These long-established sources of local news were ingrained into peoples' lives, and this ensured them consistent support.

- 1.15 More broadly, local media play an important role for citizens. Our LRM report shows that such media are considered to maintain a sense of community by providing access to information and promoting local voices. They also hold public bodies to account and support public purposes by providing access to highly relevant information and enabling local voices to be seen and heard.
- 1.16 By way of example, local media play a role in informing the public about local institutions such as the police, local courts and local government. The majority (82%) of respondents in quantitative research agreed that local media should play a role in keeping the public informed about local crime. 93% agreed local media should hold local government to account²⁰.
- 1.17 Perhaps in recognition of the value of local content, the BBC has recently announced plans to enhance its linear local TV and radio services in the nations and regions. The BBC has said that these plans will require an annual investment of up to £8.5 million in 2009/10, peaking at £15.3 million in 2012/13 – with the costs being covered by efficiency savings already identified²¹.
- 1.18 **Overall, our research demonstrates that plurality in nations and regional news is valued by audiences and they are willing to pay more to ensure that such provision is maintained. Plurality – including provision of local media - also gives citizens access to a variety of relevant sources of news, information and opinion. This enables them to participate in their community and in democracy in an informed way.**

²⁰ LRM report quantitative research. Note that qualitative evidence suggests that interest in local political issues is limited to a core group of consumers, and therefore, while it is considered important content from a citizen perspective, few in comparison are likely to access local media specifically for this type of content.

²¹ See BBC Trust news release

http://www.bbc.co.uk/bbctrust/news/press_releases/july/local_proposals.shtml

Question 2

“Do you agree that sustainable, impartial news in the Nations, locally and in the regions is likely to require some top-up public funding?”

Our response

Securing plurality with the quality, scale and universality required to meet audience needs is likely to require sustainable top-up funding

- 2.1 Evening regional news on Channel 3 attracts an average audience of over 3 million during the week, representing 19% of the available audience. This is similar to that for the Channel 3 national evening bulletin. This service delivers significant reach and impact and choice beyond the BBC’s regional news output, which itself reaches over 5 million viewers²².
- 2.2 Despite the popularity of Channel 3 regional news, there is substantial commercial pressure on the Channel 3 network’s ability to continue current levels of provision.
- 2.3 The PSB Review found that while there is currently a net benefit from public service broadcaster status across the portfolio of regional licences owned by ITV plc, this will become a net deficit before 2012, and before the digital switchover process completes. In Scotland and Northern Ireland, STV and UTV are also facing deficits on their respective licences.
- 2.4 The Final Statement of the PSB Review confirmed a number of changes to the regulatory obligations on the Channel 3 licensees from the start of 2009 (and Five and Teletext)²³. These were designed to deliver a sustainable level of public service content in the transition to digital switchover.
- 2.5 However, we said that these decisions did not represent a permanent solution to the mounting pressures on commercial PSBs. Since the publication of the PSB Review Final Statement these pressures have intensified with a steeper than expected downturn in advertising revenues.

Our updated Cost Benefit Analysis for the Channel 3 network shows a deficit by 2011 is likely

- 2.6 In preparing our response to this consultation we have updated the Cost Benefit Analysis (CBA) for the Channel 3 network to reflect the impact of the reduction in regulatory obligations made as a result of the PSB Review. This provides an updated view of our current best estimate of when the net benefits of PSB status for the Channel 3 regional licences, taken together, cease.
- 2.7 The methodology behind a CBA is based on best estimates of the benefits and costs of PSB status – which are difficult to calculate as they are, in part, opportunity costs as well as direct costs. There are also a number of intangible benefits that are much harder to quantify, and can vary depending on who holds a particular licence.

²² BARB all individuals, average audience levels and share for early evening nations/ regions news, 2008.

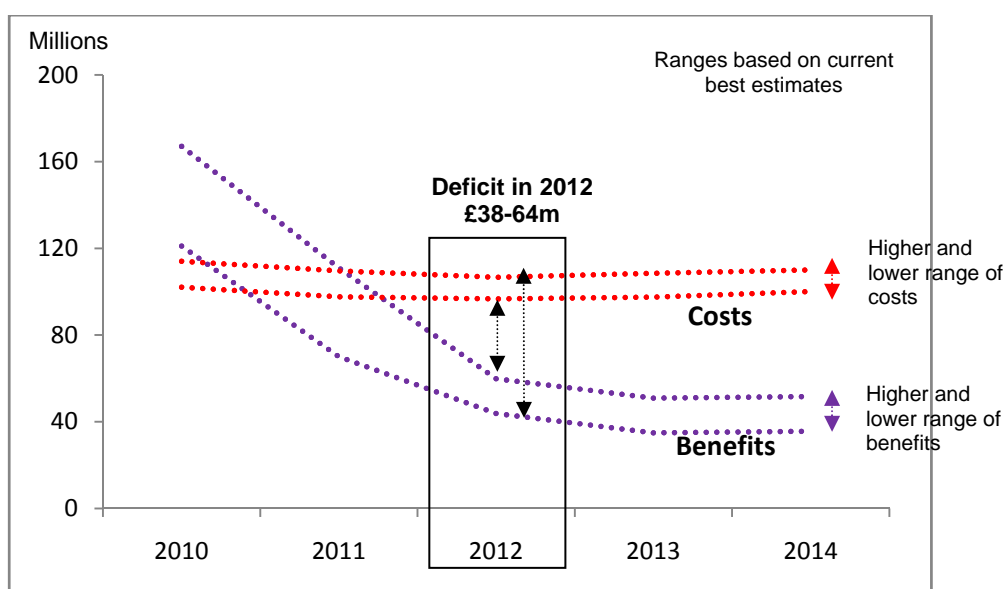
²³ See http://www.ofcom.org.uk/consult/condocs/psb2_phase2/shortterm/

