



Ofcom's Second Public Service Broadcasting Review

Phase One: The Digital Opportunity

Consultation

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Foreword

At least once every five years, Ofcom has a duty, set by Parliament, to conduct a review of public service broadcasting. The first such review started at the end of 2003 and finished early in 2005, since when the pace of change in the broadcasting and wider communications sectors has increased.

The result is that for the first time since their creation, some are questioning not only the scale and nature of the public service obligations carried by ITV and Five, but whether these organisations can or should play a central role in the public service framework for the future. Likewise, Channel 4's future is in question: what should be its contribution to public service? And how should that be funded?

Taken together, these developments call into question the viability of the longstanding principle of competition in the provision of public service broadcasting between the BBC and its commercially funded competitors. This argument about plurality flows through the pages which follow.

The argument is particularly intense when it comes to the most highly valued aspects of commercial public service provision, such as news and current affairs and children's programmes. Viewed from the perspective of Scotland, Wales, Northern Ireland and the English regions, these questions acquire a particularly intense focus.

It is against this background that we thought it right to bring forward our second statutory review of public service broadcasting. The purpose of the current review, like its predecessor, is to make recommendations as to how public service broadcasting can, as Parliament enjoins us, best be maintained and strengthened.

This is an obviously challenging mission, but there are in practice many ways in which it might be achieved. The same technological and market changes which have put established commercial public service broadcasters under such pressure have also delivered a world of digital content unprecedented in its scale, scope and promise. As funding for public service broadcasting has fallen back, new sources of funding have been found for new services, many of them on-line. So the circumstances we face in this review are full of challenges, but they are also rich in opportunity.

Clearly there is a need to understand the mechanics of how public service broadcasting is delivered, the institutions and funding models and the incentives and obligations on private companies. But the purposes of public service broadcasting are rooted in the interests of the citizen not the producer. This review is being conducted through the prism of audience needs. It is only against those needs, and public service purposes that the very big questions – is further intervention needed? If so, on what scale? Why does plurality and competition really matter in public service broadcasting? – can sensibly be answered.

In order to explore these audience issues in depth, we have undertaken extensive research. This work confirms that audience support for the accessible and effective delivery of the public purposes which underpin public service broadcasting remains strong. Audiences say they want plurality, even in genres, such as children's programming, where the BBC's provision has traditionally been extensive. When it comes to news, they are in no doubt about the virtues of competition.

But our analysis also reveals an increasing challenge to the reach and impact of public service programming as audiences fragment. This is creating serious pressure on the ability of commercial broadcasters to deliver certain genres and to sustain historic levels of investment in UK content. This matters, not for some industrial policy reason, but because audiences recognise that high levels of UK origination remain essential if the purposes of public service broadcasting are to be delivered.

These concerns, however, have to be balanced against the fact that market provision in the digital age has substantially extended viewer choice and, in some genres, resulted in content that recognisably meets public purposes. This is welcome. But, outside film and sports coverage, the overall level of market investment in original UK content has reached a plateau; and a plateau that remains only a fraction of the levels of origination audiences have come to expect from our public service broadcasters.

In linear television and radio, the evidence does not so far bear out the proposition that the market left to itself will deliver UK-originated, high quality public service programming on the scale UK audiences have come to expect.

In interactive media the picture may be different. Barriers to entry are low and users are spending increasing amounts of time online. The public service broadcasters, particularly the BBC and Channel 4, are using interactive media to meet public purposes for audiences and to sustain reach and impact. Meanwhile outside broadcasting, we are experiencing an extraordinary flowering of public purpose content in digital media from a variety of sources – public sector, community and voluntary organisations, individual and commercial, with a wide range of funding sources.

These developments have both validated the original insight behind the public service publisher concept for interactive media, and moved the debate on to a set of questions relevant to today and tomorrow. How best can interactive media enhance the value of existing public service output to enhance reach and impact? How can new forms of content be tapped to meet the audience's desire for strong UK public service media in the digital age? And how do we ensure that audiences can easily access these new services?

It is clear that the regulatory and funding model which supports today's public service broadcasting framework has had its day. It is too fixed in linear media and too inflexible. As a result it is unsustainable. Ofcom's task in the current review is to provide the analysis and the ideas which will allow government and Parliament ultimately to decide whether and how public service should be re-invented for the digital age.

The specific purpose of this Phase One report is to set out the facts, to describe Ofcom's research and to sketch out some possible options for discussion. Our analysis concludes with four possible public service models for the future. We would like to know your views on whether these models capture the range of what is potentially achievable. What do you think is the best approach? If you favour continued intervention, what is the best mechanism for funding it and how should that funding be supervised?

This is a debate of great significance for the UK. We are all rightly proud of the achievements of our broadcasting sector in the last century. This review aims to help us frame our ambition for broadcasting's second century. We want your views and look forward to receiving them.

David Currie
Chairman

Philip Graf
Deputy Chairman

Ed Richards
Chief Executive

Section 1

Executive Summary

Access to public service content has expanded dramatically, but the public service broadcasters continue to play a dominant role

- 1.1 In 2003, when the Communications Act came into force and we started our first review of public service television broadcasting, the world was very different. Digital television was for a minority. Freeview was only a year old. Domestic broadband was rare. Now Freeview is the leading television platform, 87% of homes watch digital services, and the majority of homes have broadband access.
- 1.2 In the first PSB Review, we defined public service broadcasting by its purposes and characteristics. Our research shows that audiences across the demographic spectrum continue to believe that those purposes and characteristics are vitally important. Television – and the public service channels in particular – are seen to have an essential role to play in delivering the purposes of public service broadcasting.
- 1.3 As we complete the first phase of our second statutory review, consumers and citizens are also turning to interactive media to fulfil many of the needs historically served by public service television broadcasting. The internet has emerged as a significant source of information, educational content and entertainment, particularly for younger audiences. Interactive technologies are beginning to play a key role in informing us and supporting participation in democratic processes. Other television channels play a role too, with significant numbers of viewers now seeing digital-only channels as their primary source of entertainment, sports and knowledge about other topics that interest them.
- 1.4 The growth of digital television and the internet has broken down geographic boundaries and allowed audiences to see much more of the world's best content. Digital channels offer acquired programming with high production values, often from the US. The internet creates a platform for new talent, and for niche providers and individual voices to reach an audience. Consumers and citizens today have a huge digital opportunity: greater access than any previous generation to information from around the world and about the topics that interest them.
- 1.5 Nevertheless, audiences attach high value to content that reflects the UK in all its facets, which they see as essential to maintaining our cultural identity and social cohesion. While international content has a role to play, UK origination is essential to delivering the four purposes of public service broadcasting – increasing our understanding of the world through news and analysis, stimulating knowledge and learning, reflecting UK cultural identity and making us aware of different cultures and alternative viewpoints. None of these purposes can be achieved without significant amounts of new UK content, reflecting the values, perspectives and lives of UK consumers and citizens.
- 1.6 In this respect, the public service television channels – the BBC's channels, Channel 3/ITV1, Channel 4, S4C and Five – continue to play the dominant role in delivering public service purposes. These channels account for over 90% of investment in new networked UK-originated television content, despite increases in some digital channels' investment in UK programming in recent years.

- 1.7 Beyond linear television, a wide range of commercial, civic and community providers deliver public service content online, including in areas where the economics of linear television are challenging, like the arts or local news. More seems likely to follow, as barriers to making content available online continue to fall. Research suggests central government alone spends around £70-90 million on public service content online, with local and devolved government estimated to spend a further £45-55 million.
- 1.8 But this expansion of choice can create new challenges as well as opportunities. Audiences report some difficulties with finding and accessing content that meets their needs, both on digital television and online. Not all audiences currently benefit from access to online services, whether by choice or by exclusion. Ensuring easy access to and 'discoverability' of public service content is likely to become increasingly important in a digital age.

Overall, the public service broadcasters are meeting public purposes, but gaps are appearing in some areas

- 1.9 Overall, audiences believe that the main public service channels are achieving the purposes of public service broadcasting. Provision of and investment in public service broadcasting has been broadly stable over the past four years. The amount of UK originated programmes in peak time has declined slightly since 2003, but some genres have seen increases, particularly factual programming. Most people still feel that the public service broadcasters (PSBs) deliver well-made, high quality programmes; satisfaction with delivery of news and information is particularly high. The BBC is particularly valued, and is seen by audiences as the cornerstone of public service broadcasting, demonstrating that publicly funded provision can ensure delivery of valued content, even in today's rapidly changing media environment.
- 1.10 However, there are some areas where audiences expect more than they currently receive from the main five channels, particularly programming from the UK's nations and regions and UK children's content. Provision in these areas is relatively secure from the BBC, but not from commercial broadcasters, as the value of the analogue spectrum which underpins much commercial public service programming declines as digital take-up continues. Audiences expect more from all the main broadcasters in terms of new and innovative programming.
- 1.11 More choice of channels for audiences means that achieving reach and impact for the public service television channels is inevitably more challenging. The share of the main five channels has fallen by 17% between 2003 and 2007, although they still account for almost two thirds of all television viewing. The decline is much greater amongst 16-24 year olds (who have grown up with the internet) and among people from ethnic minority groups (where the main five channels now represent a minority of viewing). Our research shows that often these audiences do not turn to the public service channels as their first choice for public service content; they turn to digital channels and increasingly the internet.

The pace of change is likely to intensify, with significant implications for achieving public service purposes

- 1.12 As audiences embrace digital media, new opportunities for public value are being created. Choice for consumers and citizens is likely to continue to expand as digital switchover completes and take-up of broadband services continues. Control through personal video recorders and access to video on the internet will become more widespread and faster, both at home and on the move. The next generation of

broadband could allow high definition video content on demand. Virgin Media has already announced up to 50Mb/s services in some areas and BT will provide up to 100Mb/s access in some new housing. A new wave of television equipment may become widely adopted, integrating broadband access and storage capability to bring together access to content on the internet and broadcast television on the same living room screen.

- 1.13 Large spectrum releases – especially the reuse of the analogue television spectrum – could enable new mobile television services, further digital terrestrial television channels and more wireless broadband. The reorganisation of the existing Freeview multiplexes will allow new services, including high definition channels, on digital terrestrial television as well as on cable and satellite.
- 1.14 In this rapidly changing environment, it is difficult to predict exactly how markets will evolve and what need for intervention in public service content will remain. Economic modelling commissioned by Ofcom suggests three main conclusions:
- i) Continued evolution in the way audiences consume media will present a range of new opportunities for delivering public service purposes. However, there is a broad range of plausible outcomes for audiences' future use of different kinds of media, and the level of take-up of innovative interactive and mobile services;
 - ii) Under a wide range of scenarios, the reach and impact of the designated public service linear channels is likely to continue to decline;
 - iii) As media fragment and competition intensifies, the level and mix of investment in UK-originated content is likely to decline, with particular pressure on innovative or risk-taking programming.
- 1.15 The BBC is likely to continue to make a strong contribution to the purposes of public service broadcasting, given its scale and the certainty of its finances to the end of digital switchover. For Channel 4 and the commercial public service channels, different scenarios suggest very different outcomes. In considering the prospects for their ability to meet their current public service goals, we need to distinguish three periods:
- Short-term: before the completion of digital switchover - from now to 2011
 - Medium-term: from the end of switchover to the end of current commercial broadcasting licences - from around 2011 to 2014
 - Long-term: past the end of current commercial broadcasting licences - beyond 2014.
- 1.16 In the short-term, the major challenges are the decline in the amount of UK children's programming for older children, and programming for the nations and regions. These issues are addressed in more detail below.
- 1.17 In the medium-term, a wider set of issues need to be resolved, which demand careful consideration now. Nations and regions services on ITV1 (including stv, UTV and Channel) may become increasingly unsustainable, even at a reduced level. By 2011, one or more of the ITV1 licensees may face a commercial decision to hand back their licences. However, Five's public service contribution looks secure throughout this period, although pressure on its investment in original UK content may grow.

- 1.18 For Channel 4, both the financial review conducted by LEK in 2006-07 and our further analysis for the current review suggest that it will need greater certainty in its funding model if it is to continue to make a robust and effective contribution to public service purposes. In the medium-term, its contribution to public service programming could come under significant pressure: in current affairs, international news, specialist factual programming (such as arts, science, religion and social documentary), original UK drama and scripted comedy, and innovative, risk-taking programming more generally. Its reserves may be sufficient to maintain its public service contribution in the short-term but it needs clarity about its longer-term funding position.
- 1.19 In the long term, a wider range of options is available at the point of renewal of the existing commercial broadcasting licences. It is legitimate to ask whether ITV1 and Five should have any specific ongoing institutional role in delivery of public service broadcasting; likewise Teletext and GMTV. If Channel 4's special role were to be maintained, it would need a new remit, a sustainable and proportionate funding model and accountability arrangements.
- 1.20 This analysis suggests that all the commercially funded PSBs will need clarity about their long-term roles by 2011 at the very latest, when for some the costs of their public service broadcasting commitments may outweigh the benefits and for all the potential end of their existing broadcasting licences will be only three years away. This will enable them to plan confidently for the future whether as public service institutions or as purely commercial businesses.

Audiences value competition for the BBC in provision of public service content, which will require new sources of funding in a digital age

- 1.21 Our vision for the future delivery of public service content is driven by the ongoing needs of the audience, as access to digital television becomes universal and take-up of new platforms continues to grow. It is for a system which:
- delivers high levels of new UK content meeting the purposes of public service broadcasting;
 - provides public service content which is innovative, original, challenging, engaging and of consistently high quality;
 - is available in a form, and on a range of platforms to achieve maximum reach and impact;
 - ensures competition for the BBC in each public purpose with sufficient scale to achieve reach and impact;
 - exploits the distinctive benefits of different delivery platforms; and
 - supplies diverse content which meets the needs of all communities within the UK.
- 1.22 Our analysis suggests that the current model will struggle to deliver this vision: to provide content reflecting UK values, perspectives and identities, and to ensure levels of diversity and innovation within the overall mix; to ensure delivery of particular genres; to deliver reach and impact of public service content; and to maintain incentives for the commercial broadcasters to remain part of the public service broadcasting ecology.

- 1.23 At the same time, new digital opportunities represent exciting prospects for the delivery of public service purposes. To exploit these opportunities, public service content providers will need to use a wide range of platforms, to meet different audiences' needs in more targeted ways. Three particular questions arise:
- Can the value of existing broadcast public service programming be enhanced by making current and archive content available on demand and in different forms through a variety of media?
 - What new forms of public service content are now possible – forms which take full advantage of interactive media's participatory and collaborative potential?
 - How do we capitalise on the wide range of providers – private, public, voluntary sector and individuals – who are already producing an unprecedented diversity of interactive content which in many respects meet public purposes and characteristics already?
- 1.24 The range of needs that public service broadcasting seeks to address is therefore expanding. But the resources available to public service institutions beyond the BBC to meet these needs are declining. Our analysis shows that total implicit funding for commercial public service broadcasting has declined by a quarter – around £130 million in real terms – since the Communications Act was passed in 2003. By 2012 it is projected to decline by nearly two thirds since 2003 – a total of over £300 million flowing out of commercial public service broadcasting. By this time, if nothing changes, the BBC will receive over 90% of all funding for public service broadcasting, up from a little over 80% in 2003.
- 1.25 Audiences believe that competition for the BBC in provision of public service content – often referred to as plurality – is critically important. Our analysis suggests that plurality continues to deliver benefits to audiences in three areas. First, it guarantees access to a range of voices and perspectives. Secondly, it enhances reach and impact of public service content, because different organisations reach certain audiences more effectively than others. And finally it acts as a competitive spur, helping to ensure public service broadcasting remains relevant and focused on meeting audience needs. In this sense, plurality is key to the continued success of the BBC as well as the commercially funded public service broadcasters
- 1.26 Plural provision is not equally valued in all genres. A majority consider it important in most areas, with news and current affairs the top priorities. Audiences suggest it is less important in religious programmes and for schools. Our latest research suggests people continue to be willing to pay more for existing public service broadcasting to ensure plural provision is maintained. We will carry out further research in phase 2 of this review to analyse audiences' attitudes to this critical issue in more depth.
- 1.27 The market will provide some more plurality to the BBC in the future. A wide range of commercial, voluntary sector and publicly funded organisations already make a growing contribution to provision of public service content across platforms. Investment by commercial digital channels in original UK content has increased somewhat in recent years. Additionally, in some genres – drama, comedy, some factual programmes – overseas programming has contributed substantially to competition for quality.
- 1.28 But investment in UK content by digital channels remains very limited compared to the public service broadcasters, and is concentrated in sport, entertainment and to a lesser extent news. Public service broadcasters still account for 90% of investment in

UK content. This is unlikely to change significantly, and in particular is unlikely to fill gaps in genres that are unsustainable on commercially funded public service channels.

- 1.29 Online public service content is growing in importance. But it does not currently constitute a substitute for public service broadcasting for two reasons. First, its reach and impact is limited by a number of factors: people on average still spend more time watching television than online, people's time online is spent doing many things, within which media is important but only one element, and such is the quantity and diversity of content online that people are less likely to discover public service content there than on television. Second, almost every household has television, whereas at present just over half have broadband, with older people in particular less likely to be online.
- 1.30 Given this analysis, and in light of our statutory duty to recommend ways to maintain and strengthen the quality of public service broadcasting, our preliminary view is that new funds should be found to succeed the declining implicit subsidy for commercial public service broadcasting and to maintain plurality in the delivery of public service content.
- 1.31 The overall level and distribution of funding for public service content are ultimately for government and Parliament to decide. These decisions depend on the extent to which the contribution of other providers is seen as a valuable and worthwhile addition to BBC services.
- 1.32 If plurality is to continue to play a central role, new sources of funding will be required for providers beyond the BBC. There is a wide range of possible funding sources, most of which are for government and Parliament to consider rather than Ofcom:
- i) **Direct public funding:** possible sources of funds include direct taxation; or hypothecated proceeds from spectrum auctions or spectrum charging;
 - ii) **The licence fee:** options include retaining the excess licence fee funding currently ring-fenced for the Digital Switchover Help Scheme and Digital UK's market costs, opening up core licence fee funding to other providers, or using BBC assets to support other providers; and
 - iii) **Regulatory assets:** these could include access to spectrum at below-market prices, revised advertising minutage rules, or public service broadcaster status for additional channels;
 - iv) **Industry funding:** a wide range of industry levies could be considered, similar to the proposals currently under consideration in France.
- 1.33 All these possibilities raise important issues which need careful and rigorous consideration. To inform that consideration, we will carry out a more detailed assessment of these options in phase 2 of this review. Any new funding arrangements would need to comply with principles of proportionality, transparency and accountability and ensure that the impact on market competition is limited to what is necessary to deliver public service purposes.

The existing model for public service broadcasting is not well equipped to respond to audiences' evolving requirements

- 1.34 Adapting to future opportunities and risks to ensure this vision is realised requires **flexibility**: to respond to changes in the way audiences access content and the kind of content they want; to direct funding in ways which address those changing needs; and to exploit the distinctive potential of new platforms to meet public purposes.
- 1.35 The BBC has this flexibility by virtue of its statutory framework. In its current Charter, its 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. And it has the ability to launch new services to fulfil its remit, subject to approval by the BBC Trust.
- 1.36 The current model for delivery of public service broadcasting beyond the BBC does not have similar flexibility. It is limited to a specific set of designated linear television channels. Those channels have detailed content requirements set out in legislation, but in some genres – arts, religion, children's programmes, drama – ultimately individual broadcasters can decide how much they provide. As the implicit funding model for commercial public service programming becomes increasingly unsustainable, it is highly likely that provision will reduce further. But there is no mechanism to fund delivery of public service content by other providers, even if they have stronger incentives or greater ability to do so.
- 1.37 Consequently, the existing model for public service broadcasting beyond the BBC is capable neither of exploiting the new opportunities that are emerging on interactive platforms, nor of addressing the risks to linear public service broadcasting that lie ahead.
- 1.38 Some elements of the current model remain attractive and relevant for the future:
- Well-funded institutions whose incentives are aligned with public purposes and support innovation and risk-taking, especially for purposes that are less easy to specify precisely, such as strengthening cultural identity and making us aware of alternative viewpoints;
 - Wide availability of and easy access to most public service content giving a large majority of citizens the chance to enjoy it, with some interventions on less widely available platforms to drive take-up and to reach particular audiences; and
 - Plural provision across all public purposes in major programme areas, to offer choice, stimulate competition for quality, and enhance reach and impact.
- 1.39 Within this overall framework, a large number of alternative models could be devised. Any new model should meet a number of tests to ensure that it can effectively and efficiently deliver the vision for public service content:
- Are providers incentivised to deliver public service content that achieves reach and impact?
 - Does competition between providers deliver the benefits of plurality?
 - Is the model sufficiently flexible to respond to audience and market changes?