- 2.8 For these reasons, it is important to note that the results of this analysis need to be treated as indicative only. They are shown below in the form of a higher and lower set of ranges for both the costs and benefits of PSB status.
- 2.9 However, the calculated timing of when the licences will fall into deficit and the scale of the deficit are considered a reasonable estimate based on the analysis we have undertaken. Our approach and analysis have also been discussed with the Channel 3 regional licensees, although they believe that in some cases the costs of PSB status are higher than we have estimated.

Regional news represents the single biggest cost to the Channel 3 network

- 2.10 As we set out in figure 2 below, we estimate that the Channel 3 network is likely to be in deficit by 2011, and the deficit will reach £38-64 million in 2012.

Figure 2: Cost-Benefit of PSB Status for the Channel 3 network



- 2.11 The single biggest PSB cost attributable to the Channel 3 network is the production cost of regional news which is estimated at £68 million in 2010, and projected to be £72 million in 2012, based on current production costs. These costs are after the regulatory changes made in the PSB Review²⁴.
- 2.12 It is notable that the production cost of regional news is very similar to the scale of the opportunity cost deficit across the Channel 3 network.

BBC partnerships may offer some savings but have not been included in the analysis at this stage

- 2.13 ITV plc has negotiated a partnership agreement with the BBC which is intended over time to allow co-location and the sharing of regional news facilities with the relevant regional BBC service²⁵. These partnership arrangements were anticipated by the

²⁴ This data is based on the figures supplied by the ITV regional broadcasters. As we outline in our LRM report, we have also commissioned an independent assessment of production costs which has produced a similar set of figures.

²⁵ Public Service Partnerships, Helping Sustain UK PSB, BBC, which can be viewed at <http://www.bbc.co.uk/thefuture/pdf/phase2/partnerships.pdf>

BBC and ITV plc to allow savings on regional news costs of £1.5 million in 2011, rising to £5.7 million in 2014 and £7.1 million by 2016.

- 2.14 We have excluded from the figures for regional news costs the savings which might be delivered by the BBC partnerships as there are still a number of unresolved issues. We recognise that these partnerships might in principle be available in future to ITV plc, though we note that their value does not significantly reduce the burden of regional news. We will continue to engage with the BBC to assess the value of these proposals.
- 2.15 The BBC has also said that the partnerships are not limited to the existing Channel 3 providers of regional news, and that they could be developed with alternative regional news providers. This is a positive and welcome proposal.
- 2.16 For example, the BBC has identified that there is an opportunity for it to help the development of a diverse regional news infrastructure and to share raw news material more widely. If developed further, resources could be shared which may support news consortia in developing their own news-gathering, where possible and appropriate.
- 2.17 Partnerships will need to take into account the BBC's own news requirements and be watchful of maintaining editorial plurality. There are also practical limits on the possibility of sharing some resources, for example physical assets such as studio space.
- 2.18 The analysis of the value of BBC regional news partnerships was based on the savings ITV plc might make through access to BBC resources instead of using its own. New partnership proposals based on the working practices of other news providers may realise more value.

ITV's licence fee payments contribute towards the deficit, although they are forecast to decline as switchover approaches

- 2.19 The Channel 3 network as a whole is currently expected to pay £13million in licence fee payments in 2010, falling to around £5million in 2013 and 2014 as digital penetration levels increase and the analogue signal is switched off. The imposition of 'Must Offer' obligations by Government on all the public service broadcasters means that the Channel 3 licensees have the opportunity to approach Ofcom for a revaluation of their licences²⁶. If licensees seek a revaluation, then any revised terms could apply from 2010 onwards.
- 2.20 However, even if a revaluation of the licences led to a reduction in the Channel 3 licence payments, this would still, on our current analysis, leave an overall deficit, owing to the remaining costs of PSB status for the Channel 3 licensees.

A new intervention is required to sustain plurality in regional news

- 2.21 The commercial PSBs are obliged to continue to broadcast their services until the end of their licences. However, if in practice they ceased to broadcast their services on a public service basis, or at all, their licences would be revoked and they would avoid their public service obligations.

²⁶ Note, GMTV and Five are also entitled to ask for a revaluation of their licences

- 2.22 ITV plc has the scale and 'must have' content to become a purely commercial broadcaster. If it considers that the costs of PSB status outweigh the benefits it could choose to surrender its PSB status and end its participation in the network²⁷.
- 2.23 Any possible surrender of PSB status by ITV plc could also put the independent licensees at serious risk in Scotland, Northern Ireland and the Channel Islands and end the provision of regional news across the UK. We believe it is desirable to take steps to avoid licence hand back where there are undesirable public policy consequences. Rebalancing regional news costs is more than an accounting exercise. It meets citizens' and consumers' need for regional news and supports wider PSB provision.
- 2.24 The PSB Review identified that the Channel 3 network would continue to be the most effective carrier for nations and regions news due to its existing reach and impact. However the Channel 3 licensees are only one option for broadcasting a regional television news service. Other means include Channel 4 or a replacement Channel 3 licensee following any licence retendering process.

News consortia offer one solution to replacing regional news on Channel 3 and reducing the cost of PSB status, and could also offer greater localness

- 2.25 The Government's Digital Britain Final Report²⁸ has proposed that the Channel 3 licensees' regional news be replaced with provision by independently funded news consortia (IFNCs).
- 2.26 These news consortia could include, but not be limited to, existing television news providers (including the Channel 3 licensees who provide the existing services), newspaper groups or other newsgathering agencies. They could be chosen against a range of public criteria, including the ability to achieve reach and impact, high production and editorial standards and the financial strength to deliver a quality service. News consortia would also need to be accompanied by suitable governance arrangements to ensure they deliver value for money and are properly accountable for their use of public funds - as recognised in the Digital Britain Final Report.
- 2.27 In addition to securing plurality in regional TV news, such consortia offer the potential for a more local service as noted in the Digital Britain Final Report. News consortia could provide a more ambitious cross-media proposition and enhanced localness compared with the current commercial television regional news.
- 2.28 To maximise audience reach and impact their outputs are envisaged to be broadcast in the regional news slots in the schedule of current Channel 3 licensees, although as described above, there are other options.
- 2.29 News consortia go beyond propping up the old system; rather they seek to build on the reach and impact in the current provision and embrace the opportunities of digital media to deliver more public value. Consortia created news could help meet consumer demand for more local news by providing a greater level of localness than the existing system. For example, this could be through more localised television news and greater availability of online news.

²⁷ Licence revocation makes the licensee subject to a penalty of up to 7% of their qualifying revenue

²⁸ See Digital Britain Final Report, <http://www.culture.gov.uk/images/publications/digitalbritain-finalreport-jun09.pdf>

2.30 Clearly increasing the level of localness could increase the funding required. As we set out in our LRM report, for an option which replaces the current regional television news service, we estimate the annual costs to be approximately £40 million to £60 million. A more localised option could deliver an increased level of localness beyond the current regional system and greater cross-media delivery of news. This is estimated to cost approximately £60 million to £100 million.

There may be transitional financial issues for the Channel 3 licensees until the funding for a full roll out of news consortia is secured

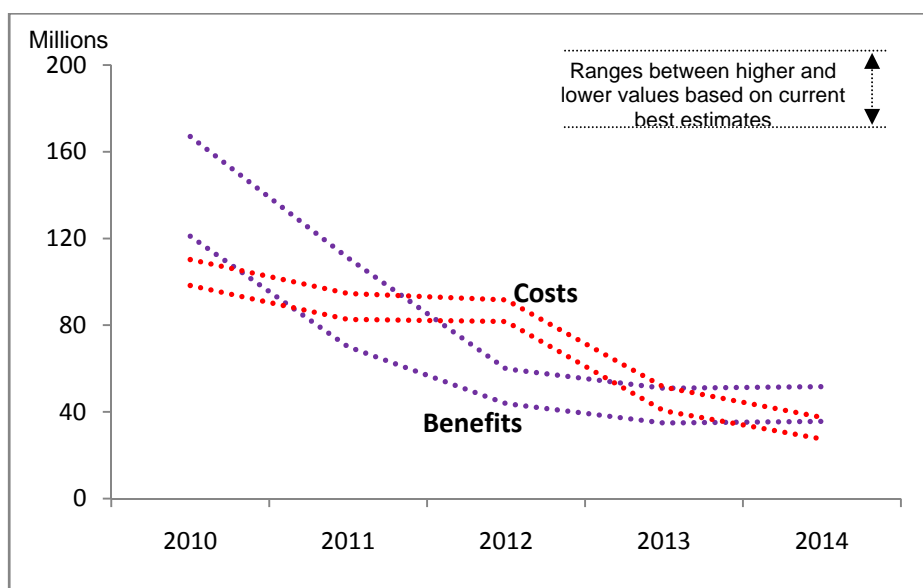
2.31 The Government are minded to trial three pilot schemes. The aim is that pilots will take place in Scotland, Wales and one English region.

2.32 These IFNC pilots could provide valuable findings to help assess the potential for using funding sources such as rights sales, advertising and partnerships with the BBC to fund news provision by the consortia. They will also help to assess the likely demand in the pilot areas and interest in other parts of the country from potential news consortia.

2.33 There are already signs that a number of credible consortia are ready to apply to run the pilots and test the principles and processes. At the recent RTS Cambridge conference a range of consortia members identified themselves publicly, including GMG, ITN, STV, Ten Alps-Belfast Telegraph, Newsquest, DC Thomson and Johnston Press. A number more have also mentioned to Ofcom that they will probably bid.