- Do providers have clear remits, independence, transparent accountability arrangements and incentives aligned to public purposes?
 - Does the model complement, not discourage, market provision?
 - Does it embrace the platforms, content forms and services that most effectively meet audience needs?
 - Are providers' funding models sustainable?
- 1.40 On the assumption that an appropriately funded, independent BBC will continue to be the cornerstone of UK public service broadcasting, two questions stand out:
- i) Should some or all of the existing commercially funded public service broadcasters retain special roles in delivery of public purposes in future?
 - ii) Should further funding be available for provision beyond the BBC?
- 1.41 Based on these two questions, we have developed four possible illustrative models, which we will evaluate in more detail in phase 2 of our review. In each model we would expect the market to provide some public service content:
- **Model 1 - Evolution:** the current commercial public service broadcasters (PSBs) retain a designated public service role. Either their public service responsibilities are reduced in line with the declining value of their gifted spectrum, or additional support is provided to retain or expand those responsibilities which remain high public priorities but which can no longer be supported through the value of existing gifted spectrum;
 - **Model 2 - BBC only:** the commercial PSBs do not retain special designated roles and no additional public funding is provided for public service broadcasting beyond the BBC. The BBC becomes the sole UK-wide intervention in public service content, and may need to take on additional roles to meet needs not served by the market. Limited plurality is provided only to the extent possible through content supplied by fully commercial broadcasters;
 - **Model 3 - BBC/C4 plus limited competitive funding:** Channel 4 retains a designated public service role to provide plurality with the BBC but other commercial PSBs lose their public service obligations and benefits. Channel 4's remit is extended across platforms and into new programming areas, supported by new funding. Any remaining public purposes not served by the BBC and Channel 4 – potentially for example non-BBC programming for the nations and regions – could be delivered through long-term but transferable funding agreements with other providers, awarded competitively through a funding agency; and
 - **Model 4 - Broad competitive funding:** the commercial PSBs do not retain special institutional roles. Instead additional funding is made available by government for public service content beyond the BBC. Long-term but transferable contracts for meeting specific public service purposes would be awarded competitively through a funding agency. Those contracts would be open to bids from a wide range of organisations, including the existing PSBs. The BBC would have a core role in areas where the market is unlikely to deliver but where a competitive process would be difficult to specify.

- 1.42 Delivering a new model will need new legislation, and is a decision for government and Parliament. But given our analysis of emerging opportunities and risks to public service broadcasting, our recommendation is that any new legislation should ideally be in place by 2011, the point at which some current licences may fall into deficit and Channel 4 will face increasing pressure on delivery of its remit. This is also well before the initial expiry date of the current commercial public service broadcasters' licences at the end of 2014.

New approaches will be needed to meet the needs of the UK's nations, regions and localities

- 1.43 In the long-term the issues facing national, regional and local provision are very similar to those for the rest of public service broadcasting, and the long-term choices represented by the four models described in the previous section are the same here as in other genres. But in the short to medium term there are a number of testing issues which need to be addressed. And the broadcasting landscape and the political needs differ between the UK's nations, so each needs a tailored solution.
- 1.44 Radio and newspapers continue to contribute strongly to national, regional and local provision. New opportunities for delivery, such as local online services and digital local TV are emerging. However they are not ubiquitous and are not currently seen by the core regional television audience as a substitute for existing services.
- 1.45 In England it is clear that viewers place the most value in regional programming on regional news and information. However, the cost of producing multiple different editions for a single time slot makes regional news the highest public service cost of the ITV1 licences. ITV plc also believes there is a high opportunity cost which is the difference in profitability between regional news programming and a single network programme in the same slot. Last year it proposed to Ofcom that from 2009 there should be a new structure for regional news in England and the Scottish Borders which would merge some regions effectively to reduce the number of regions by two. It also wished to phase out the news programmes produced in what are known as 'sub-regions'.
- 1.46 After consultations with Ofcom, viewer groups, MPs and other stakeholders ITV plc has now put forward an alternative structure which while still effectively reducing the number of regions would provide most of them with peak-time sub-regional or local 'opt-outs' – news summaries targeted at specific areas which are included within regional news programmes.
- 1.47 We have launched an extensive research and evaluation programme to assess these proposals, and welcome your initial views prior to a detailed consultation in the autumn. We could respond in a number of ways, for example by:
- refusing any change to current licences;
 - allowing ITV plc to reduce its costs by a version of its re-structuring plan;
 - considering other options for the sustainability of regional news.
- 1.48 In the devolved nations, there are important differences in audiences' needs. In Wales the key issue is sustaining democratic plurality, given the increasingly devolved nature of Welsh government. This issue is amplified by the relative absence of competition at national press level, compared with Scotland and Northern Ireland. As a result, the place of the Channel 4/ITV1 service in news and current affairs is

crucial in providing an alternative to the BBC. Welsh language broadcasting is particularly important given the large number of Welsh speakers though S4C's funding makes this appear relatively secure.

- 1.49 In Northern Ireland, UTV appears financially robust through to switchover and plurality is further supported by healthy press and radio sectors and, uniquely in the UK, the widespread availability of media from the Republic of Ireland, which to a greater or lesser extent cover Northern Ireland events. The outstanding questions remain obtaining secure and widespread distribution in Northern Ireland for the Gaelic service TG4 and also for RTÉ, and funding for indigenous language production.
- 1.50 In Scotland, the costs of the public service obligations on the ITV licensees are likely to exceed the benefits of public service broadcaster status from around 2010. Even if the other licence requirements were removed, the cost of news alone would exceed the benefits of public service broadcaster status. Yet given the devolved nature of government in Scotland, plurality of television news and current affairs is essential. So new solutions may well need to be found before the licences expire in 2014. The ITV licence boundaries, unlike the BBC's, do not match the national border, raising issues for provision of public service content for the Border regions of Scotland. Gaelic services are now increasing, supported by direct intervention from the Scottish government.
- 1.51 An important issue, in each of the nations and the English regions, is the extent of commissions won and produced locally for network programming. The public service broadcasters are responsible for meeting quotas set by Ofcom (or in the case of the BBC, agreed by Ofcom and the BBC Trust) for production outside London. But quotas do not, of themselves, secure a dispersal of production around different parts of the UK; nor do they necessarily secure portrayal of the different parts of the UK on screen. The latter is an important objective for viewers away from London, and especially in the nations; on ITV1, for example, such portrayal is quite heavily concentrated in soaps and other dramas, and less so in other types of programmes.
- 1.52 Possible approaches to ensuring these goals are achieved include:
- a focus on out-of-England as well as out-of-London production targets for the BBC and Channel 4, publicly owned institutions whose public purposes are aligned to objectives such as this – both in terms of production and of portrayal. In the BBC's case, this is an issue for the BBC Trust to consider as well as Ofcom;
 - revised quotas for ITV1 production outside London, although this would have to be weighed as a priority against needs to protect nations and regions news;
 - in both cases combined with positive efforts from the broadcasters, development agencies and local Screen Agencies to develop the national and local production sector;
- 1.53 In the long run, delivering a satisfactorily broad portrayal of regional and national features throughout the schedule is likely to be dependent on the existence of sustainable production businesses in the nations, and devolved commissioning. We will consider whether this requires further action by Ofcom or other public bodies in phase 2 of the review.

The BBC, Channel 4 and S4C could play a role in enhancing provision for children

- 1.54 There is no evidence that the market will fill the gaps in children's content provision left by falling investment by the commercial PSBs. No commercial digital channel has established a business case for significant investment in high quality UK programming for older children, and our modelling suggests that such a case is unlikely to emerge. We estimate that annual funding for UK children's programming among the five main PSBs has declined by around £51 million since 2003.
- 1.55 Each of the four long-term models presents an alternative long term framework for delivering public service content for children. The BBC could take on an enhanced role. Channel 4 has suggested it could take on a new role, especially in providing content for older children. Five or ITV may also play a role. Alternatively, any or all of these providers could provide a core children's service with additional provision secured through competitive funding arrangements.
- 1.56 There remain, however, a number of outstanding immediate issues for provision of public service content for children.
- 1.57 In our discussion paper on children's programming, published in October 2007, we identified several proposals made by stakeholders to address these issues in the short term. Most of these are for government to consider. Tax incentives are one possible option, although evidence regarding their effectiveness is unclear.
- 1.58 ITV1 and Five continue to make a contribution to children's programming. But given the limits to Ofcom's powers to insist on any given level of children's output by commercial public service broadcasters, we believe three additional approaches could be considered. These are:
- Developing the BBC's role in delivering children's content: establishing greater certainty over future investment from the BBC, extending the availability of BBC output for older children beyond 7pm, and extending provision to teenagers. These are issues for the BBC Trust to consider, taking into account the range of competing demands for BBC resources;
 - Extending Channel 4's remit to include older children and teenagers. Channel 4 has already announced plans for a substantial investment in content for older children, which will make a significant if partial contribution to the likely deficit in this area. It has indicated a willingness to continue and extend this commitment in future but has said this would require additional ongoing funding support;
 - Exploring the role S4C could play in delivering content to all UK children, for example by strengthening incentives for independent producers to reversion content for a UK (and possibly international) audience.

Phase 2 of this review will involve further work on potential long-term models and the short-term issues identified in this report

- 1.59 We are consulting now on the analysis set out in this report, our vision for the future of public service content and initial options for achieving it. We welcome your views.
- 1.60 Based on the response to this consultation, and further analysis to be carried out in phase 2 of this review, we intend to publish a further consultation in the autumn including:

- Detailed evaluation of the four possible long-term models for public service content;
- Specific proposals on the short- and medium-term issues identified in this report, particularly with regard to services for the nations and regions, funding for Channel 4, the future roles of the commercial PSBs, options for children's programming, promoting innovation in content and the potential future need for intervention in interactive media.

Consultation Questions

Section 3. How well are the public service broadcasters delivering public purposes?

- i) Do you agree with Ofcom's assessment that television continues to have an essential role in delivering the purposes of public service broadcasting?
- ii) Do you agree that UK-originated output is fundamental to the delivery of public service broadcasting purposes?

Section 4. The changing market environment

- i) Do you agree with Ofcom's conclusions about the way that other digital channels and interactive media contribute towards the public purposes?

Section 5. Prospects for the future delivery of public service content

- i) Do you agree with Ofcom's assessment of the implications of different economic scenarios for the UK TV market for the future prospects for delivery of the public purposes?
- ii) Do you agree with Ofcom's analysis of the costs and benefits of PSB status?

Section 6. Meeting audience needs in a digital age

- i) Do you agree with Ofcom's vision for public service content?
- ii) How important are plurality and competition for quality in delivering the purposes of public service broadcasting, and in what areas?
- iii) In maximising reach and impact of public service content in the future, what roles can different platforms and services play?
- iv) Do you agree that the existing model for delivering public service broadcasting will not be sufficient to meet changing needs in future?

Section 7. Future models for funding and providing public service content

- i) What are your views of the high-level options for funding public service broadcasting in future?
- ii) Are the proposed tests of effectiveness for future models for public service broadcasting the right ones?
- iii) Of the four possible models for long term delivery of public service content, which, if any, do you consider the most appropriate and why? Are there any alternative models, or combination of models that could be more appropriate, and why?

Section 8. Options for the commercial PSBs

- i) What do you think is the appropriate public service role for Channel 4 in the short, medium and long term? What do you think of Channel 4's proposed vision?
- ii) Which of the options set out for the commercial PSBs do you favour?

Section 9. Scenarios for the UK's nations, regions and localities

- i) To what extent do you agree with Ofcom's assessment of the likely future long term issues as they apply to the nations, regions and localities of the UK?
- ii) Which model(s) do you think will be most appropriate in each of the nations and in the English regions in the long term, and why?
- iii) What are your views on short/medium-term issues referred to, including the out-of-London network production quotas?
- iv) What are your initial views on the preliminary options set out relating to ITV plc's regional news proposal? (Please note that Ofcom will put forward firm options on these issues, and consult also on ITV plc's regional news proposal, in phase 2 of this Review.)

Section 10. Prospects for children's programming

- i) Do you agree with our assessment of the possible short term options available relating to children's programming; are there any other options available?

Section 11. Timetable for implementing a new model

- i) Do you agree that new legislation will need to be in place by 2011 in order to ensure continued delivery of the public purposes in the medium and long term?

Section 2

The aim of the first phase of this review

Introduction

2.1 In this section, we establish the context for this review by explaining our statutory requirements and aims. We set out the legislative background to the review, recap the findings of Ofcom's first *Review of Public Service Broadcasting* in 2003 – 2005 ('the first review'), assess some of the changes which have taken place in the broadcasting environment since the first review, and set out the questions that we need to consider of phase 1 of this current review. We go on to explain the next steps that we will take in the further phases of this review.

The Act specifies the roles of Ofcom and the PSBs

2.2 The Act requires BBC channels and the main terrestrial TV services – Channel 3, Channel 4, S4C, Five and Teletext - to deliver programmes and services which cover a wide range of subject matter and which meet the needs and interests of many different audiences. Among other aims, they are expected to meet high standards, to educate, to inform, to entertain, and to reflect and support cultural activity in the UK. They should reflect the lives and concerns of different communities in the UK, and include an appropriate proportion of content made outside the M25 area.

2.3 The Act calls upon Ofcom to conduct a review of public service broadcasting at least once every five years. Ofcom is required:

- i) to report on the extent to which the public service broadcasters (PSBs) have delivered the purposes of public service television broadcasting; and
- ii) to make recommendations with a view to maintaining and strengthening the quality of public service broadcasting in the future.

2.4 In making its recommendations Ofcom is required to consider the costs of provision and the sources of income available to the broadcasters to meet those costs.

2.5 The aim of the first phase of our work is to assess the current delivery of public purposes by the PSBs and other providers, set out a broad analysis of the future development of public service broadcasting and to stimulate a broad debate on the major choices the UK faces in maintaining and strengthening PSB.

Ofcom's first *Review of Public Service Broadcasting (2003 - 2005)* reached six core conclusions

2.6 Ofcom conducted its first review between 2003 and February 2005¹. This review reached six overarching conclusions:

- i) there was continued demand by consumers and citizens for public service broadcasting, although the ways in which they accessed and consumed programmes might change;

¹ http://www.ofcom.org.uk/tv/psb_review/

- ii) the BBC should remain the cornerstone of public service broadcasting, but should not be the only provider; public support for the level of public service broadcasting funding and for its provision across providers was high;
- iii) the reach of public service broadcasting must be maintained if it is to have sufficient impact;
- iv) The objectives of public service broadcasting can be encapsulated in a set of purposes;
- v) public service broadcasting should also share a set of characteristics; and
- vi) the old commercial model is not sustainable, plurality of provision will diminish as audiences fragment across an expanding range of services, the value of gifted spectrum diminishes; and some public service genres come under threat.

The review concluded that a new model of public service broadcast delivery will be required, with new funding models and potentially new institutions.

- 2.7 Television broadcasting has an important social and cultural role to play. It has historically been perceived as ‘special’ and as having a particular role in shaping, reflecting and contributing to society. In the first review we set out four purposes of public service broadcasting and six characteristics.
- 2.8 The purposes and characteristics reflect the statutory definition of PSB laid out in the Act. The purposes recognise and encapsulate the role that public service broadcasting plays in people’s lives and the characteristics describe how the purposes need to be delivered in order to achieve sufficient reach and impact.

Public service broadcasting: purposes

Informing our understanding of the world - To inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas

Stimulating knowledge and learning - To stimulate our interest in and knowledge of arts, science, history and other topics, through content that is accessible and can encourage informal learning

Reflecting UK cultural identity - To reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences

Representing diversity and alternative viewpoints - To make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere

Public service broadcasting: characteristics

High quality - well-funded and well-produced

Original - new UK content rather than repeats or acquisitions

Innovative - breaking new ideas or re-inventing exciting approaches, rather than copying old ones

Challenging - making viewers think

Engaging - remaining accessible and attractive to viewers

Widely available - if content is publicly funded, a large majority of citizens need to be given the chance to watch it

- 2.9 The first review set out clear roles for each of the existing public service providers in the lead-up to digital switchover. It stated that:
- A properly-funded BBC should remain the cornerstone of the UK's public service broadcasting system. This should continue to be provided for by a TV licence fee model. While an effective, strong and independent BBC was seen to be essential to the health of public service broadcasting in the UK, the review found that people do not want the BBC to have a near-monopoly of the provision of public service TV broadcasting.
 - ITV1's contribution to public service purposes had historically been characterised by the provision of a wealth of original UK programming, particularly in drama, entertainment, factual programming and programming for children, as well as by its commitment to news, regional news and production outside London. The first review stated that, in the future, ITV1 should maintain programming quotas or indicative targets for original UK production, news, current affairs, nations and regional news and peak-time regional programming. However, it was accepted that there needed to be room for more flexibility in the way that ITV1 met the purposes of public service broadcasting in other genres.
 - The review was clear that Channel 4 should remain a vital force in the provision of public service broadcasting, particularly as a provider of innovative content for its target audience group. However the review recognised that in the longer term, particularly after digital switchover, Channel 4 could face increasing tension between its ability to maintain advertising revenues in the face of increasing competition and audience fragmentation, and delivering its public service broadcasting remit in full.
 - Five's main contribution to public service broadcasting was seen to be its commitment to original UK production and to news. The review stated that in the lead-up to switchover, the channel was expected to invest more in original production. However, there might be an argument for a more flexible approach to Five's other public service broadcasting obligations.
 - Prior to digital switchover Teletext should be given greater scope and flexibility in meeting its public service obligations.
 - The review set out the concept of a public service broadcasting institution - a Public Service Publisher (PSP). The new PSP concept was devised to ensure the maintenance of plurality in the system and to maintain the level of PSB, as well as taking advantage of the opportunities offered by interactive media. The review did not make specific proposals for what type of institution the PSP would be, or what sort of content it might commission.

The broadcasting environment has changed substantially since the first review

- 2.10 Ofcom's first review recognised that the UK television environment was facing a period of rapid change. Since the review, the broadcasting market has evolved and, in some areas, change has occurred even more quickly than anticipated. The changing UK television environment is analysed in depth in Section 4. However, Figure 1 shows some of the main developments in the market since 2003.

Figure 1 Changes in the broadcasting environment since 2003

Early 2003	Early 2008
Freeview less than a year old. Connected to 1.5 million main television sets in Q1 2003	Freeview connected to 9.3 million main television sets.
Digital TV penetration 50%	Digital TV penetration over 87%
Switchover dates not confirmed	Switchover began in October 2007
Digital video recorders in 2% of homes	Digital video recorders in 19% of homes
Limited online video on-demand services available	800 million video streams or downloads initiated by UK households in 2007
Google earned £77 million in UK advertising revenues in 2002; Granada and Carlton combined earned £1.5 billion	Google's UK advertising revenues in 2007 (£1.3 billion) outstripped ITV plc's Net Advertising Revenue (NAR) from its ITV1 licences (£1.2 billion)

Source: Ofcom

- 2.11 One other major change since the first review is the creation of the BBC Trust and new processes for ensuring the BBC delivers its public purposes. The new Charter for the BBC, covering the period 2007-2016, set out six public purposes for the BBC. The BBC Trust is responsible for approving service licences specifying how each service helps deliver those purposes and carrying out Public Value Tests before new services can be launched, or significant changes to existing services introduced.
- 2.12 Since the first review, Ofcom has carried out further work on a number of public service broadcasting-related issues. These include:
- *Digital PSB (2006)* - an overview of the issues facing public service broadcasting after digital switchover.
 - *A New Approach to Public Service Content in the Digital Media Age (2007)*: a discussion document highlighting the major changes in the market and the potential for new intervention in online markets to support the purposes and characteristics of public service broadcasting.
 - *The Channel 4 Financial Review (2007)* - an assessment of Channel 4's ongoing financial viability and its continued remit in the lead-up to digital switchover
 - *New News, Future News (2007)*. A review of news provision and prospects for the future.
 - *The Future of Children's Television Programming (2007)* - an assessment of the extent to which the PSB purposes and characteristics are being delivered in children's programming
 - In 2007, Ofcom also published its first *PSB Annual Report*, summarising the performance of the public service broadcasters against the purposes and characteristics.
- 2.13 Each of these reviews has identified the growing number of issues facing public service television broadcasting in the lead-up to digital switchover.