2.34 The hypothetical scenario modelled in figure 3 below assumes public funding for news consortia in one English region and two nations commencing late 2010, and full funding commencing in early 2013, as suggested by the timeline for full funding in DCMS consultation which we are responding to.

Figure 3: Hypothetical view of Cost-Benefit of PSB Status for the Channel 3 network - with phased public funding for news consortia



2.35 The Channel 3 licensees would broadcast the output of the news consortia subject to certain contractual conditions, relieving them of the net costs of regional news.

However, as figure 3 shows, there are likely to be transitional financial issues for the Channel 3 licensees until the funding for a full roll out of news consortia is secured.

- 2.36 Beginning a full roll out of news consortia in early 2013 may leave the winning bidders an insufficient contractual length to allow amortisation of start up and capital costs, and a suitable return on their investment before the Channel 3 licences expire at the end of 2014.
- 2.37 The analysis above is at the level of the network as a whole. We have not yet considered the issue of whether the existing cost sharing arrangements between the licensees incorporate a cross subsidy between ITV plc and the other licensees. We will examine this issue as part of our 2009 review of the Networking Arrangements.
- 2.38 It may therefore be that any net benefit at the network level may be needed to subsidise smaller unsustainable licensees. This will not become clear until the 2009 Networking Arrangements Review is complete.
- 2.39 Given that the costs of regional news for Channel 3 dwarf all others associated with PSB status, an alternative regulatory relief scenario that removed all other licence obligations beyond those of regional news would not be enough to bring the licences into balance. This is before considering the broader issues associated with taking such a route. These would include dropping original and independent production objectives as well as the requirement to broadcast national and international news, which would have potentially significant negative consequences.
- 2.40 **Based on our updated Cost Benefit Analysis we estimate that the Channel 3 network is likely to be in significant deficit by 2012. Securing plurality in regional news with the quality, universality and volume required to meet audience needs is likely to require additional funding.**
- 2.41 **As proposed by the Government, news consortia offer one solution to replacing regional news on Channel 3, the single biggest cost attributable to PSB status. They could also offer benefits of greater localness, although there may be transitional issues until funding for a full roll out of news consortia is secured.**

Question 4

“Do you agree that any funding within a contained contestable element of the television licence fee not required for impartial news should potentially be available to fund other forms of essential public service content, or should such funding be limited to news?”

Our response

Research from Ofcom’s PSB Review demonstrates that there are genres of public service content beyond regional news that are at risk. Decisions to intervene in these areas are policy matters for Government.

- 3.1 Multi-channel broadcasters make a significant contribution to public service purposes in sport, entertainment, archive and acquired programming, and UK and international news. But despite two decades of multi-channel broadcasting, investment in high quality UK content - other than in sport and to a lesser extent national and international news - is overwhelmingly by the current public service broadcasters²⁹. There remain several areas vital to the delivery of public purposes where purely commercial players are unlikely to invest significantly in content for television or other digital platforms, because the returns are too low and/or the commercial risk is too great.
- 3.2 In Phase 2 of our PSB Review, we estimated that if audiences are to continue to enjoy the same mix of high quality content they have today, replacement funding will be required. Taking into account existing regulatory assets, we envisaged a shortfall of between £145 million and £235 million in investment in public service content by 2012, relative to 2008³⁰.
- 3.3 There is now widespread consensus that the pressures on the commercial public service broadcasters’ ability to invest in many areas of public service content are significant. Unless these pressures are addressed, audiences will come to rely increasingly, and possibly exclusively, on the BBC for many areas.
- 3.4 Our research demonstrates clearly that audiences value a choice of provision. As shown in figure 1, news is the highest priority for audiences, but plurality in other genres is also highly valued. The two most critical areas coming out of our PSB analysis are children's and nations non-news, which are discussed in turn below.
- 3.5 As we said in the PSB Review, other UK genres including current affairs, documentaries, and less formulaic and higher risk drama and comedy are also under threat. Plural provision of these genres beyond the BBC may become unsustainable should commercial pressures intensify.

²⁹ Our analysis from Phase 1 of the PSB Review demonstrated that originated spend by the five main public service channels and the BBC’s digital channels reached £2,485 million in 2007, but had declined on average by 3.8% a year since 2004. The public service channels represent over 90% of all spend on original UK television programming in areas other than sport.

³⁰ Our PSB Review Phase 2 report explains this analysis in further detail. Oliver & Ohlbaum estimated the difference between the level of investment that the commercial public service broadcasters would make in each area of content in 2012, and the level of investment that would be required to meet audiences’ present day needs.

Children's content is a particular area of concern

- 3.6 The Government has noted that there is a clear market failure in the provision of children's content that needs to be addressed³¹. In the PSB Review we also said that there is a clear public interest in addressing needs identified for children's content, if funding is available.
- 3.7 Plurality was seen as important for children's programmes reflecting life in the UK, among all adults (70% agree). Unsurprisingly parents tended to think it was more important (76%) and among this group it ranked third, after news, in terms of importance for plural supply³².
- 3.8 However, investment in UK children's programming has fallen sharply over the last five years. Total hours of UK children's programming broadcast across the five main PSB channels fell by 858 hours (17%) in 2008, compared with 2004. UK first-run originated hours of children's programmes broadcast on the five main PSB channels and on CBeebies/CBBC fell by 51% . Investment in first run originated children's programming by these channels also fell by over a third (37%). This has been mainly driven by reduced spend by the commercial PSBs, down from £42million to £11million over the time period. However, this shortfall has not been made up by the BBC. In fact the BBC spend has fallen from £97million to £77million³³.
- 3.9 The Government could consider several different types of intervention for UK children's programming, especially, high quality, original programming among older children (primary school age and above), and young teens.
- 3.10 Channel 4 could play a role in delivering content to older children, as proposed in the Digital Britain Final Report³⁴. However, there are reasons why an amendment to Channel 4's remit may not be sufficient to sustain plurality in children's content. Most importantly, at a time of pressure on its ability to deliver its existing PSB requirements, Channel 4 might not have the financial resources to meet significant additional new requirements in children's content.
- 3.11 The needs of younger audiences could also be addressed through a competitive allocation of funds from the contained contestable element of the licence fee, or elsewhere. In the PSB Review³⁵ we set out how this might operate. Competitive funding in this area was supported by many stakeholders, who noted its flexibility in delivering across platforms. Channel 4 – with a revised remit to serve older children – would be an obvious potential bidder for such funding.
- 3.12 There may also be further remedies and commercial incentives, such as tax breaks, that could also be explored further.

Funding for nations non-news could also be considered

- 3.13 Amongst the conclusions of the PSB Review, Ofcom also recognised the importance of public service content in the devolved nations and the value of sustaining choice for citizens.

³¹ See The Digital Britain Final Report, page 147.

³² See PSB Review Phase 1 annex 5: The audience's view on the future of public service broadcasting.

³³ See, Public Service Broadcasting: Annual Report 2009, July 2009

³⁴ See Digital Britain Final Report, pages 146-147

³⁵ See PSB Review Phase 3, Pages 108-111

- 3.14 Responses to the consultation phase suggested that there is unlikely to be a single solution to the future of public service broadcasting that equally meets the needs of all three devolved nations.
- 3.15 If these needs cannot be met sufficiently by other means, then Government or the devolved administrations could consider funding specific approaches in each of the devolved nations.
- 3.16 If news consortia provide regional news, the Channel 3 licensees in the nations may be able to divert more resources to non-news. This is a strategy that STV is already pursuing with their policy of opting out of the Channel 3 network schedule to use some of this air time to deliver more programmes targeted specifically at the Scottish audience. Although STV is showing more regional non-news than the minimum required in its licence, it is unclear whether regulatory relief from public funding for news consortia would encourage greater non-news provision.
- 3.17 Our Cost Benefit Analysis of the ITV licensees in Scotland and Northern Ireland suggests that even if their regional news provision is funded through news consortia, the surplus in their licences will be limited, thus limiting the scope to impose further regulatory obligations on them.
- 3.18 **There are good reasons for addressing issues in the provision of public service content as demonstrated by evidence collected for our PSB Review. It is for government to determine if and when interventions are required, beyond market based remedies, and their most appropriate funding sources.**

Questions 3 and 5

“Do you agree that the Television Licence Fee should be used to support impartial news in the Nations, locally and in the regions in addition to BBC services?”

“Are there alternative funding mechanisms that you believe would deliver the above objectives more effectively?”

Our response

If public service broadcasting is to be delivered with the quality, scale and universality required to fully meet audience needs, then an additional intervention is required to address the funding gap. A range of options exist.

- 4.1 Our analysis and research into audience's attitudes towards public service broadcasting demonstrates that the BBC should remain the cornerstone of public service content. Its programme and services budget should be secure and appropriately funded through the licence fee in any future model. Alongside the licence fee, access to regulatory assets, such as DTT capacity, should continue to be an additional source of implicit support for all public service broadcasters.
- 4.2 The BBC has proposed that it could play a more immediate and significant role in developing partnerships or sharing efficiencies with other broadcasters to help them deliver content meeting public purposes. The BBC believes that the greatest benefits for other broadcasters are to be derived from the use of BBC digital production technology, regional news infrastructure, the BBC iPlayer and IPTV commercial benefits. These proposals are subject to approval by the BBC Trust.
- 4.3 The BBC had suggested that these initiatives could provide net benefit for ITV, Channel 4 and Five of £120 million per annum by 2014³⁶. However, a number of the other public service broadcasters have argued that, whilst these partnerships offer potential benefits, these are substantially smaller than the BBC believes and are therefore likely to be only part of a solution in the long-term.
- 4.4 A form of additional intervention is required, as set out in our response to question 2. Regulatory assets and the BBC's proposed partnerships will not be enough to deliver sustainable news for the regions and nations beyond the BBC.
- 4.5 Beyond regulatory assets, Ofcom's PSB Review identified three such sources:
 - the licence fee;
 - industry levies, from a range of potential sources; and

³⁶ As set out in *Public service partnerships, Helping sustain UK PSB* published by the BBC on 11th December 2008 as part of their response to Ofcom's Second Public Service Broadcasting Review, Phase Two

- direct government funding – including grant-in-aid from government, devolved administrations, or other agencies, and hypothecated proceeds from spectrum awards or charges.