There have been parallel developments in radio

- 2.14 The *Future of Radio* consultation, published in April 2007,² reiterated Ofcom's view of the public purposes of radio and outlined our strategic framework for the future regulation of radio.
- 2.15 Ofcom's view is that intervention in the radio market is required to ensure the provision of a number of public purposes for the radio sector as a whole, comprising BBC, commercial and community:
- sustaining citizenship and civil society;
 - promoting education and learning;
 - stimulating creativity and cultural excellence;
 - representing the UK, its nations, regions and communities;
 - bringing the UK to the world and the world to the UK; and
 - promoting social gain.
- 2.16 Based on the public purposes set out above, Ofcom also recognised the need to encourage the development of a thriving community radio sector as part of a wider approach to securing the interests of citizens. The community radio sector takes the lead in 'promoting social gain' but also supports the provision of some of the other public purposes.

We decided to bring forward this review to help address emerging pressures on public service broadcasting

- 2.17 In the light of the changes in the broadcasting environment and the pressures on the delivery, reach and impact of public service broadcasting, we decided to bring forward our second public service broadcasting review from its latest possible statutory reporting date of 2010. In bringing the review forward, we intend to re-examine and assess the key conclusions that we drew in the first review. The specific objectives of this review were published in a Terms of Reference in September 2007. They are:
- to evaluate how effectively the public service broadcasters are delivering the purposes and characteristics of PSB, particularly in the light of changes in the way TV content is distributed and consumed;
 - to assess the case for continued intervention in the delivery of television content to secure public service purposes;
 - to consider whether, and how, the growth of new ways of delivering content to consumers and citizens might create new opportunities for achieving the goals of public service broadcasting, as well as posing new challenges; and
 - to assess future options for funding, delivering and regulating public service broadcasting, in light of these challenges and opportunities, and uncertainty about the sustainability of existing funding models.

² <http://www.ofcom.org.uk/consult/condocs/futureradio/>

- 2.18 Ofcom's second public service broadcasting review, like its predecessor, focuses on television as is required by the Act. However, we have widened the scope of our investigations to include the range of online and interactive media which increasingly provide audiovisual content alongside traditional television broadcasting. Our evidence suggests that interactive media play a growing role in delivering public purposes, and any assessment of the future need for publicly funded intervention in broadcasting for public purposes must take account of this contribution.
- 2.19 In the first PSB review, we considered the rationale for intervention in public service broadcasting and identified a number of reasons why a completely unregulated market may lead to market failures. Public service broadcasting has traditionally been the solution to these failures. Changing technology and the emergence of online media may eliminate some of these reasons for intervention, but some may remain and, indeed, new ones may emerge. Annex 11 discusses how market failures in broadcasting have changed since the first review, and the extent to which these and other market failures may relate to online content.
- 2.20 Radio is also an important part of public service broadcasting and where appropriate, we have looked at radio in order to inform this review. Separate extensive work is ongoing in this area. Further work on digital radio is also being carried out by the DCMS's Digital Radio Working Group.
- 2.21 Some of the core questions that we need to address in phase 1 of this review are:
- How well are the public service broadcasters delivering public purposes? To what extent are other providers contributing?
 - Do the purposes of public service broadcasting remain important to all audiences from different ethnic, socio-economic and age groups?
 - What effect is audience fragmentation having on the reach and impact of the public service broadcasters?
 - What new opportunities are there to maintain or improve the impact of public service broadcasting?
 - What are the costs and benefits of public service broadcasting? Is the value of analogue spectrum still falling? Has the value of digital terrestrial spectrum to the commercial public service broadcasters become more significant since 2004?
 - Is the plurality of public service provision still important and is it of equal importance for all genres?
 - As pressures increase on the existing public service broadcasting model, is a new model required and, if so, what should it look like?
 - What roles should the existing public service broadcasters play in future?
- 2.22 The remaining sections of this report aim to explore these questions.

A number of annexes to this report are available online

- 2.23 Annexes 1-4 follow the main report, containing guidance on how to respond to this consultation, Ofcom's consultation principles, a consultation response cover sheet and a glossary.
- 2.24 Alongside this document, we have published a further series of annexes online:
- Annex 5: The future of public service broadcasting: the audience perspective. Ipsos MORI's summary report on primary audience research carried out for this report;
 - Annex 6: Summary of audience and output research findings. An integrated summary by Ofcom of broadcaster output data, BARB analysis and audience research;
 - Annex 7: Future scenarios for public service broadcasting and content. A summary by Ofcom of economic modelling by Oliver & Ohlbaum;
 - Annex 8: Review of the availability of public service content online. MTM London assessment of the availability of online content that meets public service purposes and characteristics;
 - Annex 9: Estimating the value of public service content online. MTM London's review of annual expenditure on online public service content;
 - Annex 10: Children's television programming statement. Ofcom's statement on responses to our report on the future of children's television programming; and
 - Annex 11: The relevance of market failure in the Review. Ofcom's summary of market failures in provision of broadcast and online content as they relate to the Review.
- 2.25 These annexes are available online at:
<http://www.ofcom.org.uk/consult/condocs/psb2/annexes>.

In Phase 2 we will carry out further assessment of key issues

- 2.26 We are consulting now on the analysis set out in this report, our vision for the future of public service content and initial options for achieving it. We welcome your views.
- 2.27 Based on the response to this consultation, and further analysis to be carried out in phase 2 of this review, we intend to publish a further consultation in the autumn including:
- Detailed evaluation of the four possible long term models for public service content;
 - Specific proposals on the short and medium term issues identified in this report, particularly with regard to services for the nations and regions, funding for Channel 4, the future roles of the commercial PSBs, options for children's programming, promoting innovation in content and the potential future need for intervention in interactive media.

2.28 The terms of reference for the Review set out our intended timetable for the Review. It remains our intention to conduct this Review in two phases with accompanying consultations. We will then publish a final statement. The current timetable is:

- Phase 1: Consultation document: The digital opportunity - 10 April 2008
- Phase 1: Consultation closes 19 June 2008
- Phase 2: Consultation document setting out further detail on policy options, our evaluation of the options and recommendations on specific issues (early autumn 2008); and
- Final Statement: Summary of consultation responses and final recommendations and decisions (early 2009).

Section 3

How well are the public service broadcasters delivering public purposes?

Introduction

- 3.1 In the last section we explained the statutory context for this review and its aims. This section assesses how well the public service broadcasters are delivering the public purposes, as we are required to do under the Act. It uses a framework which takes account of output hours and investment, viewing figures and audience impact to do this.
- 3.2 We explain that television has an essential role to play in delivering the purposes, with the internet emerging as an important platform for some media needs and some audiences. In addition, we consider audiences' attitudes to a number of issues which are central to delivery of the public purposes: the role of UK content, plurality of provision and the importance of different programmes areas to viewers. Overall, the evidence suggests that PSB as a whole remains highly valued by viewers and that the public service broadcasters continue to deliver the PSB purposes in most areas.
- 3.3 However, there are some areas where audiences are less satisfied with current delivery.

Ofcom's framework for assessing delivery of public purposes measures output, reach and impact

- 3.4 Ofcom's public service broadcasting performance assessment examines the individual and collective delivery of purposes and characteristics. It takes account of three factors:
- **output hours and investment** - the public service broadcasters' provision of content that supports public purposes and characteristics;
 - **viewing figures** - the extent to which the public service broadcasters are able to reach out to a substantial proportion of the UK population with public service programming; and
 - **audience impact** - the appreciation levels that the public have for public service broadcasters, particularly in relation to how effectively they believe that they have delivered the PSB purposes and characteristics that they regard as most important;
- 3.5 A variety of data sources have been used to undertake our assessment of current delivery.
- 3.6 The **audience impact** of public service broadcasting has been measured using Ofcom's PSB Tracker, a quarterly tracking study, along with quantitative and deliberative research commissioned specifically for this review ('the PSB Review survey'). Results from the PSB Tracker are available online in the PSB Annual Report 2008. For more details on the findings from quantitative and deliberative research, please see Annex 5 of this report.

- 3.7 **Output hours of and investment** in public service broadcasting content have been assessed using the operator data that PSBs routinely supply to Ofcom. Non-public-service-broadcaster licensees' data have also been analysed to understand the contribution that they make to the public service broadcaster purposes and characteristics.
- 3.8 BARB³ data have been used to assess **viewing** of content broadcast by the public service broadcasters.
- 3.9 As Annex 6 to this report Ofcom is publishing an integrated research pack, which provides key data on audience attitudes, output of and investment in public service broadcasting, and viewing figures, all of which have formed a key part of the evidence base for this consultation document.

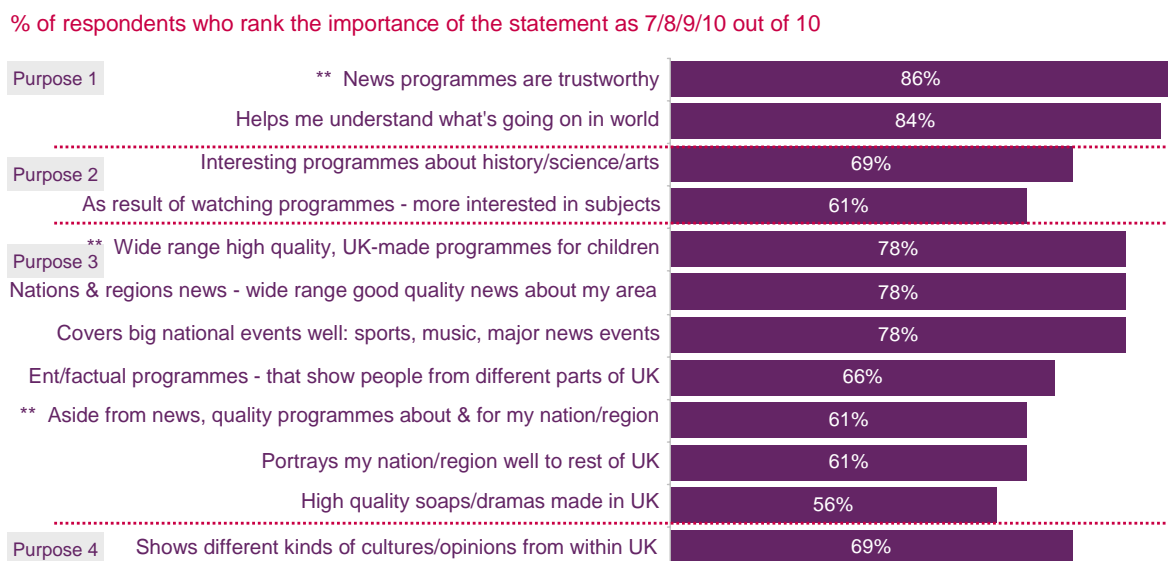
Public service broadcasting still matters to audiences

- 3.10 Ofcom's research into public attitudes demonstrates that audiences continue to regard the purposes and characteristics of public service broadcasting as important.
- 3.11 The PSB Tracker asks viewers to rate channels according to a range of statements that encapsulate the purposes and characteristics. Figure 2 shows that statements relating to informing us emerged as the most important of all. "Its news programmes are trustworthy" and "Helps me understand what's going on in the world" were the statements rated as most important by audiences. Statements relating to supporting cultural identity and reflecting the UK's diversity (specifically with respect to children's programmes, regional news and national events) were also ranked highly. Statements relating to building knowledge and learning and reflecting different cultures and opinions were deemed important by a majority.
- 3.12 Irrespective of socio-economic group and ethnicity there was broad consensus among people as to the importance of each purpose and characteristic.
- 3.13 The majority of younger people, aged 16-24, also agreed that each of PSB purposes and characteristics were important, with trustworthy news and engaging content being highest in importance. They were less likely than older people to rate some elements of public service broadcasting as important, for example "showing interesting programmes about history, science and arts" and "showing new UK originations". There were some differences among older people; most notably, the importance of "showing interesting programmes about history, science or arts", and statements national and regional identities including "portraying my region well to the rest of the UK" and "providing a range of good quality programmes about my region/nation" increase in importance with age.
- 3.14 The majority of people from ethnic minority groups thought that each of the purposes and characteristics statements was important. They were more likely to think that "programmes showing different kinds of cultures and opinions from within the UK" was important, as well as those "reflecting the interests and concerns of people like me". There were some differences by socio-economic group. People from DE groups were more likely to think that non-news regional programmes were important compared to people from AB groups, as well as portrayal of their region/nation to the rest of the UK, and the provision of UK-made dramas and soaps and making the viewer more interested in subjects. For most other elements ABs tended to rate the

³ BARB (Broadcasters' Audience Research Board) is the organisation responsible for providing the official measurement of UK television audiences used throughout the television industry.

statements the same or higher than DEs; that said, a majority of people from DE groups thought each element was important.

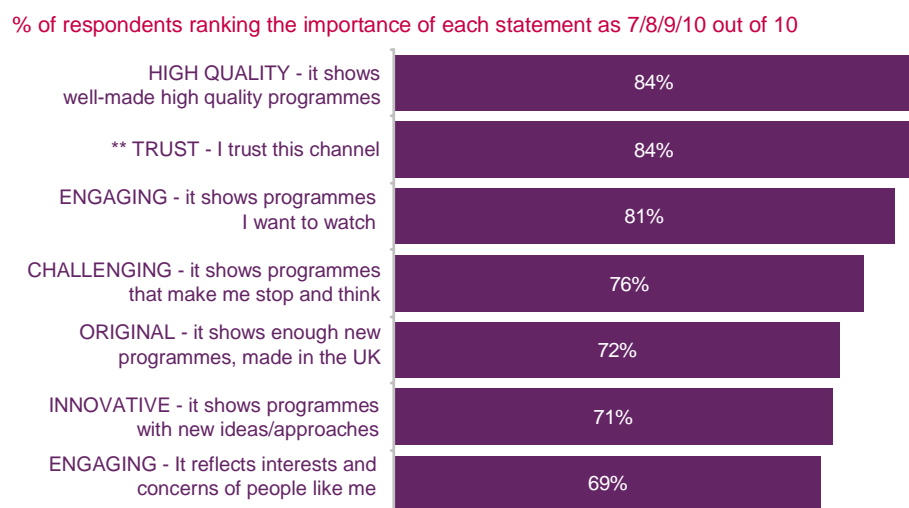
Figure 2 The public’s attitude towards public service broadcasting purposes



Source: PSB Tracker, 5,357 UK adults aged 16+. Amalgamated data January 07, April 07, July 07, October 07. Statements about children’s programmes only asked of parents/carers of children in household. ** “Trust”, “Children’s” and “Aside from news...” began to be asked from July 07.

3.15 Among the characteristics of public service output, people rated “High quality” and “Trust” as most important, although, as Figure 3 shows, all characteristics were rated as important by most respondents.

Figure 3 The public’s attitude towards public service broadcasting characteristics



Source: PSB Tracker, 5,357 UK adults aged 16+. Amalgamated data January 07, April 07, July 07, October 07. Statements about children’s programmes asked only of parents/carers of children in household. ** “Trust”, “Children’s” and “Aside from news...” began to be asked from July 07.

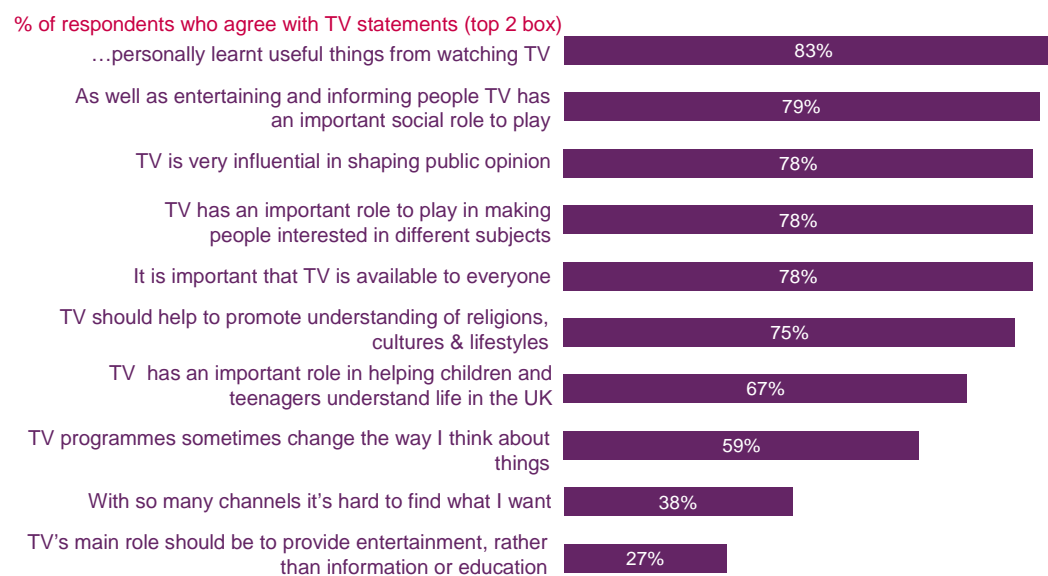
3.16 Our research shows that audiences want public service programming to be widely available. The PSB Review survey demonstrated that most people think it is important that television is widely available to everyone (see Figure 4) and the deliberative study established that most participants think that there are benefits from public service content being widely and freely available.

Television delivers important social benefits

3.17 Television still plays a central role in delivering the purposes of public service broadcasting. It is most people's main source of news and entertainment. It is a valued source of information and learning and is seen as important in shaping public opinion and promoting understanding between different groups in society. The internet, on the other hand, is emerging as an important platform for some media needs, in particular related to personal learning, pursuing personal interests, and consolidating existing interests

3.18 The PSB Review survey assessed the public's attitudes towards the role of television. The results (see Figure 4) show that audiences believe TV fulfils a range of needs and functions. Television's educational, social and cultural roles were valued by people of all ages, socio-economic groups and ethnicity. A large proportion of the public found television to be useful for personal learning and said that it had a role in shaping public opinion and inspiring individuals' interest in different subjects. Most people thought that television had an important social role to play for society as a whole. This aspect was particularly valued by people from ethnic minority groups. The deliberative study established that people thought television was important in helping to build links within and across communities, by giving people different perspectives on the world around them.

Figure 4 The public's attitude towards the role of television in society



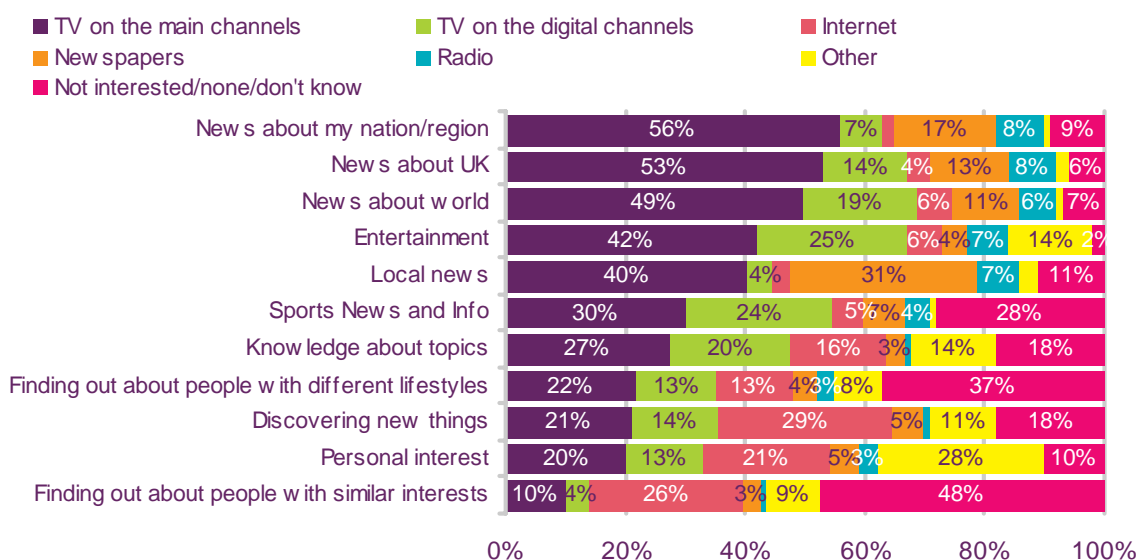
Source PSB Review Survey: Q14, 2,260 UK adults aged 16+, October - December 2007

3.19 Television remains a central part of people's lives and is still the main source of news and entertainment for most people (see Figure 5). This is the case for people of all ages, socioeconomic groups and ethnicity. But it is also clear that for other reasons, such as personal interests, discovering new things and finding out about people with similar interests, the internet is emerging as an important platform and the most important medium for younger people. This is a significant shift from 2003.