4.6 As we set out in the PSB Review, each funding source has its pros and cons. Any decision on the level and source of funding is for Government and Parliament to make, in conjunction with decisions on future models of delivery. In the consultation phase of our PSB Review, stakeholders broadly accepted that these represented the most likely sources of potential funding beyond regulatory assets.

Box 1: Public attitudes to funding sources for public service content

- In deliberative research conducted by Opinion Leader as part of the PSB Review³⁷ participants were presented with a range of possible ways of funding the required increased investment to provide PSB on channels other than the BBC.
- Overall, participants were in favour of mechanisms which would involve the public paying directly to fund PSB in the future (i.e. through the licence fee) rather than indirectly (i.e. through taxation) as they wanted to ensure there was a direct and transparent link between the amount viewers paid and the amount being spent on PSB programming.
- The options to use the licence fee (potentially through an increase) or to levy a charge on industry were seen as the most appropriate long-term solutions, although there was also support for using gifted spectrum while it is a viable solution. The table below summarises audience attitudes towards the different funding mechanisms discussed.

	Appropriateness	Reasons why
Licence fee	High	<ul style="list-style-type: none"> • Perceived to be one of the most appropriate long-term solutions • Provided clear and direct relationship between funding and PSB obligations • Given association with television, seen to be appropriate means to fund PSB on non-BBC channels • Considerable support for digital switchover surplus to fund non-BBC PSB, particularly as participants thought the public would not expect money back • Mixed views on increase to licence fee - some believed it small price to pay for PSB, whereas others were anti-licence fee anyway • Idea of giving some existing licence fee to other providers not controversial. May in part be due to participant uncertainty about what the licence fee currently funds. However, once informed licence fee funded BBC only, participants still open to the idea • But minority thought commercial PSBs should not get funding given ability to raise funding elsewhere
Industry levy	High	<ul style="list-style-type: none"> • One of the most appropriate long-term solutions • Perceived as a fair way to fund PSB by taking money from industry to reinvest into industry (although there was a belief that ultimately consumers would pay)
Gifted spectrum	High	<ul style="list-style-type: none"> • High support as would not cost the viewer anything directly • But not perceived as sustainable long-term funding option as value declining
Increased advertising	Medium	<ul style="list-style-type: none"> • Mixed views; some participants supported it as it would not cost the viewer anything, whereas others were against as could detract from enjoyment of watching TV • Not perceived as sustainable long-term funding option as value declining
Direct public funding	Low	<ul style="list-style-type: none"> • Lottery perceived to be for distinctive purpose and participants thought there were 'better causes' the money should go to • Against general taxation as thought it was too high currently, general lack of trust in taxation, and not transparent enough as a mechanism

- In a quantitative study³⁸ respondents were asked about their attitudes towards funding mechanisms for PSB on ITV1, Channel 4 and Five in the future. Respondents had already been informed about each channel's current PSB obligations, as well as their funding via gifted spectrum. In this context, the licence fee ranked 2nd as a funding mechanism.

³⁷ See PSB Review Phase 2 annex 7: The future of public service broadcasting. A deliberative research report by Opinion Leader.

³⁸ See PSB Review Phase 2 annex 6: Assessing the value of public service programming on ITV1, Channel 4 and Five

- In a separate study we also asked the general public about their views on the uses of the digital switchover 'surplus'³⁹. This provided audiences' 'uninitiated' views (i.e. they were not subject to the detailed briefing that the consumers in the deliberative research were given) as respondents were not informed about the current pressures on public service broadcasting and possible changes to future delivery. In this context, unsurprisingly support was highest for a rebate, with 63% in favour and 15% against, with support of an average of 7.3 out of 10. Respondents were also asked their views on a range of PSB and other services. While respondents supported the use of the surplus, to increase access to broadband, there was no clear preference for spending the surplus on the BBC or other broadcasters.
- However, as set out above in our response to question 1, consumer research indicates that audiences are willing to pay more for public service broadcasting to ensure plural provision is maintained. Both Ofcom and BBC Trust research has shown that audiences are prepared to pay for non-BBC PSB, in addition to the BBC, although the amount varied by study. A critical element in our survey was to spend time explaining to participants what the choices are, by giving clear explanations of PSB, as well as of current broadcasters' obligations, funding mechanisms and the future challenges to the current system. This research demonstrates the high priority audiences place on local and regional news.
- What these four pieces of research show is that the starting point of any survey and the context that participants are given greatly affects the results. With this perspective, we attach more weight to the first, second and fourth pieces of research given that in these cases each participant understood the broader context and therefore could make a more of an informed judgement.
- It is worth stressing that any piece of research cannot address every question or challenge that may arise, and must be considered with a close reference to the methodological approach taken, as well as the time period in which it was carried out to understand the political and economic backdrop.
- We have not commissioned any new research as part of our response. However we are keen that any new research examining audience views on the future delivery of public service content builds on the existing body of research carried out by ourselves, the DCMS and the BBC, as well as others.

Any funding needs to be assessed against a consistent set of criteria

- 4.7 In the PSB Review we said that that any new funding should be considered against a set of assessment criteria as figure 4 below shows.

³⁹ See PSB Review Phase 2 annex 8: Audience research slidepack. By 'surplus' we mean the part of the licence fee in the current settlement that funds Digital UK and the Digital Switchover Help Scheme and is clearly ring-fenced from general BBC service budgets.

Figure 4: Tests for a future model for public service broadcasting funding

Requirements of a future model	Test
Reach and impact	Are providers incentivised to deliver public service content that achieves reach and impact?
Plurality	Does competition between providers deliver the benefits of plurality?
Flexibility	Is the model sufficiently flexible to respond to audience and market changes?
Governance	Do providers have clear remits, independence, transparent accountability arrangements and incentives aligned to public purposes?
Complementarity	Does it complement, not discourage, market provision?
Distribution	Does it embrace the platforms, content forms and services that most effectively meet audience needs?
Sustainability	Are providers' funding models sustainable?

Source: Reproduced from Ofcom PSB Review Phase 1, Figure 48

- 4.8 The introduction of any cash funding to support the provision of television news for the regions and nations, beyond the BBC, would represent a new development in the delivery of PSB content. Before any such intervention, it is important to decide whether it should be allocated competitively or directly to an institution.
- 4.9 As we set out in the PSB Review, competitive funding processes are best suited when there are clearly defined outcomes which need substantial funding, and where there are likely to be a number of bidders with similar business models, opportunity costs and audience reach. The provision of news for the nations and regions seems likely to meet these criteria.

Introducing a 'contained contestable element' to the licence fee is the Government's preferred funding option

- 4.10 The Government has presented the idea of a "contained contestable element" within the Television Licence Fee from the beginning of the next settlement period in 2013. They envisage that this would be broadly equivalent to the 3.5% currently ring-fenced to meet the cost of the Digital Switchover Help Scheme and Digital UK's marketing and communications costs. Under the current settlement, this is equivalent to an average of £130 million per year.
- 4.11 The Government has stressed that it is the TV licence fee, not the BBC licence fee. The DCMS consultation states that "in principle the BBC has no exclusive right to the Television Licence Fee. This is a matter of historical practice. This levy is paid into the Consolidated Fund like any other tax, for the government of the day to determine how it should be used".
- 4.12 There is historical precedent in using the licence fee for services beyond the BBC. From the inception of the licence fee in 1928 until 1962, up to 12.5 per cent of the licence fee went straight to the Treasury as part of its general revenue. And in

addition to the Treasury's share of the licence fee, around 8 or 9% was kept by the Post Office, which collected the licence fee on behalf of the BBC⁴⁰.

Levies were identified in the PSB Review as an alternative model of funding

- 4.13 Another potential source we identified in the PSB Review was that of an industry levy for public service content. While levies could introduce new funding, they present challenges of enforceability and could act against industry development and incentives.
- 4.14 Our consumer research for the PSB Review found an industry levy to be the most acceptable of the potential new sources of funding among audiences. In the consultation responses, support for an industry levy was more mixed. Supporters agreed that levies should ideally be imposed on those that derive significant commercial revenues from the distribution of public service content, but do not make a material contribution to its generation.
- 4.15 Many industry stakeholders were concerned that a levy on new forms of distribution would firstly be difficult to identify and enforce, and secondly jeopardise development and emerging commercial relationships within these markets. Additionally, respondents thought it unlikely that any levy could be introduced without a negative market distortion or impact, and as such would only re-distribute existing value within the industry rather than grow funding overall.

Other sources of funding could also meet the criteria we set out

- 4.16 A further source of funding proposed in our PSB Review was direct public funding. It is already in use in the UK PSB system, for example in funding S4C. Such a source could meet the criteria set out earlier, although our deliberative research found low audiences support for the option. We also note that this has since been ruled out by Government who have stated that in the current climate further calls on the Exchequer could not be contemplated⁴¹.
- 4.17 Hypothecating the proceeds from charges on spectrum use – in effect a levy on DTT broadcasters - may be an option. In previous consultations we have said that administrative incentive pricing (known as AIP) will apply to the existing 6 DTT multiplexes from 2014, although we will consider the implications for PSB delivery nearer the time of its introduction. Our conclusions within the PSB Review included a model of hypothecating AIP proceeds as a form of direct funding, but we recognised that this needed to be considered against other areas requiring public funding outside of broadcasting.
- 4.18 Ofcom has the scope to amend the television advertising minutage rules⁴². However we have concluded that any move to harmonise the advertising minutage rules, whether by aligning minutage limits up or down, may result in PSB channels gaining advertising revenue at the expense of non-PSB channels. This does not seem appropriate at a time when all broadcasters are suffering from a sharp drop in advertising revenues. However over the medium term, there may be a case for moving towards a more level playing field given that the benefits of PSB status will

⁴⁰ See <http://www.ft.com/cms/s/0/47cc1690-7324-11de-ad98-00144feabdc0.html?ftcamp=rss>

⁴¹ See the Digital Britain Final Report

⁴² Code on scheduling of TV advertising: Rules on advertising minutage, breaks and teleshopping <http://www.ofcom.org.uk/consult/condocs/rada08/statement/costa.pdf>

have been substantially eroded as digital switchover approaches. We intend to examine the case for harmonisation and how this might be achieved.