3.20 Non-PSB channels are also emerging as an important source for different media interests. The digital channels are the second most-used source (after television on the main channels) for entertainment, knowledge about topics, and for UK, world and sports news. Among people with cable/satellite television, the digital channels are the most-named source for entertainment, knowledge about topics and sports news. However, even among this group, the PSB channels remain important for all types of news.

Figure 5 The public's main media source for different topics

Which of these media would you say is your main source for ...?



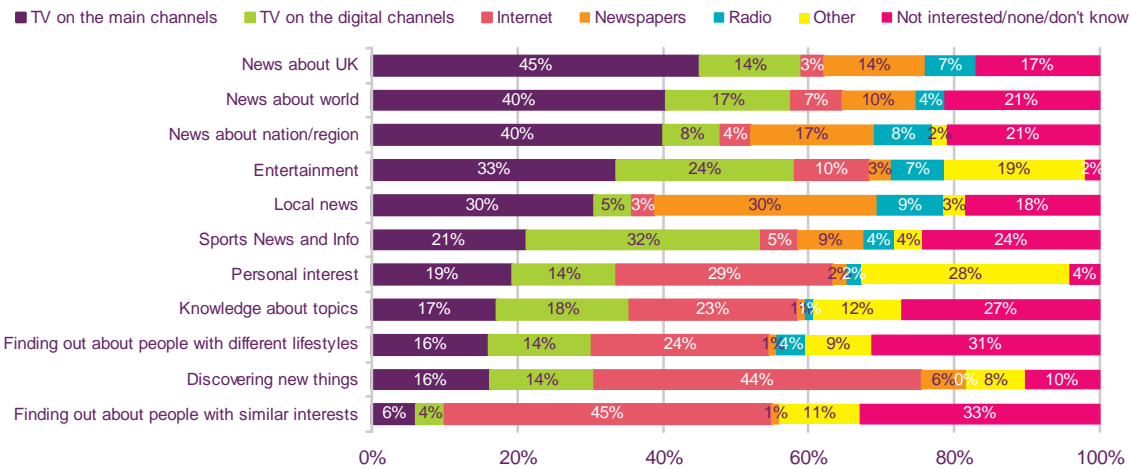
Source: PSB Review survey: Q12: 2,260 interviews, UK adults aged 16+, October - December 2007

3.21 Among 16-24s, television on the main channels is a main source for some media interests, in particular entertainment and UK, regional/national and local news. The internet is most named source for finding out about people with similar interests (45%) and discovering new things (44%).

3.22 Among 16-24s with broadband, the internet increases as a main source for a number of media interests. It is their most popular source for: finding out about people with similar interests (57%), discovering new things (63%), personal interests (41%), finding out about people with different lifestyles (34%) and knowledge about topics (34%).

Figure 6 16-24s’ main media source for different topics

Which of these media would you say is your main source for ...?



Source: PSB Review survey: Q12: interviews 16-24 years, October-December 2007

3.23 Comparisons with a similar study in 2003 (which should be treated with a certain amount of caution due to changes in methodology and wording⁴), support the view that television continues to be a main source for most media needs, although the data suggests it is being used slightly less since 2003 for entertainment and knowledge about topics such as art, science nature and history.

3.24 Figure 7 shows that the internet has grown as a main source for some media interests, in particular personal interests and knowledge about topics.

Figure 7 The public’s main media source for different topics 2003 v 2007

Which of these media would you say is your main source for...?

	TV		Internet		Radio		Press		Magazines	
	2003	2007 **	2003	2007	2003	2007	2003	2007	2003	2007
Entertainment	71	67	1	6	3	7	1	4	2	2
News about the UK*	{ 55 }	67	{ 1 }	4	{ 12 }	8	{ 22 }	13	{ 0 }	*
News about the world*	{ 55 }	68	{ 1 }	6	{ 12 }	6	{ 22 }	11	{ 0 }	*
News about your reg./nation*	{ 37 }	63	{ 1 }	2	{ 10 }	8	{ 36 }	17	{ 1 }	1
News about your local area*	{ 37 }	44	{ 1 }	3	{ 10 }	7	{ 36 }	31	{ 1 }	2
Your personal interest*	23	33	1	21	3	3	6	5	27	9
Knowledge about topics such as art, science, nature and history	58	47	3	16	2	1	2	3	3	3
Sports news and information	51	54	2	5	8	4	15	7	1	*
Finding out about people with similar interests to you	n/a	14	n/a	26	n/a	1	n/a	3	n/a	4
Finding out about people with different lifestyles to you	n/a	35	n/a	13	n/a	3	n/a	4	n/a	4
Discovering new things	n/a	35	n/a	29	n/a	1	n/a	5	n/a	4

*In 2003 the survey asked 'News about Britain and the World', 'Information about my area/region', 'features about my personal interests and pastimes'

** A combination of 'TV on main channels' and 'TV on digital channels', not directly comparable to 2003 which asked about TV overall

Source: PSB Review survey 2007: Q12: 2,260 interviews with UK adults aged 16+, October - December 2007, PSB survey 2003

3.25 Ofcom’s deliberative research established the importance of the five main channels, which remain key destinations for many because:

- people have a strong sense of familiarity with them;

⁴ Due to the question changes between 2003 and 2007 it is not advisable to make direct comparisons regarding responses to “news about the world”, “news about my region/nation”, “news about my local area” or “my personal interests”.

- this familiarity has bred a certain level of trust and an expectation of high standards;
- the five main channels are felt to show a variety of programmes and, due to this mixed schedule, it is possible to stumble across a programme that subsequently became of interest; and
- by aggregating large audiences and reflecting communities to each other, the five main channels continue to have a social role in bringing people and communities together.

UK origination plays an important role in delivering purposes

3.26 Audiences in the UK have historically had access to high levels of programming made in the UK and reflecting particular UK values, cultures and perspectives. However, as access to the world's best content is widened by the growth of digital channels, it is worth considering whether this can complement or even replace some of the programming historically delivered by the UK PSBs.

3.27 Non-UK content can undoubtedly make a contribution, particularly in enhancing knowledge of subjects that have an important international dimension - including science, religion and the arts. Nonetheless examination of the four purposes of public service broadcasting suggests that content made in the UK is essential to the full delivery of all of them:

- Purpose 1 (informing ourselves) – Non-UK programming can play a role in enhancing understanding of the world but a sufficient level of UK-made content is necessary to cover current UK and world events from the UK perspective and to ensure that news and current affairs programming is relevant and informative for viewers.
- Purpose 2 (knowledge/learning) - It is evident that part of this purpose could be delivered by high quality non-UK programming. However, there are many subject areas like history, literature, politics and so on with elements which are unique to the UK, for instance, social history. In addition, the market does not currently deliver a large amount of non-UK content that meets this purpose, and much of the programming transmitted by the non-public service broadcasters is either co-produced with, or acquired from, the UK public service broadcasters.
- Purpose 3 (cultural identity) - UK originated programming is essential to meet this purpose as content reflecting national and regional identities will only feature in programming originated in the UK. Some non-UK programming (for example popular drama and comedy, and some sport) could in theory meet the element of this purpose relating to bringing audiences together for shared experiences. However, the programmes that get the highest ratings currently tend to be those made in the UK.
- Purpose 4 (diversity) – Non-UK programming can play a valuable role in offering a 'window onto the world' and thereby help to fulfil elements of this purpose. However, fulfilling this purpose critically requires programming that reflects the lives of communities within the UK.

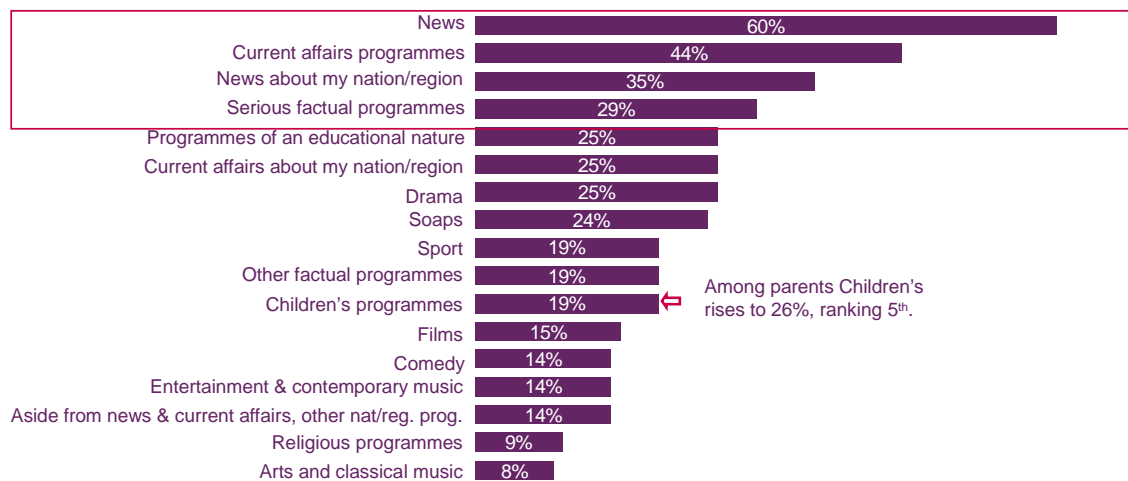
3.28 Viewers also recognise the importance of programmes that reflect UK cultures, values and identities in fulfilling the public purposes. The PSB Review survey examined the importance of UK content for viewers at different levels, seeking views

overall, by channel and by programme genre. In general, over four-fifths (83%) of people thought “it is important for the main TV channels to provide programmes that are made in UK and reflect life in the UK”.

- 3.29 The public believes that origination is particularly important for the BBC - over three-quarters agreed that it was important for the BBC to show a high proportion of programmes which reflected life in the UK, compared to two-thirds of viewers for ITV1, over half for Channel 4 and just under half for Five.
- 3.30 Ofcom’s deliberative study showed that participants, regardless of age, thought that it was very important for UK content to reflect life in the UK today. In many cases, people felt that they identified more readily with UK programmes than with programmes from overseas. However, some audiences, and in particular younger people, were appreciative of programming from overseas, naming comedies, dramas, and documentaries in particular, there was concern that, without UK content, there was a risk that the UK’s cultural identity could be eroded. TV’s perceived power to aid societal cohesion was strongly linked to UK content. With the perceived increase in social fragmentation, participants thought that the importance of UK content would increase further in the future, by catering for different groups in UK society and, at the same time, acting as an expression of common cultural identities.
- 3.31 Figure 8 shows that respondents thought that the most important areas for UK origination were news, current affairs, nations and regions news, nations and regions current affairs and specialist factual programmes. Among parents, UK content for children was also a priority. Respondents were least concerned that classical music, arts and religious programmes should take place or be made in the UK.

Figure 8 The public’s attitude towards UK-originated output

What are the five programme types you consider most important that they take place/are made in the UK?



Source: PSB Review Survey, 2,260 interviews, UK adults aged 16+, October - December 2007

- 3.32 Programming in indigenous languages is valued in the nations: 69% of people in Wales believe that some provision in Welsh is important; 53% of people in Scotland believe that Gaelic provision is important (striking, given the very low number of Gaelic speakers in Scotland - around 2% of the population); in Northern Ireland 29% think that provision of Irish language programming is important and 20% think that provision of Ulster Scots programming is important. Unsurprisingly, perceived importance of provision rises among speakers of each language.

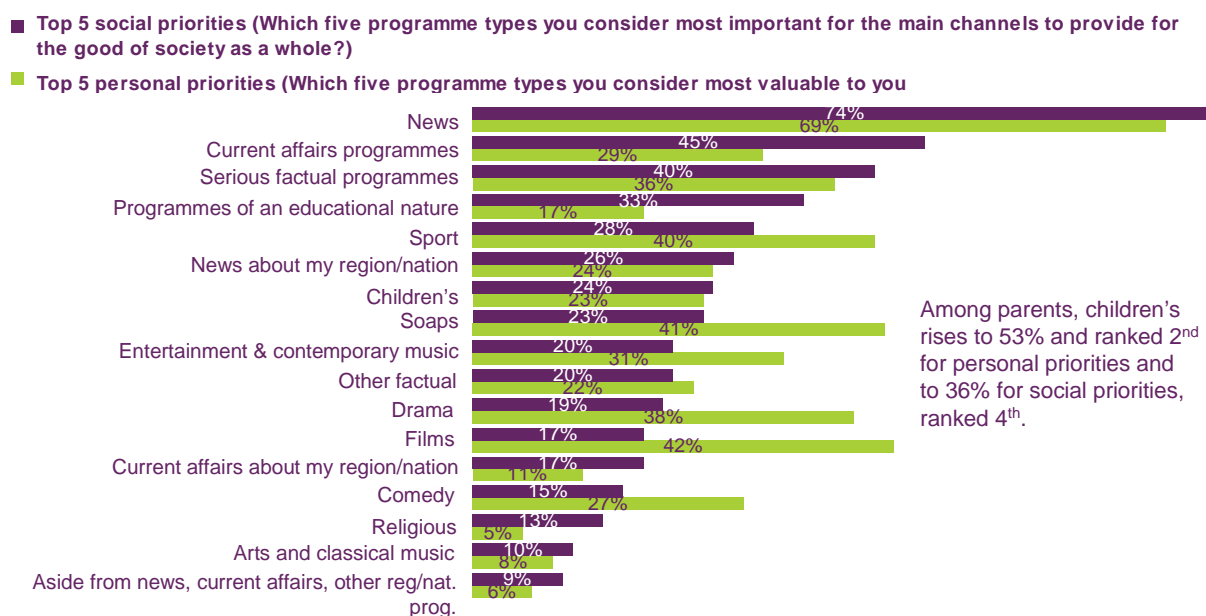
3.33 There were high levels of support for the delivery of programming by S4C in Wales. Results from the PSB Review survey show that 76% of people in Wales think it is important that S4C reflects life in Wales well, and 78% think that S4C provides good coverage of events that are of interest to all people in Wales. According to the PSB Tracker, regular viewers in Wales of S4C Welsh-language programming associate the channel most strongly with purpose 1 relating to trustworthy news provision, and to purpose 3, relating to regional and national output.

Viewers' personal and social priorities for television differ

3.34 In our survey, we asked people to choose five priority programme types from a personal and a social perspective⁵ (see Figure 9). News and specialist factual programming score highly for both personal and social priorities. However, there are some differences in people's personal priorities compared to what they see to be important thinking about society as a whole. For example current affairs scores highly as a social priority but not a personal one.

3.35 This variation appears to be linked to people's perceptions of television. In the deliberative workshops television was valued first and foremost as an entertainment medium; people tend to watch soaps and films for entertainment and therefore have a personal preference for them. Such personal preferences are separate from people's views about the social importance of a variety of programme types such as educational programming or regional/national news (as the results in Figure 9 show), and from the desire to ensure their continued provision. The importance of social value is also reflected in the finding that participants thought public service broadcasting should be inclusive and cater for the needs of different audiences, as well as for the majority.

Figure 9 Personal and social priorities for main TV channels



Source PSB Review survey Q30 2,260 interviews with UK adults aged 16+, October - December 2007

⁵ Variation in type of questioning mean that differences in responses are at times evident. For example we asked respondents to name their top 5 programme types out of a list of 17, and the scores % reported are lower than when we asked people to say how important each programme type is individually.

3.36 When asked how important it is that each programme type is shown on the main television channels as a whole, the public's priorities were news (93%), current affairs (85%), regional/national news (88%) and current affairs about my region/nation (83%), and programming made in the UK (83%). Just over three quarters (77%) of people think children's programming made in the UK is important, and this rises to 85% of parents. Religious programmes made in the UK, which has the lowest levels of support, is still thought important on the main channels by just under half (49%) of viewers. Participants in the deliberative workshops also named news, regional/national programming and specialist factual programming as priorities for public service broadcasting. Overall our research found that programming that relates to informing ourselves and knowledge and learning were deemed most important as a whole.

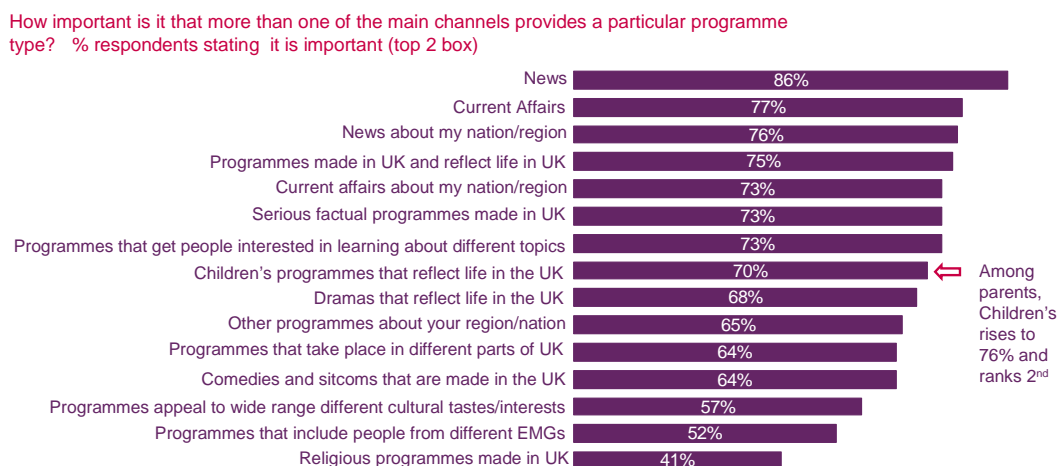
Audiences value plurality in provision of public service broadcasting

3.37 Plurality in public service broadcasting can be broadly defined as the provision by a range of producers, broadcasters and distributors of content which meets public service purposes and characteristics; and the option for people to choose between different broadcasters and distributors for any particular kind of content. The historic model for delivering public service broadcasting has plurality at its core.

3.38 Ofcom's PSB Review survey showed that audiences value plurality highly in public service broadcasting. The majority of people (of all ages, socio-economic groups and ethnicity) thought that plural supply was important. Some programme genres, such as news and current affairs were deemed particularly important (see Figure 10), although the majority regarded plurality as important in most areas of programming. The deliberative research also showed that the vast majority of the audience value plurality, as it provides choice and a range of voices. The importance that people attach to plurality varied by genre and, therefore, by purpose. Figure 11 illustrates these varying levels of importance and the reasons given by participants.

3.39 Participants in our deliberative research also felt that competition for quality was a crucial benefit of plurality. Competition was seen to deliver a number of benefits including: high quality programming, impartiality and accountability. People also felt that plural provision helped meet the need to cater for different tastes and to provide different viewpoints.

Figure 10 The public's attitude towards plurality



Source: PSB Review survey, Q34, 2,260 UK adults aged 16+, October - December 2007.

- 3.40 Figure 10 shows the high levels of importance placed on plurality and also illustrates in relative terms that some genres were deemed more important than others.
- 3.41 In terms of the first public purpose relating to informing ourselves and others, there is very high support for plurality in news programming. Regarding elements of the purpose connected to cultural identity, plurality of nations and regions news provision is appreciated across the UK. It is more important to people in the devolved nations; over 90% of people in each of the devolved nations agreed that “it is important for ITV1 as well as the BBC to show news programmes about my nation/region” and this level of support has grown significantly since 2003. The importance of nations/regions genre provision has increased since 2003 at UK and nations level in general.
- 3.42 In terms of knowledge and learning, a majority of people think that specialist factual programmes and programmes that get people interested in different topics are important. In relation to Purpose 4 (different cultures and viewpoints), although plurality is perceived as being of relatively less importance, a majority of respondents still think that its important for programmes which include people from different ethnic minority groups (52%) and 57% of people think it is important to cater for a wide range of different cultural interests. A proportion of people (41%) thought religious programming was important. According to the PSB Review survey, the programme types that the fewest people thought needed to be shown on the main TV channels in the future were those which catered for niche interests.
- 3.43 Plurality was also 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 second, after news, in terms of importance for plural supply. Our research showed that audiences did not necessarily think that children’s programming had to be delivered on the main channels in the future and many were prepared for content to be provided on digital channels, as long as plural supply was maintained.

Figure 11: Importance of plurality according to participants from the deliberative study

Programme genre	Importance of PSB plurality	Reasons why
UK network news	'Crucial'	<ul style="list-style-type: none"> Provides different perspectives Ensures accountability Ensures impartiality
Regional/national news	'Crucial'	<ul style="list-style-type: none"> Provides different perspectives Ensures accountability Ensures impartiality In devolved nations, and outside London, regional/national news significance issue tied to national, cultural identity, democratic debate and choice
Current affairs	'Crucial'	<ul style="list-style-type: none"> Different perspectives and viewpoints Of increasing importance, given society changing at such a fast pace
Specialist factual (e.g. arts, history, nature, science)	'High'	<ul style="list-style-type: none"> Provides different perspectives and viewpoints
Children's	'High'	<ul style="list-style-type: none"> Deemed important by both parents and non-parents To cater for different tastes, interests and ages
UK drama	'High'	<ul style="list-style-type: none"> To cater for different audience tastes Broadcasters had different perceived strengths (e.g. BBC - period adaptations, Channel 4 - topical issues, ITV1 - psychological thrillers)
UK comedy	'High'	<ul style="list-style-type: none"> Cater for different audience tastes Broadcasters had different perceived strengths (e.g. Channel 4 - alternative, ITV1 - family audience)
Schools/educational	'Medium'	<ul style="list-style-type: none"> Maintenance of plural supply was supported by most participants to provide choice for schools and cater for different educational needs
Religious programmes	'Low'	<ul style="list-style-type: none"> Few participants watched this content Those with strong religious views stated representation on main channels at all outweighed perceived need for plurality and could get alternative views by engaging with religious community For some, however, plurality was important, especially in relation to providing different perspectives on Islam

Source: PSB Review deliberative research

3.44 To explore audiences' attitudes to the costs of plurality, as well as the benefits, we carried out deliberative research into their willingness to pay to maintain current provision. Participants were informed about the current funding of public service broadcasting on the main 5 channels and the economic pressures on this model due to audience fragmentation. Participants were then asked if they were willing to pay more to maintain current levels of provision. In the context of these discussions the price increase was described as £20 in addition to the licence fee.

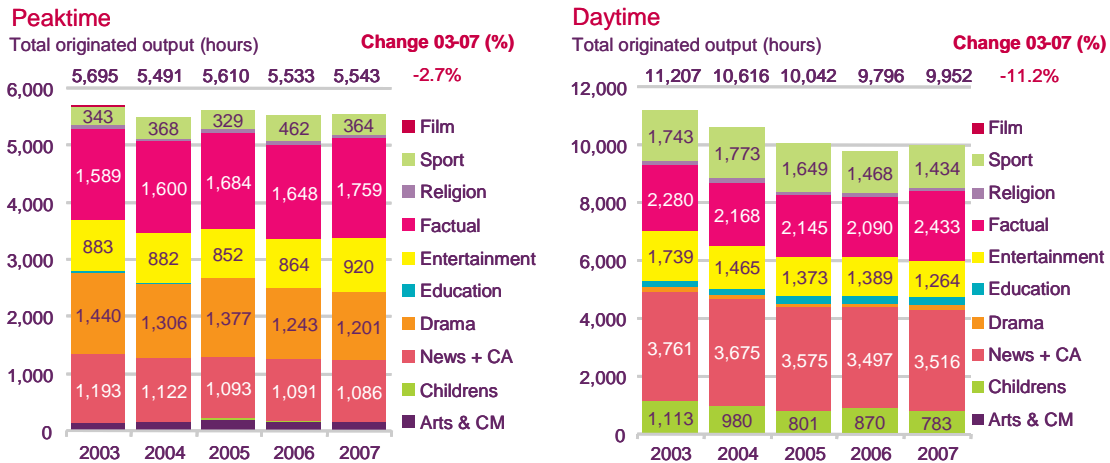
3.45 After discussion around the issues, faced with the choice of less public service programming or increased costs for the same amount as today, participants fell into three main groups:

- a majority who were willing to pay more for the same amount of public service broadcasting;
 - a minority who were not willing to pay more but believed they would get used to a price increase;
 - a small minority who were not prepared to pay more – these people were less likely to value public service broadcasting in general.
- 3.46 Among the majority of participants who were prepared to accept a price increase, they tended to argue for the importance of public service broadcasting (particularly its role in society and the importance of maintaining plurality), and felt that the cost increase was not that significant given these benefits.
- 3.47 Our research shows that each of the main PSB channels is valued, with the BBC seen as the cornerstone of public service content. The PSB Tracker showed that, among regular viewers, the BBC channels performed particularly strongly across many elements of public service broadcasting. ITV1 is rated highly for its news, regional/national news, and high quality dramas and soaps. Channel 4 is appreciated for its engaging and high quality content, particularly among younger adults. In the PSB Review survey three in five (62%) adults thought that Channel 4 catered for audiences that other channels did not. Overall, Five's programming is not as highly appreciated by its regular viewers across the range of measures in the PSB Tracker, perhaps reflecting the size and nature of the channel. Nevertheless, although expectations of Five tended to be lower, a small majority of respondents in the PSB Review survey still thought it should show public service content. In the deliberative workshops participants thought that Five offered clear and simple presentations of news and current affairs, which were often perceived to be easier to understand.
- 3.48 In the deliberative workshops participants were asked to consider the hard choice of reducing content on either the BBC or on ITV1, Channel 4 or Five, within the context of preventing any need for an increase in costs of public service broadcasting in future. Overall opinion was mixed. For many, the BBC was considered to be the prime provider of public service broadcasting and many thought it an international, respected brand and that it was a priority to preserve its role in meeting public purposes.
- 3.49 However, maintaining plurality for what were considered to be the key programme types was also believed to be key. There were concerns that were the BBC the main – or only – provider of certain types of programmes then the quality of them might decline due to a lack of competition. Overall, people thought these choices were extremely hard and the majority eventually opted for an increase in costs to maintain current levels of public service provision, rather than see a reduction.

Public service broadcasters' output and investment has been broadly stable since 2003, with changes in some areas

- 3.50 In 2007, the five terrestrial public service broadcaster channels originated a total of 5,543 hours of networked output in peak time, the equivalent of three hours per channel per day. This was sustained by investment of £2.3 billion across the five channels.

Figure 12 Hours of originated networked output in 2007 from the five main channels

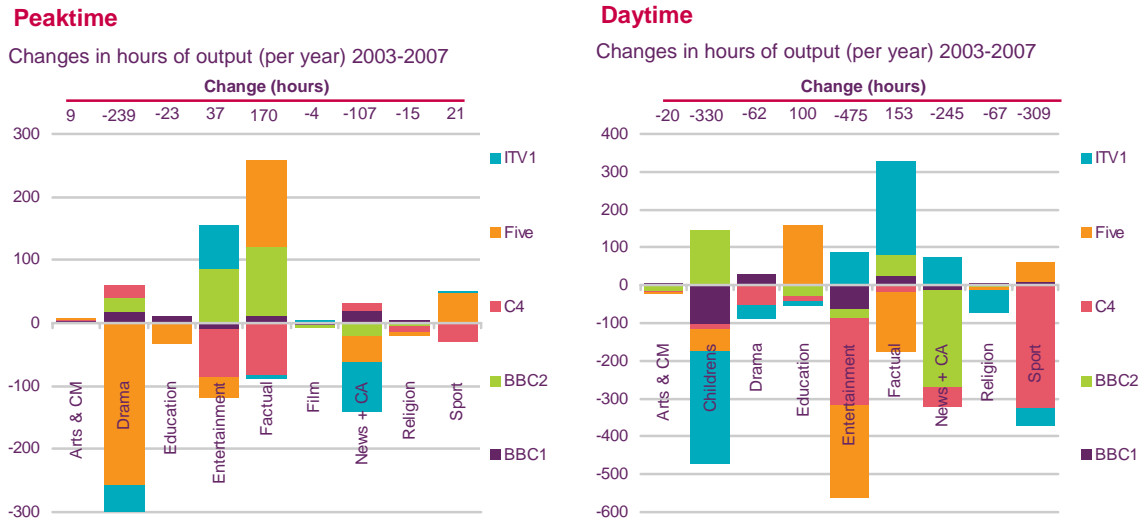


Source: Ofcom/Broadcasters. Includes BBC One, BBC Two, ITV1, Channel 4 and Five.

3.51 Networked peak-time originations fell by 3% between 2003 and 2007 - 25 minutes per day. The most significant reductions were experienced by drama (driven principally by the loss of *Family Affairs* on Five). At the same time, factual and entertainment benefited from increases in originated hours.

3.52 In daytime, hours of originations fell by 11% and the most significant reduction was seen in originated entertainment, sport and children's output.

Figure 13 Changes in originated hours by genre and channel, 2003 - 2007



Source: Broadcasters and Ofcom calculations

3.53 Investment in new UK programming is also a proxy for delivery against public service purposes – although it is an imperfect measure, since differences in expenditure may to some extent reflect differences in efficiency. The PSBs' aggregate investment in originated output has declined somewhat in recent years, falling by £300 million in real terms between 2003 and 2007, to £2.7 billion.

Figure 14 Spend on originated output by the five terrestrial channels and S4C analogue

Investment in originated output by the five main channels (£bn, 2007 prices)



Source: Broadcasters

3.54 A more detailed analysis of broadcaster output data can be found in Annex 6 and in Ofcom's PSB Annual Report 2008.

Viewing of public service channels has declined

- 3.55 Since 2003, hours of total television viewing across all channels have fallen only fractionally – by 2.7% to 3 hours 38 minutes per person per day. Viewing over all platforms fell over the period and across all age groups. But it fell further among younger audiences (by 15% among 16-24s and by 12% among those under 16).
- 3.56 Viewing of the main five public service channels has fallen more substantially – by 17% over the past five years. Nonetheless they still command nearly two-thirds of all television viewing. The decline has been more marked among children and 16-24 year olds and among people from ethnic minority groups (where PSB channels represent a minority of viewing). There have also been changes in children's viewing habits.
- 3.57 Five experienced the most significant average annual reduction in share of 8.1% p.a., followed by ITV1 with 5.7% p.a. Until the end of 2006, Channel 4's share held up in the face of intensifying competition, but fell in 2007 by 12% over the year.

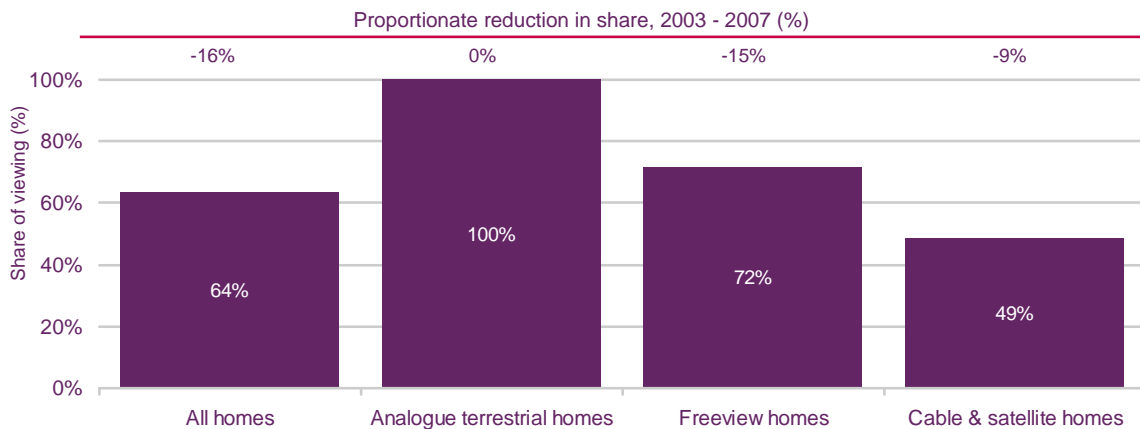
Figure 15 The five main networks' share of viewing in all homes, 2003 - 2007



Source: BARB, all people 4+

3.58 These losses varied significantly by platform. Since 2003 the PSBs have seen share reductions of 15% in Freeview homes and of 9% in cable and satellite homes. At the same time, two factors have mitigated against these losses. First, viewers do tend to return to the five main channels in peak time and PSB collective share is higher than it is all day. Second, viewing of the public service broadcasters' portfolio channels has offset some of the share loss experienced by the five main terrestrial channels.

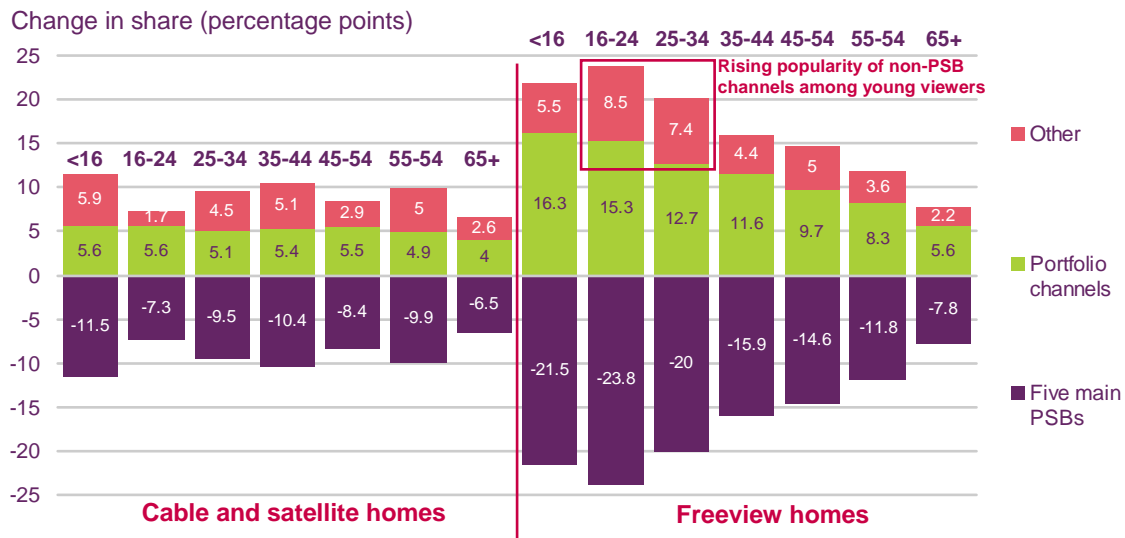
Figure 16 Changes in the share of the five main channels, 2003 - 2007



Source: BARB, all people 4+

3.59 The extent to which portfolio channels have offset the reductions in share experienced by the PSB five main channels varies by viewer age. The shares of the public service broadcasters family of channels has fallen furthest among younger adult audiences because the non-public service broadcasting channels have captured an increasing proportion of the share of this group lost by the five main networks, when compared to other age demographics.

Figure 17 Changes in channel family share of viewing 2003 versus 2007

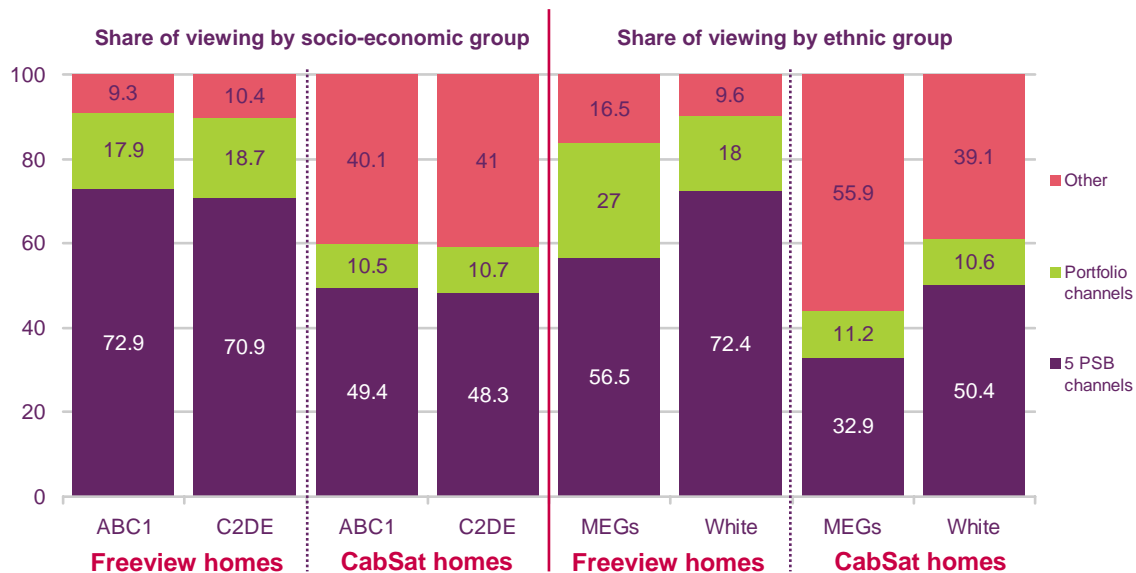


Source: BARB, all individuals 4+

3.60 Patterns of viewing also vary by socio-economic group and by ethnicity. C2DE viewers watched proportionately fewer hours of the five public service broadcasters' channels in 2007 when compared to their ABC1 counterparts. But they did watch proportionately more hours of the PSBs' digital-only channels. The effect was more pronounced in Freeview homes.

3.61 The five public service broadcaster channels are also more successful in attracting white viewers when compared to viewers from other ethnic groups. Once again, this pattern is reversed with their portfolio channels.

Figure 18 Viewing shares by socio-economic and ethnic group, 2007



Source: BARB, all individuals 4+

3.62 A more detailed analysis of television consumption can be found in Annex 6.

3.63 Outside linear television, the Teletext service continues to be valued among its loyal user base. Research from our PSB Tracker shows that across the analogue and

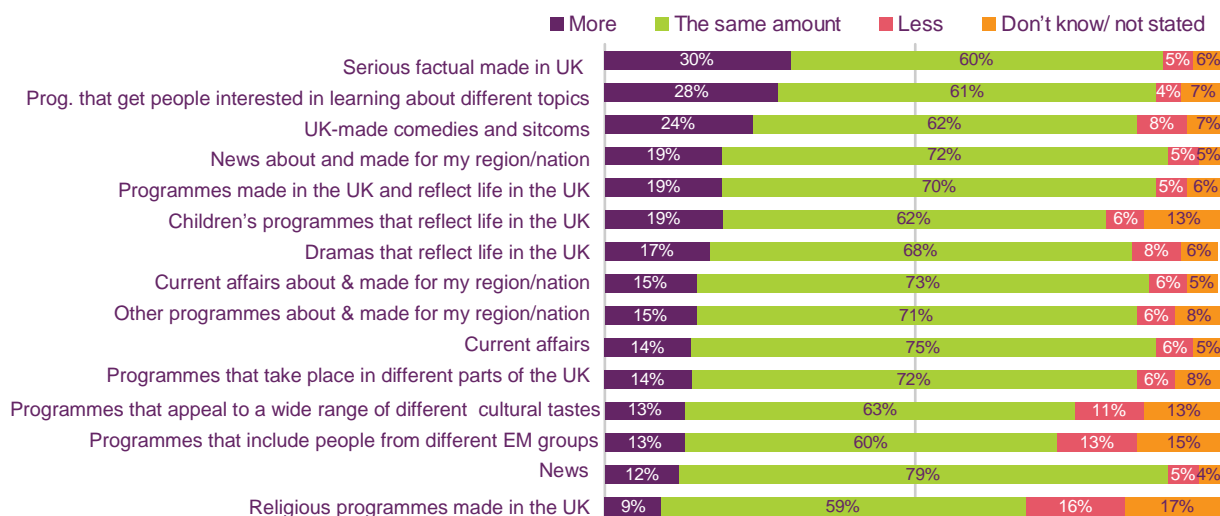
digital Teletext service, although almost two-thirds (63%) of adults with access to the service claim that they never use it; of those who do, a large majority (70%) use it at least once a week. Regional/national (55%) and UK news (51%) pages are claimed to be among the most-viewed information, along with weather (66%) and sports (55%), based on those who use the service at least once a month. Analogue services are valued – and used – more than the digital services.