- 4.19 As we set out in our LRM report there is also the potential to alter the advertising minutage rules and allow news consortia incremental minutage to sell in their regions. However, it is unclear whether this additional minutage will deliver any significant revenues to make a telling contribution to the costs of consortium news provision.
- 4.20 There may be other sources of funding beyond those set out above. For example, the BBC is believed to be considering the part-privatisation of BBC Worldwide, following the announcement of a wider strategic review of their operations.
- 4.21 **An additional intervention is required to address the funding gap in public service broadcasting. There are a number of potential sources which we set out in the PSB Review, and briefly in this response.**

Questions 6, 7, 8

“Do you agree with the proposal to set a maximum percentage of Television Licence Fee revenue which could be set aside as a contained contestable element?”

“Do you agree that amending the BBC Agreement could provide the necessary protection to the BBC’s future funding and independence?”

“Do you agree that the use of any contained contestable element within the Television Licence Fee should be restricted to the public purposes set out in the BBC Charter?”

Our response

A strong BBC with stable funding to deliver its core services should remain the cornerstone of the public service broadcasting system

- 5.1 The licence fee model provides the BBC with a certainty of income and flexibility to deliver across a range of broad public purposes.
- 5.2 The BBC’s current licence fee settlement runs until 2013. This funds the Corporation’s ability to invest in content and services across television, radio and online. This settlement gives the organisation a solid and certain financial basis to ensure it can continue to fulfil its public service role effectively in the digital age.
- 5.3 In its current Charter, the BBC’s remit is defined in terms of broad purposes rather than specific content requirements. It has the freedom to allocate resources differently between services as audiences’ needs change. It also has the ability to launch new services or change the characteristics of existing services to fulfil its remit, subject to approval by the BBC Trust.
- 5.4 Audiences place a high value on the BBC and the breadth of services it provides across television and other digital media. They also support the role it plays in serving the needs of different audience groups.
- 5.5 In the PSB Review, we concluded that the BBC should remain the main focus of public intervention to sustain the purposes of public service broadcasting. It should continue to be properly funded so that it can continue to develop and provide a portfolio of services in a fully digital world.
- 5.6 As we set out in the PSB Review, the unit cost of the licence fee is set to increase by 9% from £135.50 in 2006/07 to £148 per household in 2012/2013. In addition the number of households liable to pay the licence fee looks likely to grow by 5% or 1.4 million additional households. Additionally, the licence fee settlement expects the BBC to make 3% per annum of operating efficiency savings. So in total the BBC should have more resources in 2012/13 than in 2006/07.
- 5.7 Further, in a period of low inflation (including downward pressure on the costs of both acquired and commissioned content) the BBC settlement could potentially allow further resources to be available.

The creation of a contained contestable element need not compromise the independence of the BBC

- 5.8 The Government has presented the idea of a “contained contestable element” within the Television Licence Fee from the beginning of the next settlement period in 2013. It envisages that this would be broadly equivalent to the 3.5% currently ring-fenced for Digital TV Switchover⁴³.
- 5.9 The creation of a contained contestable element, or any form of public funding, should not compromise the independence of the BBC or its ability to deliver its core purposes effectively over a sustained period.
- 5.10 Security and reliability of funding are crucial for any public service broadcaster. An amendment to the BBC Agreement specifying the level of the contestable fund for the duration of the next licence fee settlement, and ensuring that this funding is only used to meet the purposes as set out in the Royal Charter, could potentially achieve this goal.
- 5.11 Such an arrangement must also give the BBC the certainty over its finances over the course of the settlement, protecting one of the key strengths of the current model, and leaving its ability to deliver against its core purposes unchanged.

Any use of the contained contestable fund should be directed towards priority areas and proven shortfalls in the delivery of public purposes

- 5.12 The purposes set out in the BBC Charter provide a clear and positive articulation of what viewers value about public service content and service. They are consistent with the purposes and characteristics of public service broadcasting set out by Ofcom during the PSB Review.
- 5.13 We believe any use of the contained contestable fund should be directed towards priority areas and proven shortfalls in the delivery of public purposes. Any such proposals need to be accompanied by the necessary mechanisms in place to ensure that the funds are not used without a clear case being made for intervention of real public benefit.
- 5.14 We note that the public purposes in the BBC Charter are subject to periodic review and may change with time. We would expect the potential uses of the contained contestable fund to evolve in tandem with any such changes to the public purposes.
- 5.15 Should the Government decide to proceed with its proposal to create a contained contestable element of the licence fee for regional news and other areas of public service content, there would clearly need to be more detailed consideration given to the appropriate model of governance and accountability for the use of this funding.
- 5.16 **In conclusion, a strong BBC with funding to deliver its core services across digital platforms should remain the heart of the public service system. Properly implemented and with appropriate safeguards in place, a contained contestable element of the licence fee need not place this objective at risk.**

⁴³ The Digital Britain report also proposed further uses - such as funding a broadband Universal Service Commitment - for the Television Licence Fee that has been ring-fenced to meet the cost of the Digital Switchover Help Scheme and Digital UK’s marketing and communications costs.