Overall, audiences believe public purposes are being delivered in most areas

- 3.64 On balance, the evidence suggests that the public purposes are being delivered in most areas and that public service broadcasting as a whole is highly valued by viewers. However, there are some areas where audiences are less satisfied:
- First, there is concern about the amount of programmes made in the UK.
 - Second, there are significant differences between the value that audiences place on the importance of a wide range of high quality and UK-made children’s content and their satisfaction with how well it is being delivered.
 - Third, audiences continue to attach high value to nations and regions news, but investment in these services by commercial licensees has declined. The devolved nations have particular needs, and have lower levels of satisfaction with their portrayal on network television, particularly in Scotland and Northern Ireland.
 - Fourth, there is evidence of some dissatisfaction with delivery of innovative and engaging programmes.
 - Finally, there are challenges relating to trust in public service broadcasters in general (though trust in individual channels varies considerably).
- 3.65 In all our research we found that the BBC remains particularly highly valued and is seen as the cornerstone of public service broadcasting. It continues to be the main source of public service content, with its online and on-demand services making a growing contribution.
- 3.66 The PSB Review survey shows that there is broad public satisfaction with the amount of public service broadcasting currently available, and this did not vary significantly among people with access to different television platforms. For nearly all types of programming, at least 60% of adults 16+ felt that the amount was about right. Specialist factual, programmes which encouraged education and learning, and UK comedy were the areas where people were more likely to want more. One in five adults wanted more children’s programmes made in the UK and this rose to 24% among parents. One in five people wanted more regional/national news and UK-made programmes.

Figure 19 The public’s attitudes towards the amount of PSB content on the main channels

Should there be more/less or the same amount of this content on the main TV channels?

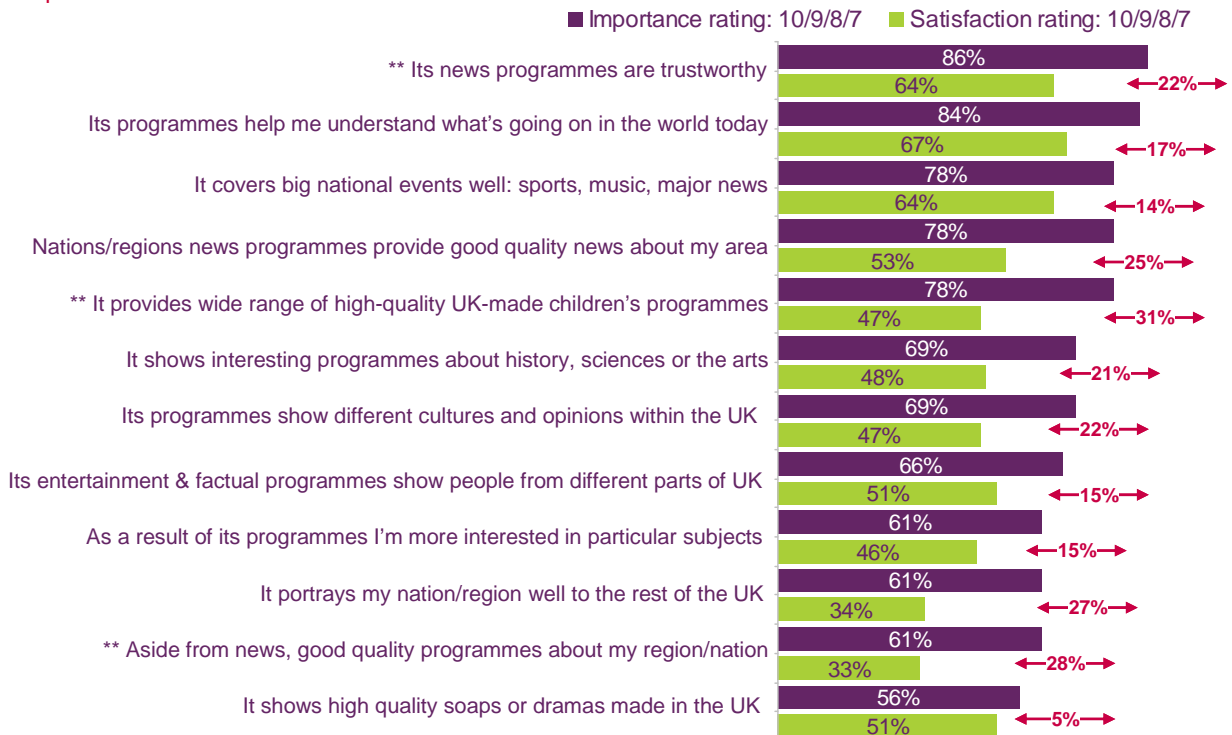


Source: PSB Review survey, Q35, 2,260 UK adults 16+, October-December 2007

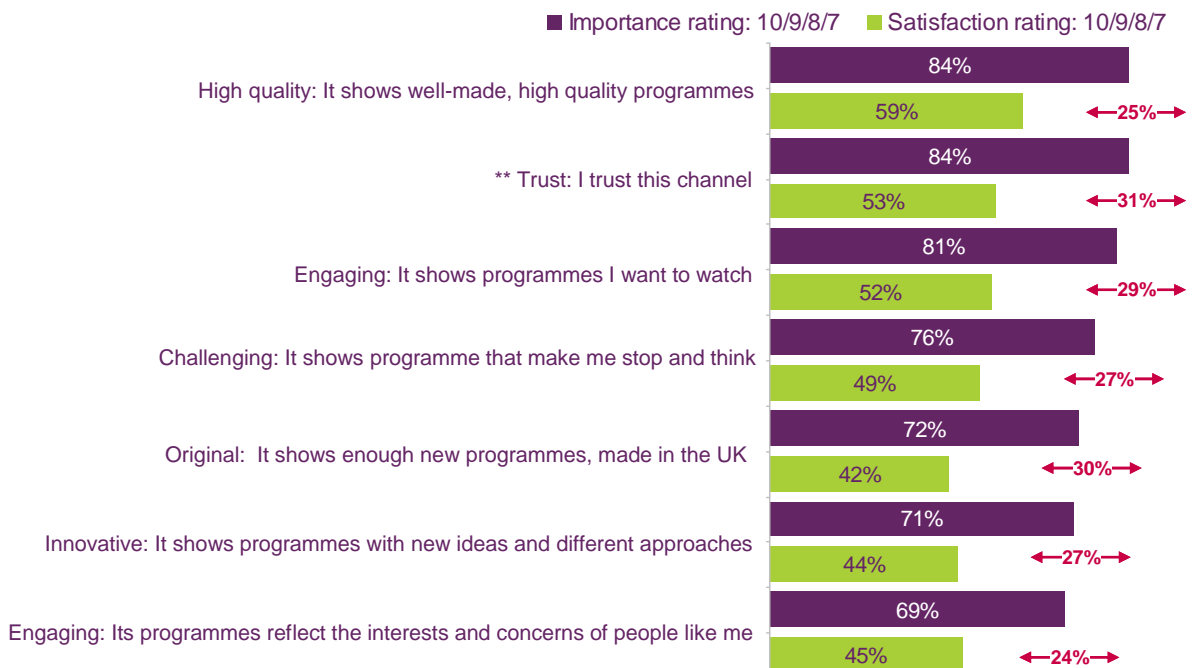
- 3.67 Figure 20 shows the public’s rating of the importance of the purposes of public service broadcasting, set against satisfaction with delivery. The arrows show the gap between the importance placed on the purpose statements, and the public’s perception of how well they are being delivered. While levels of perceived importance are nearly always higher than levels of perceived satisfaction (due to the theoretical nature of the former and the actual nature of the latter), the relative gaps between the importance and satisfaction ratings of various elements of public service broadcasting are useful to note.
- 3.68 Satisfaction with delivery of the purpose relating to informing ourselves and others and increasing our understanding of the world is relatively high across the range of public service broadcast channels. Around two-thirds of respondents said they believed that public service broadcast channels’ programmes were trustworthy and helped them “understand what is going on in the world today”.
- 3.69 Audiences also appear broadly satisfied that the public service broadcasters show well-made, high quality programmes, with 59% agreeing with this statement overall and with the BBC channels scoring particularly well. This tallies with the results from our deliberative research.
- 3.70 Levels of satisfaction among 16-24s are slightly higher for many of the purposes and characteristics, and levels of importance slightly lower, but the overall ‘gaps’ between the two are similar as for other age groups.

Figure 20 The public's rating of the importance of PSB statements compared to PSB's delivery

Purposes



Characteristics



Source: PSB Tracker. Amalgamated data January 07, April 07, July 07, October 07. 5,357 UK adults aged 16+ for importance responses; 7,157 UK adults aged 16+ for satisfaction ratings.

Statements about children's programmes only asked of parents/carers of children in household.

** "Trust", "Children's" and "Aside from news..." began to be asked from July 07.

3.71 While the evidence suggests that the public service broadcasting purposes and characteristics are broadly being delivered, there are several areas where we have identified issues, in terms of audience impact, viewing and output.

- 3.72 There are significant gaps between importance and delivery for a number of the purposes and characteristics statements. The gap is widest for “enough new programmes made in the UK” (-30%), and “a wide range of high quality, UK-made children’s content” (-31%) and there is also a significant gap for trust (-31%)(which is discussed in more detail below).
- 3.73 There also appear to be a number of issues with programming based in the nations and regions. These include “satisfaction with delivery of non-news programmes in the nations and regions” (-28%) and “portrayal of the nations and regions to the rest of the UK in network programming” (-27%). (This gap is wider in the nations and most notably in Scotland and Northern Ireland). The ‘satisfaction gap’ is also significant with respect to regional news programmes (-25%), although not to the same extent as the others.
- 3.74 Other areas where there are significant gaps between importance and delivery include ‘innovation’ and ‘engaging programmes’. This section concludes by highlighting the two areas where delivery of public service broadcasting purposes and characteristics appears to be most at risk – children’s programming, and addressing the needs of the nations and regions.

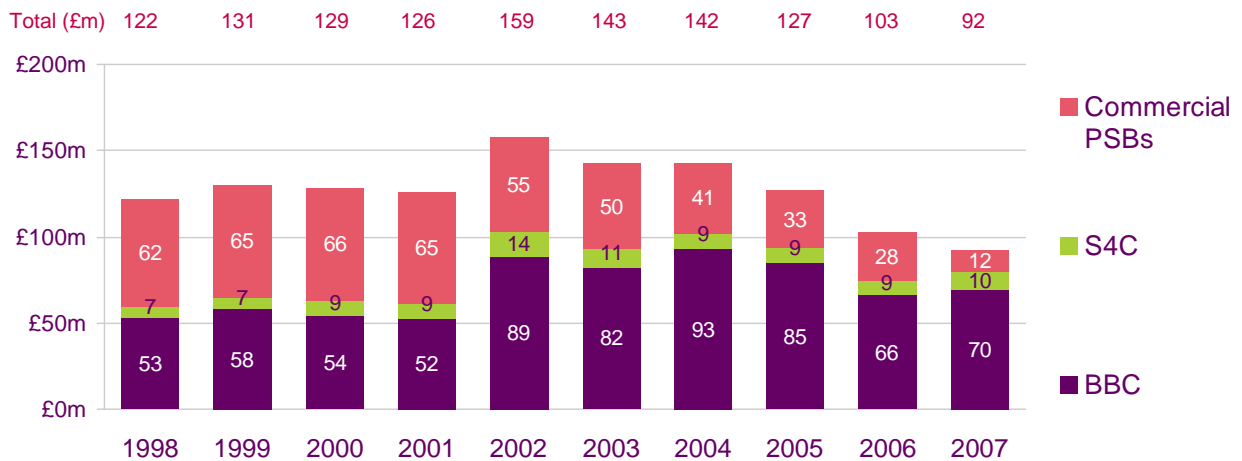
There is a gap between the importance viewers place on trust in public service broadcasting, and their satisfaction with it

- 3.75 People think that trust is an important element of public service broadcasting but our research shows a significant gap (-31%) between the importance of, and satisfaction with, general trust in public service television.
- 3.76 However, levels of trust in individual PSB channels tend to vary considerably and in our deliberative research, trust did not come across as a key concern. For example, over 70% of BBC One and Two’s regular viewers trust these channels. So, it is important to bear in mind that part of the ‘gap’ between the importance and satisfaction ratings relating to trust might be because the fieldwork for this question took place in the latter half of 2007, after various high-profile issues relating to premium-rate services and high talent costs.
- 3.77 Ofcom, PhonePay Plus and the BBC Trust have recently taken steps which should give audiences greater reason to trust broadcasters on the issue of premium-rate services. It is likely that consumer protection and accountability mechanisms will continue to be important focuses of regulation.
- 3.78 Nonetheless, audience research undertaken for Ofcom’s *New News, Future News* report in late 2006 - before these problems emerged - demonstrated that people have decreasing faith in the credibility of any news source, although the greatest levels of trust still appear to be in television. The public service channels are seen as more credible news sources than other commercial broadcasters, and trust in the BBC is greater than for any other source. However, the qualitative research carried out for *New News, Future News* showed that some groups of people, including those from ethnic minorities, were less likely to trust the news in general. Viewers from ethnic minority groups were also slightly less likely than others overall to rate the public service broadcasters highly for trustworthiness.

Satisfaction with provision of UK children’s programming is relatively low

- 3.79 In our recent review of children’s television programming, we identified shortfalls in the delivery of the public purposes of children’s television, both in terms of audience expectations and provision of output.
- 3.80 The report concluded that investment in children’s programming by the commercial PSBs has fallen by half since 2001. This shortfall has not been made up by the BBC or other commercial providers. Ofcom’s analysis showed that investment outside the BBC in UK-originated content was unlikely to be maintained in the future.

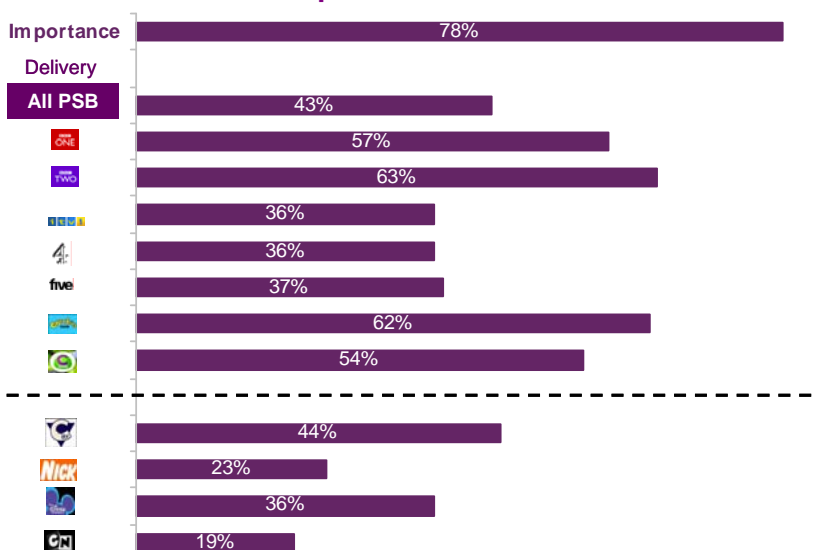
Figure 21 Investment in children’s programming, 2003-2007



Source: Ofcom/broadcasters. 2007 prices.

- 3.81 Parents felt that the public service broadcasting purposes are important for children’s programming, but they are not being consistently delivered. In particular, programming which reflects UK culture and opinions was felt to be delivered less well.

Figure 22 Parents’ views on children’s programmes: “Its programmes show different kinds of cultures and opinions from around the UK”



Source: Children’s PSB Survey, April 2007

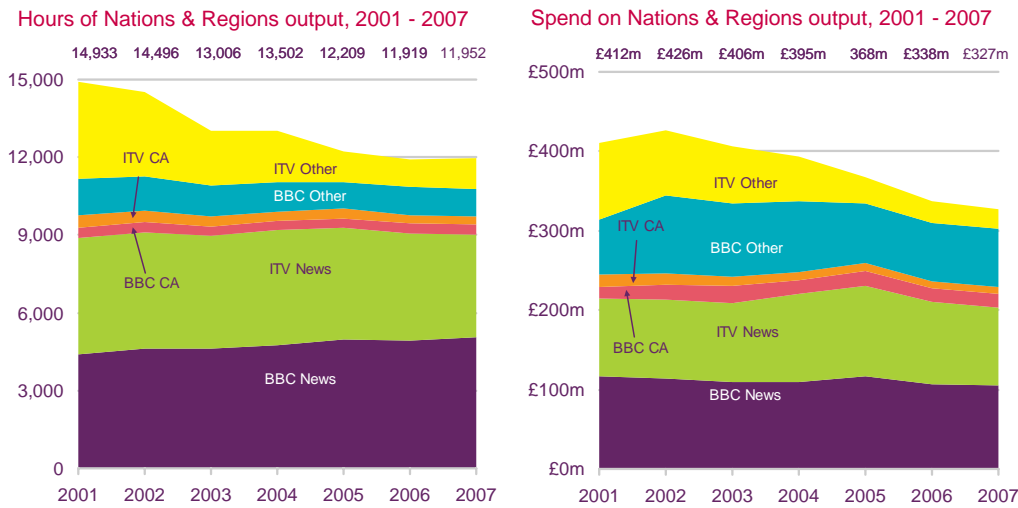
Note: % rating 10/9/8/7. Base for importance and all PSB: ‘All respondents’ = 821; Parent-reported child regular viewer of BBC One = 225, BBC Two = 57*, ITV1 = 167, Channel 4 = 88*, Five = 79*, CBeebies = 227, CBBC = 199, CITV = 82*, Nick = 109, Disney = 142, Cartoon Network = 124.

- 3.82 Parents felt that there was not enough programming aimed at older children, especially UK-originated drama and factual programmes. Older children felt that they had limited choice and availability of UK programming in these genres.
- 3.83 Young teenagers were also particularly dissatisfied with current delivery of public service programming. There is no evidence that provision of content for this group is a viable commercial option in the near future.
- 3.84 In addition to this analysis, Ofcom's PSB Tracker identified that parents placed a high level of importance on providing a wide range of high quality, UK-made programmes, and that there were much lower levels of satisfaction with delivery. Both the PSB review survey and the deliberative workshops identified that adults value the provision of children's programming and unsurprisingly its importance is higher among parents.

Needs of nations and regions audiences are not being fully met

- 3.85 National and regional audiences have distinct needs and preferences. The audience research indicates that viewers value nations and regions programming and national/regional news remains the key element of provision.
- 3.86 Viewers value seeing their nation and/or region portrayed at a network level, particularly in the nations and those living outside of London. However levels of satisfaction with current provision are low, with the gap between importance and satisfaction -27% on a UK-wide basis, but -40% in Scotland and -46% in Northern Ireland. Dissatisfaction with the amount and type of representation emerged in all the deliberative workshops except in London.
- 3.87 Programme output for the nations and regions has also fallen over recent years, experiencing a substantial reduction since 2003. Overall hours of regional output fell by 8% between 2003 and 2007. The reductions were fuelled principally by falling hours of regional non-news/non-current affairs output broadcast by ITV1. They fell 44% from 2,103 hours in 2003 to 1,177 hours in 2007. Hours of ITV1 regional news and current affairs also fell by 9% and 10% respectively over the same period. Licence variations were agreed by Ofcom.
- 3.88 Over the same period, the BBC's overall contribution rose. Hours of news climbed 9%, current affairs by 10%, though 'other' output contracted by 13%.
- 3.89 Spend on output was commensurate with the trend on hours. ITV1's spend overall fell by 28% between 2003 and 2007 to stand at £131 million; this was driven mainly by other output where expenditure declined by 66% over the period. The BBC's spend overall also fell by 12% over the same period to £196 million.
- 3.90 The overall effect of these changes has been to reduce substantially the contribution that ITV1 makes to the total hours of regional output. In 2003, it was responsible for broadcasting 52% of all regional hours; by 2007 that proportion had fallen to 46%.

Figure 23 Nations and regions output 2003 - 2007



Source: Broadcasters and Ofcom calculations. Includes BBC One, BBC Two, and all ITV regions. Spend expressed in 2007 prices.

- 3.91 These changes come in the face of continued strong viewing figures for news services from the nations and regions. Across the UK, audiences spent 19 hours per year watching early evening regional news bulletins in 2003, with only a slight fall to 18 hours by 2006. In Northern Ireland viewing to early evening regional news actually increased from 21 hours to 24 hours over the same period. There is more on nations and regions programming in Section 9.
- 3.92 There is also evidence of strong support among viewers for the plural supply of nations and regional output. The importance of nations and regional output is greatest among those in the nations and older viewers.

Questions for consultation

- i) Do you agree with Ofcom’s assessment that television continues to have an essential role in delivering the purposes of public service broadcasting?
- ii) Do you agree that UK-originated output is fundamental to the delivery of public service broadcasting purposes?

Section 4

The changing market environment

Introduction

- 4.1 In the last section we assessed how well the public service broadcasters are delivering the public purposes. Our analysis concluded that while public service broadcasting as a whole remains highly valued by viewers, there are some areas where audiences are less satisfied with current delivery.
- 4.2 Changes in the way audiences consume media in recent years have been substantial, especially among younger audiences. Many people are embracing new television channels and interactive technologies which provide them with more choice, mobility and control. In this section we consider the key changes in the media landscape and the opportunities that these present for public service broadcasting in the UK.
- 4.3 The internet is at the forefront of these changes. Both the internet and digital channels present an opportunity for the public service broadcasters to expand their offering and maintain reach. Public service content is becoming a more relevant concept than public service broadcasting for many people. At the same time, some public purposes are now being increasingly met, for some audiences, by dedicated digital television channels from public and non-public service broadcasters.

The changing media environment: choice, mobility and control

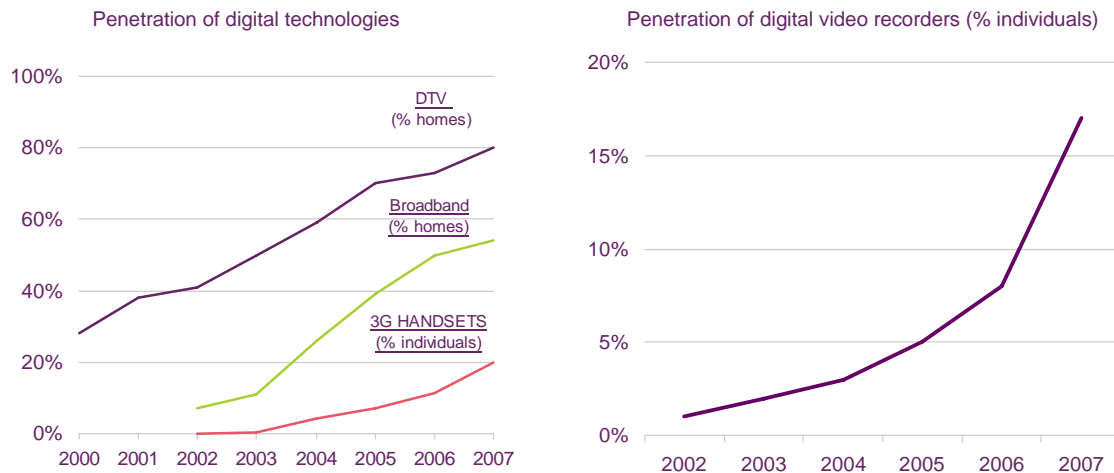
- 4.4 Many people are embracing new television and interactive technologies which provide them with more choice, mobility and control. Increasing consumer choice is reflected by the rapid growth of digital television, broadband and internet-enabled mobile phones.
- 4.5 Over 85% of homes had access to digital television at the beginning of 2008. The number of television channels available looks set to grow, as the digital switchover process is completed and as the expected reorganisation of the digital terrestrial television (DTT) multiplexes allows for new services, possibly including high definition channels on the digital terrestrial television platform as well as cable or satellite.⁶
- 4.6 The growth of digital video recorders (DVRs) and the success of on-demand services like the BBC's iPlayer indicate an appetite for control of content. Fifteen per cent of households owned a DVR at the beginning of 2008, and the BBC's iPlayer attracted 2 million visitors in its first month after launch.
- 4.7 Arguably the most significant market-driven development since the last review has been the growth in internet access, specifically broadband. Bandwidths delivered to customers are continually growing, especially in denser urban areas. BT and a number of the UK's local loop unbundling operators are investing in technology to deliver headline speeds up to 24Mb/s over copper wires. At the same time, Virgin

⁶ See the proposals published in *Digital television: enabling new services* at <http://www.ofcom.org.uk/consult/condocs/dttfuture/> which sets out Ofcom's conclusions on the reorganisation of services on DTT to enable the adoption of new standards on which would increase capacity enabling new, higher bandwidth, services on DTT, including high definition television.

Media has announced investments to deliver headline speeds up to 50Mb/s to its customers, although this will be limited to those in urban areas.

Figure 24 Access to and use of digital platforms and on-demand platforms is growing

Access to and use of digital platforms is growing, with time-shifting and on-demand technologies changing the way some audiences watch TV



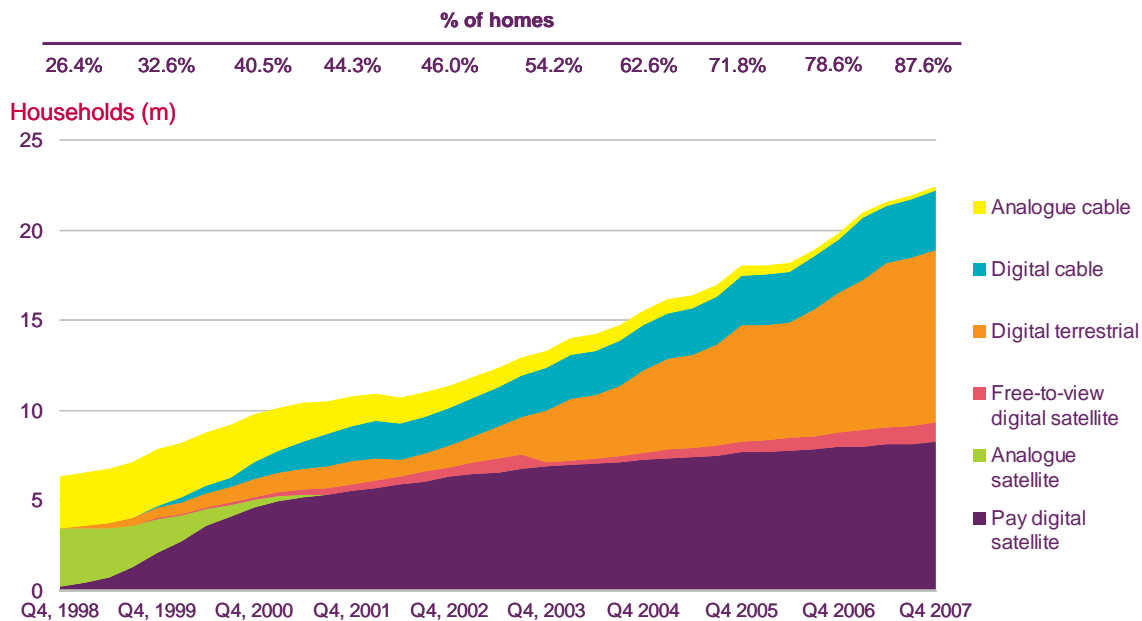
Source: Ofcom

- 4.8 More than 50% of individuals now have broadband at home, up from less than 10% in 2003. As well as take-up in the home, the internet is increasingly available in public places such as schools and libraries. On average, people with internet access spend over 12 hours a week online and three-quarters of this time is at home. This has increased by 20% in the last two years, and by 50% among 16-24s in the same period. Among broadband users, one-third identify internet access as the one communications service they would find it hardest to live without, compared to just a fifth for TV on the main channels.
- 4.9 Devices such as games consoles, TVs and mobile phones are increasingly internet-enabled. A small number of consumers have already connected their PCs to their TV sets, and the technical boundaries between the internet and television are now beginning to break down. Internet Protocol Television (IPTV), delivering traditional programming on demand is already being offered by some broadcasters (Tiscali and BT for example). Viewing of audio-visual content online is now a regular activity for 30% of UK adults. There is likely to be a tipping point in the future when a new generation of television sets, with integrated broadband and storage capability, are sold.
- 4.10 Changes to the broadcasting environment can be divided into three waves:
- The first wave has already taken place and is characterised by the expansion of choice due to digital take-up. This trend was recognised by Ofcom's first *Public Service Broadcasting Review* which noted that we were entering a transition period in which the old way of funding public service broadcasting would need to give way to a new model;
 - A second wave has begun in which traditional one-to-many broadcasting is complemented by many-to-many participative media. This wave is currently under way and is typified by the success of websites such as YouTube; and

- The third wave will see a further blurring of boundaries between the internet and TV platforms, due to the convergence of broadcasting and many-to-many networks. This is exemplified by the development of a number of ways of watching programmes in addition to scheduled television. These include catch-up TV, the BBC's iPlayer, ITV.com, Channel 4's 4oD and Sky Anytime. This is not widespread as yet, but is growing rapidly.

Public service broadcasters are diversifying into digital TV and online services

- 4.11 These changes in the way media is being consumed have created new opportunities for the public service broadcasters and audiences. Digital channel portfolios and online services have offered new ways of maintaining audience reach, and (for the commercial PSBs) sustaining advertising revenues.
- 4.12 At the time of the last review, the public service broadcasters were already building channel portfolios, taking advantage of reduced constraints on capacity to:
- target audience niches whose connection with analogue channels had weakened over time;
 - make use of programme archives;
 - take advantage of established strengths in, for example, news gathering and reporting; and
 - enable viewers to catch the start of programmes they have missed.
- 4.13 The BBC's digital channel portfolio was already complete at the time of the last review. ITV2 was also available as a free-to-view channel and E4 and Film4 were available as subscription channels.
- 4.14 But since the last review, digital television take-up on main television sets has risen rapidly and stood at 87% of homes at the end of 2007. Much of the growth that digital television platforms have experienced lately has been driven by the growing popularity of Freeview, which had only recently launched when the last review began.

Figure 25 Digital television take-up on main sets, 1999 - 2007

Source: Ofcom, Broadcasters, sales data

4.15 Since then, the commercial PSBs have continued to build their portfolios of channels:

- ITV plc has bolstered its investment in ITV2 and launched ITV3 (in 2004 - archive drama), ITV4 (in 2005 - targeting men) and CITV (in 2006 - targeting children). At the same time, it closed down the ITV News channel at the end of 2005, and launched and closed the quiz channel ITV Play during 2006.
- Channel 4 chose to turn E4 and Film4 into free-to-view channels in 2005 and 2006 respectively. It launched More4 in late 2005, and launched its quiz channel Quiz Call during 2005 before selling it to a third party in 2006.
- Five launched Five Life (targeting women with lifestyle programming and young children with its Milkshake strand) and Five US (concentrating on acquired drama) in late 2006.

4.16 ITV plc, Channel 4 and Five also now offer time-shifted versions of some of their main and portfolio channels.

4.17 Section 3 showed that the PSBs' digital channels have been successful in targeting niche audiences and holding up portfolio share (though a percentage point of share on a portfolio channel is not equivalent to the same point of share on a main channel, because for the commercial broadcasters it doesn't attract the same advertising rate).

4.18 However, the portfolio channels do not fulfil public service broadcasting purposes and characteristics as significantly as the main channels, for two reasons:

- PSB digital portfolio channels tend to broadcast a far lower proportion of new UK content than the main channels - and what there is tends to be broadcast on the main channels at some point anyway;

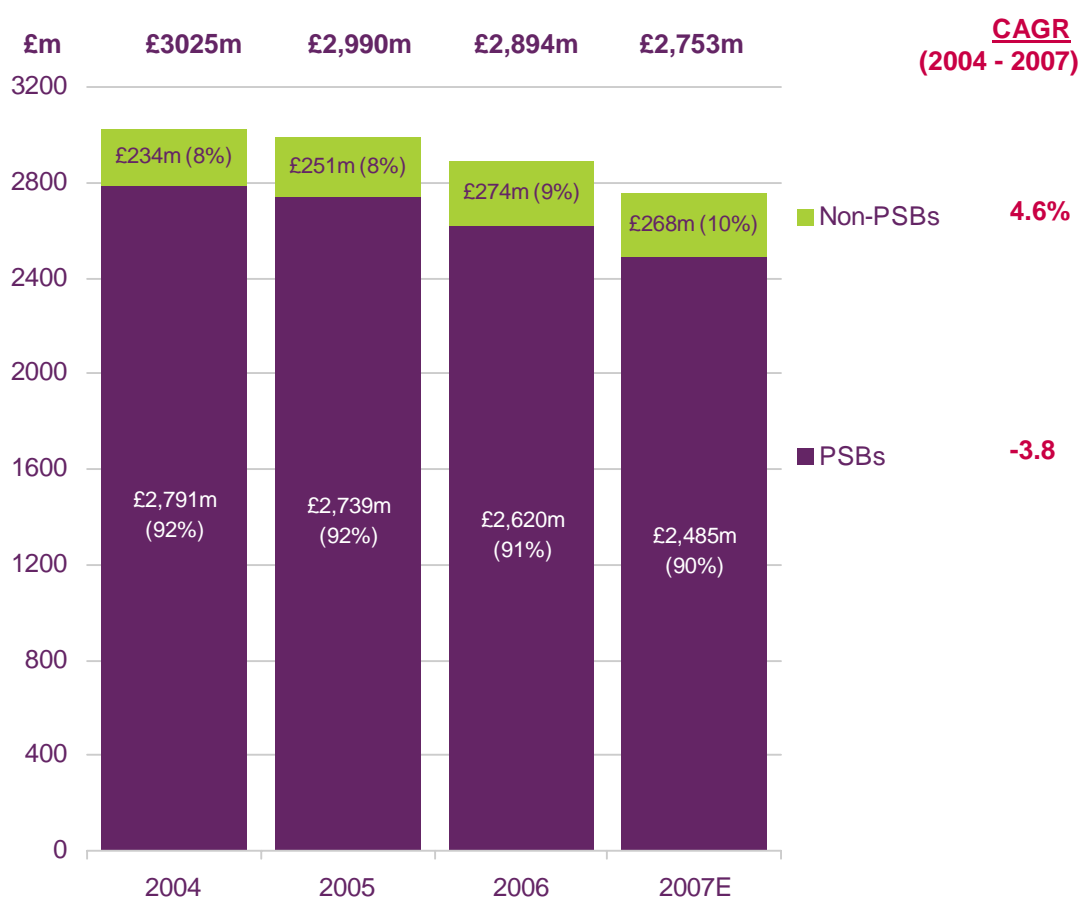
- there is no provision in the statutory framework for commercial PSBs' portfolio channels to contribute to the broadcasters' remits, so there are no requirements for them to do so.
- 4.19 Public service broadcaster diversification is not confined to new broadcast channels. All the PSBs have taken advantage of the growing availability of broadband to offer live and on-demand access to their content over the internet. For the public service broadcasters, the internet offers the opportunity to deliver content across multiple platforms and to cross-promote their services. By making their programming available online, the internet gives the commercial PSBs the chance to make money from a range of subscription and advertising-based business models. Similarly, the ability to simulcast programmes over the internet has generated further revenues.
- 4.20 The BBC led the way with the launch of BBC Online in 1997; it now spends £116 million annually on the site, generating a unique monthly audience that averaged 14.3 million in 2006/07. The corporation has since launched the BBC iPlayer, which offers free-to-view downloadable and streamed access to a range of output broadcast over the last seven days. Some output is also available as a 'first show' on the internet.
- 4.21 Channel 4's 4oD offers free and paid-for access to content that has been broadcast over the last month on the main channel; a live stream of Channel 4 itself is also available at certain times of the day. The broadcaster has also launched 4Docs, offering the public access to advice on documentary making and the opportunity to upload short clips to a website. ITV Local launched in 2006 while ITV.com was enhanced in 2007 with live access to the channel portfolio along with free-to-view access to a range of recently broadcast content and some archive. Five offers paid-for access to a range of downloadable shows. The BBC, Channel 4 and ITV are also in the process of developing a joint online on-demand proposition under the project name "Kangaroo".

Non-PSB channels' contribution to public purposes is growing, but still limited

- 4.22 Beyond the public service broadcasters, many new television services have launched since the cable and satellite broadcasting began in the 1980s, a process accelerated by the advent of digital television in 1998. By the time of the first PSB review, many of these channels - supported by either commercial or public funds - provided content that met some of the purposes of public service broadcasting. Examples include:
- Sky News, launched by BSkyB in 1989 as the UK's first dedicated 24/7 news channel. It had a 0.5% share of viewing in multichannel homes in 2007.
 - Discovery, The History Channel, National Geographic, Sky Arts, Bio and some of the UKTV channels, which all offer access to a range of specialist factual output, including archive programming, acquired programming, co-productions with UK broadcasters (particularly PSBs) and some fully-funded original content; and
 - The Community Channel, offering access to a wide range of community-based content, supported by a number of media organisations which provide the channel with access to broadcasting expertise and financial support.
 - Channel M, owned by Guardian Media Group, which offers a wide range of live and pre-recorded content about Manchester and the surrounding area, including two daily live news bulletins.

- Teachers' TV, funded by the Department for Children, Schools and Families, to target schools professionals with originated broadcast content. It also hosts all its commissioned content on the Teachers' TV website.
- 4.23 Ofcom's research shows that some of these channels have loyal niche audiences for whom the channel fulfils a need. Several commercial digital channels were spontaneously mentioned in the deliberative workshops as providers of public service content, including Discovery Channel, National Geographic and Sky News.
- 4.24 In some genres digital-only channels (both PSB portfolio channels and others) already contribute to the plurality of public service content. This is more pronounced for some purposes than others. In our PSB Tracker survey, selected single genre commercial channels (the Discovery Channel, UK TV History and Sky News) were rated very highly among their regular viewers for helping them understand the world and stimulating knowledge and learning, but less so for reflecting life in the UK. Most of the other non-PSB channels monitored by the PSB Tracker are rated by their regular viewers less for meeting public service purposes than for displaying some of the production characteristics of good public service programming such as being high quality and engaging.
- 4.25 Our analysis shows that the contribution of digital-only channels to public service purposes remains limited by two factors.
- 4.26 First, non-PSB channels offer much less originated UK content than the public service broadcasters, and spend much less on it (see Figure 26). Ofcom estimates that non-PSB channels spent £268 million on UK-originated output (including the commercial PSBs' digital channels) in 2007, excluding spend on sport and film rights. A quarter of this total is accounted for by spend by the commercially funded PSBs on their portfolio channels, and this proportion is growing; investment by channels that are not part of the PSBs' portfolios has grown at an annual average of 3% since 2004, in real terms.
- 4.27 Originated spend by the five main public service channels and the BBC's digital channels reached £2,485 million in 2007, but experienced average annual reductions of 3.8% since 2004. Nonetheless the public service channels continue to represent over 90% of all spend on original UK programming.
- 4.28 Investment by digital-only channels in content is concentrated in entertainment channels, which accounted for over half of all digital channels' investment in original content in 2007. News was the second largest category, accounting for a little under a quarter of spend.

Figure 26 Spend on networked UK originated output by PSBs and non-PSBs



Source: Broadcasters and Ofcom calculations/estimates. Excludes spend on sport and film rights

Notes: All figures are in 2007 prices. 'PSBs' includes spend on the BBC's digital channels.

4.29 The second constraint on digital-only channels' contribution to public purposes is their limited reach and impact. The audience share of the digital channels, taken together, has increased significantly and the modelling of future scenarios indicates that this overall share will continue to rise, as digital take-up becomes universal. However, the audience share of individual digital television channels is unlikely to grow to anything near levels comparable with the five main networks. ITV2, the most-viewed digital television channel outside the main PSBs in 2007, still only commands an audience share of 2% in multichannel homes.

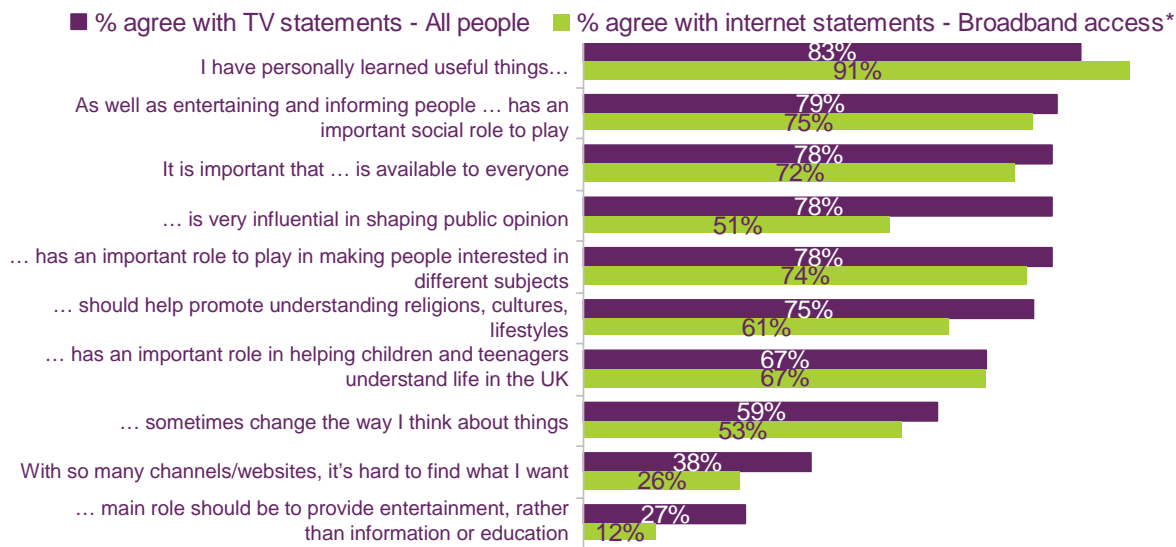
The internet is meeting public purposes in new and innovative ways

4.30 As a result of the growth of broadband, some people are beginning to meet needs for public service content in ways other than broadcast media. While for UK adults as a whole, TV on the main channels is the medium that they would miss most (31%), for 16-24s with broadband, the internet is the medium they would miss most (48%).

4.31 The internet has grown since 2003 as a way for people to meet a number of media needs, in particular personal interests and knowledge about different topics. The internet is the most popular way to "find out about people with similar interests" and, amongst younger people (16-24), also to "discover new things". According to our Media Literacy Audit 2007, half of broadband users saying that their main reason for using the internet is to "find out or learn things."

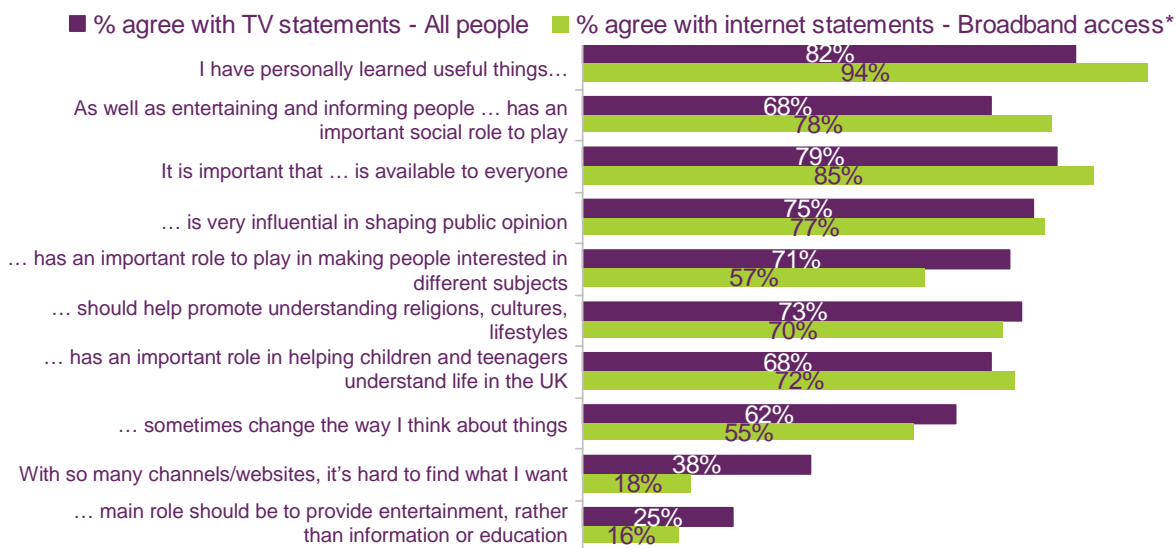
- 4.32 Use of the internet varies significantly by age. Take-up of broadband by those aged over 65 is much lower than for younger people and therefore the substitutability of the internet for TV is less apparent for this group. Just under one-third of 16-24s name the internet as their main source for personal interests, compared to just over two in ten overall, and only 5% of over-65s.
- 4.33 Both television and the internet are believed to play an important social and personal role, with relatively few differences in people's perceptions of them across a range of purposes. This is true both for all adults and particularly 16-24 year olds (see Figures 27 and 28).

Figure 27 The role of TV and the role of the internet (adults 16+ by platform access)



Source: PSB Review survey: 2,260 UK adults aged 16+, October - December 2007. *Base: 946

Figure 28 The role of TV and the role of the internet (16-24s by platform access)



Source: PSB Review survey, all aged 16-24 years, October - December 2007

- 4.34 According to our PSB Review survey the provision of online content by the main channels is seen to be important by half of the public, rising to 70% among those aged 16–24 and those with access to broadband. Some of the PSBs, responding to this, have already experimented with new models for delivering the public purposes in innovative new ways; for example, Channel 4’s *Big Art Mob*, and the BBC’s *Sex I.D. Test*. ITV has also begun to make some of its TV shows available via the social networking website *Bebo*, given its high user base of under-25s.
- 4.35 A range of commercial and civic institutions now provide online content which contributes to the public purposes. The internet offers low initial barriers to entry, reduced upfront risk, and investment can be amortised over a long period. Internet distribution costs are low, and falling rapidly. Most radically, the web empowers individuals to collaborate in the creation of their own content. Channel 4’s decision at the end of 2007 to move its £6 million budget for schools programmes away from television and onto interactive media illustrates the growing recognition that the internet provides good opportunities for delivering value to particular audiences.
- 4.36 The interactive and participative nature of the internet makes it an effective repository for information and a platform for research and discovery. Indeed, arguably some types of content can be more effectively delivered via interactive media than on TV, as Figure 29 illustrates. Although BBC Parliament and theyworkforyou.com are not direct substitutes nor necessarily trying to achieve the same purpose, they demonstrate the very different costs and benefits of reaching audiences interested in Parliament in different ways.

Figure 29: The effectiveness of television and interactive media in delivering political material

BBC Parliament	www.theyworkforyou.com TheyWorkForYou.com ²⁰⁰⁸
24 hour digital TV channel; interactive services; online media player simulcasts and catch-up	Searchable Hansard transcript archive for HoL, HoC and NIA; RSS feeds; contact your MP; API available
270,000 average monthly viewers ('06)	150,000 average monthly unique users ('07)
£1.72 per monthly viewer	1p per monthly unique visit

Source: BARB, Google Analytics, BBC Annual Report, Ofcom analysis

- 4.37 Furthermore, use of new services and technologies is generally improving accessibility to public service broadcasting for people with disabilities, although important barriers remain. Large text, textual descriptions of programme scenes, audio cues and tactile screens are becoming increasingly effective. For example, the BBC’s CBeebies website provides educational games that are designed to allow visually-, hearing- or motor-impaired children to interact with its content.
- 4.38 The internet is also able to serve niche interests and specific communities. For example, local community websites such as *Kings Cross Environment* and *The Brookmans Park Newsletter* provide citizen journalism and a forum for local discussion at a level of geographic and community granularity which is impossible for TV, and currently uneconomic for the printed press.
- 4.39 Additionally the internet enables public institutions to deliver their objectives online, increasing the reach, impact, and longevity of their public assets, as illustrated in Figure 30.

Figure 30 Performance of a selection of public institutions' online presence

	Annual offline visitors	Annual online visitors
Tate	8m	13m
National Gallery	5m	9m
Natural History Museum	3m	11m

Source: Aqute

4.40 Ofcom commissioned specialist consultancy MTM London to assess the extent and nature of public service content online that meets the public purposes. Given the differences between delivery of content online and on television, the characteristics of public service content were adapted for an online environment (Figure 31).






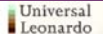




Figure 31 Characteristics as applied to online content

PSB Characteristics	Online interpretation
High quality	Usability; breadth, depth and freshness of content; functionality
Original	Offering an experience or service not readily available elsewhere
Innovative	Breaking new ideas or re-inventing existing approaches
Challenging	Making users think
Engaging	Experience is attractive to users - encourages interaction and participation
Discoverable and accessible	Appropriately signposted, easily discoverable through search and other sites; accessible to user base

Source: MTM London

4.41 The research shows that the internet is home to a wide range of current providers of content and services meeting public service broadcasting purposes and characteristics. The table below illustrates examples of the sort of sites that are considered to deliver public service broadcasting purposes and characteristics:

Figure 32 Examples of the range of providers and sites fulfilling PSB purposes and characteristics

PSBs	bbc.co.uk, channel4.com, itv.com, five.tv	
Non-PSBs	Discovery.com, Sky.com/news, Teachers.tv, ChannelM.co.uk	
Public Institutions	Tate.org.uk, CBSO.co.uk, Scottishballet.co.uk, ScienceMuseum.org.uk, Kew.org	
International Institutions	Nasa.gov, Food-Force.com (from the UN)	
Commercial Web Publishers	NewburyToday.co.uk, Nature.com, NME.com, Babyworld.co.uk, NetDoctor.co.uk	
Academia	UniversalLeonardo.com, Open.ac.uk, museumwales.ac.uk	
Archives & Libraries	BFI, National Archives, British Library	
Government	NHS Choices, DirectGov for Kids, PlanetScience.com	
Charities & Trusts:	National Trust, Wellcome Trust, Cancer Research, mySociety.org	
Not-For-Profit:	NetMums.com, PatientOpinion.co.uk, KingsCrossEnvironment.com	

Source: Ofcom

4.42 MTM London was also asked to report on the extent and discoverability of online public service content across a range of categories. Their report (see Annex 8) concluded that there is a substantial volume of public service content currently available in many genres, much of it provided by the public and voluntary sector, but

that provision tends to be strongest in areas that are underpinned by competitive markets with a strong mix of well-funded, committed providers pursuing sustainable operating models. However, there is only a limited amount of public service content in other genres where the commercial business models are currently less clear and have yet to prove themselves as effective. This is summarised in Figure 33 below.

Figure 33 Relative availability and discoverability of online public service content

Genre	Availability	Discoverability
Information, search and reference	Extensive	Simple
News and comment	Extensive	Simple
Business and commerce	Significant	Simple
Entertainment and lifestyle	Significant	Moderate
Health	Significant	Moderate
Science and technology	Significant	Moderate
Local, regional and national	Significant	Moderate
Politics and government	Significant	Moderate
Arts, culture and heritage	Limited	Difficult
Children	Limited	Difficult
Community and social action	Limited	Difficult
Learning and education	Limited	Difficult
Teens	Limited	Difficult
Social networks and aggregators	Limited	Moderate
Recreation	Limited	Difficult

Source: MTM London

- 4.43 Although some content categories currently do not deliver particularly well against the public service broadcasting purposes and characteristics, we expect that this may change in the next few years as more public institutions and services find that they can deliver their public objectives effectively through interactive media.
- 4.44 Ofcom also commissioned MTM London (see Annex 9) to estimate current spending on public service content online. This work suggests central government already spends in the region of £70-90 million, with local and devolved government estimated to spend a further £45-55 million. Public service broadcasters, including the BBC, spent an additional £170 million in 2006/07. The wider commercial market and the third sector are also investing significantly in online media and increasingly contribute to meeting a range of public and social needs.

Questions for consultation

- i) Do you agree with Ofcom's conclusions about the way that other digital channels and interactive media contribute towards the public purposes?

Section 5

Prospects for the future delivery of public service content

Introduction

- 5.1 The preceding section described the changing market environment, with digital TV and the internet at the forefront of these changes. The public service broadcasters have responded to these opportunities by expanding their offering to include digital channels and online services as a way of maintaining reach and (for the commercial channels) advertising revenues.
- 5.2 The extent and speed of the changes set out in the previous section highlight that the future of UK media provision is highly uncertain. Rapid changes in the way audiences consume media will present a range of opportunities for delivering public purposes (informing ourselves, stimulating knowledge and learning, reflecting cultural identity and making us aware of different cultures and viewpoints).
- 5.3 To explore this further, we commissioned the consultancy Oliver & Ohlbaum to develop a range of possible scenarios for future market development to help us understand the future prospects for delivery of the public purposes. This section sets out the results of its modelling which suggest that these prospects are highly uncertain, particularly after 2012; different scenarios have very different implications for the extent to which public purposes are achieved and in what way. While many forms of content which meet the purposes and characteristics will remain profitable to produce, pressure is likely to come in a number of areas, particularly on investment in content that reflects UK perspectives.
- 5.4 Against these scenarios, we have assessed the opportunities presented by digital television and online services and the roles they could play in delivering public purposes in this new market environment. While these services will bring new value there are likely to be issues around the 'discoverability' of content available, reducing its reach and impact on citizens. We also assess the costs of delivering the public service licence obligations for the commercially funded broadcasters, which in some cases look likely to exceed the benefits of their current licences before the completion of digital switchover in 2012.

Future market developments are highly uncertain

- 5.5 The future of UK media provision is highly uncertain. After digital switchover, the penetration of different platforms and services may continue to change, with implications for the availability, payment models and viewing patterns of services. Audiences' preferences for different kinds of media, and the level of take-up of innovative new interactive and mobile services, are very difficult to predict. Revenues to the industry - both their size, and their source - will be driven by these uncertain factors, in addition to the prevailing economic climate. Total viewing of television (or television-like) programming may vary considerably, particularly among certain demographics.

- 5.6 While our evidence, of necessity, focuses on the current situation, it is important to note the demographic changes that will take place in the UK over the coming years - over 40% of the UK population is projected to be over 45 by 2011, and the proportion of those aged over 65 is predicted to rise from 16% to 22% by 2031. However, it is impossible to judge with any certainty how this will impact upon media consumption habits. It could be argued that older people will remain less likely to take up digital media - but changes in market provision and focus may result in swifter take-up by this group of some technologies than has been the case to date. Similarly, younger people may retain their greater focus on interactive media as they grow older. However, as their life-styles change, it is an open question as to whether their television consumption will increase as fast as in previous generations.
- 5.7 There are therefore a wide range of possible scenarios for future market development, with very different implications for the future delivery of public purposes. Oliver & Ohlbaum identified three key drivers of future change in consumption and production:
- the speed of uptake of new platforms and technologies, which will make more services available in more places to more consumers;
 - the speed of audience fragmentation among services i.e. whether consumers will make use of these new services at the expense of existing services, and what providers they will turn to; and
 - the capacity of new and existing providers to secure greater or lesser revenues from changes in the media service mix.
- 5.8 The interaction between these drivers will determine how audiences change between traditional and new platforms, between linear and on-demand content and between content providers on these services. The viability of commercial services will depend on the ability to maintain revenues as audiences change, particularly by making money from smaller, more targeted audiences.
- 5.9 Oliver & Ohlbaum developed four scenarios to illustrate future consumption and production of public service content, based on these three sets of variables. A brief description of the key assumptions behind each scenario is given in the table below.

Figure 34 Description of scenarios

<p>Low</p> <p>↑</p> <p>Speed of new platform and technology updates</p> <p>↓</p> <p>High</p>	<p>Consolidation</p> <ul style="list-style-type: none"> Adoption of new technology is relatively high Use of linear TV platforms static Some viewing migrates to other platforms and internet content Consumers look to trusted content aggregators to navigate market Current players respond by acquisition/launch of new linear and on-demand services, retaining viewing across multiple platforms. Existing players consolidate share of the market in response to fragmentation. Vertical and horizontal integration in industry leads to higher returns for a small number of large content providers and earn returns. Existing players consolidate share of the market and earn returns Less incentive for new players to invest in content 	<p>Radical Fragmentation</p> <ul style="list-style-type: none"> Take-up and usage rates for new technologies are very high High fragmentation of viewing by platform and operators Consumers divide into niches with divergent media use - blending linear, on-demand, interactive and user-generated Audiences for linear broadcasting are mainly old, downmarket Advertisers seek affluent targets on other platforms Few operators therefore have scale or resources to fund programming
	<p>Gradual Transformation</p> <ul style="list-style-type: none"> Steady increase in new technology adoption and use; incremental rather than substitutinal Continued growth of DTT, and slow growth of pay-TV or IPTV platforms Linear TV viewing continues to lead consumption Share of viewing of the PSBs declines to DSO, then slows Non-PSBs do not develop greater scale to invest PSBs leverage scale and investment more effectively 	<p>Stagnation</p> <ul style="list-style-type: none"> Adoption of new technology is relatively high; seen as utilities rather than new services Consumption of linear audiovisual material across all platforms wanes Freeview via DTT becomes prevalent at the expense of pay-TV Free-to-air broadcasters retain high share of declining viewing Wide availability of free material on broadcast platforms and online, and piracy of digital content, leads to a sharp fall in investment Premium on-demand content remains marginal. New media entrants are unable to invest in new content
	<p>Low ← Speed of audience fragmentation → High</p>	

Source: Oliver & Ohlbaum

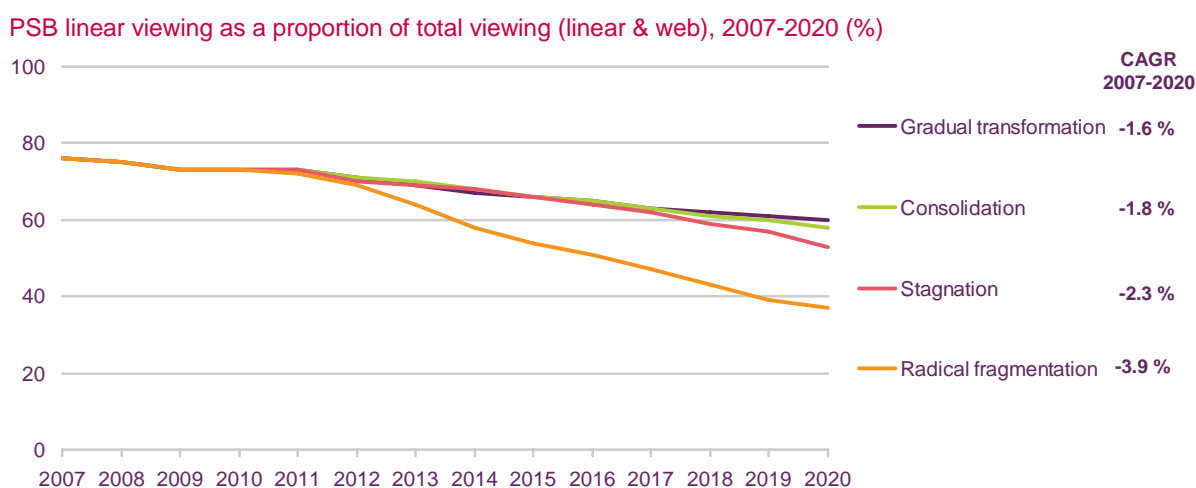
5.10 The scenarios and underlying assumptions have been used to develop a quantitative long term model of the UK television programme market. The key outputs from the model are viewing share, revenues and programme investment, both for the public service broadcasters and for the wider market. The period covered is to 2020: within this period, we refer to the short term (2008 until 2011), medium term (2011 to 2014) and long term (2014 to 2020). A synopsis of the work on scenarios and economic modelling is set out in Annex 7.

- 5.11 Under most scenarios, the modelling suggests the market would enter a period of faster change than either prior to or since, the first review. The rate of change is unpredictable, as suggested by the four diverse but plausible scenarios. The nature of change will not necessarily be constant. It is possible that, at different stages, the market may incline toward different scenarios depending on the rate of change of the key drivers experienced. However, the implications of change are significant under all scenarios, as illustrated by the range of different outcomes under the scenarios.
- 5.12 There are a number of trends common to all of the scenarios, albeit with different degrees of magnitude and timing of effect. The common trends highlighted are important because these are the changes that will have most impact on the delivery of public service broadcasting. The range of different outcomes under the scenarios will influence whether, when, and what intervention might be required to ensure the continued delivery of the public service purposes.

In all the scenarios, the audience share of the public service broadcasters is likely to decline

- 5.13 In all scenarios, the public service channels' audience share taken together is likely to continue to decline. This is primarily due to the switch of primary and secondary TV sets from five-channel analogue to multichannel digital, and the extended choice of channels in the approach to digital switchover. Thereafter, there are differences as to whether the rate of decline of the PSBs' share will stop (gradual transformation), slow down (stagnation) or, if audiences continue to fragment at the same rate, whether they will migrate to the services of many smaller players (radical transformation) or to the multi-platform services operated by the existing public service institutions (consolidation). There is considerable variation in the share of television audiences that the public service broadcasters might account for in the future, depending both on the adoption and use of new platforms, and on the brands to which viewers will turn.

Figure 35 Viewing of PSB channels, by scenario



Source: Oliver & Ohlbaum

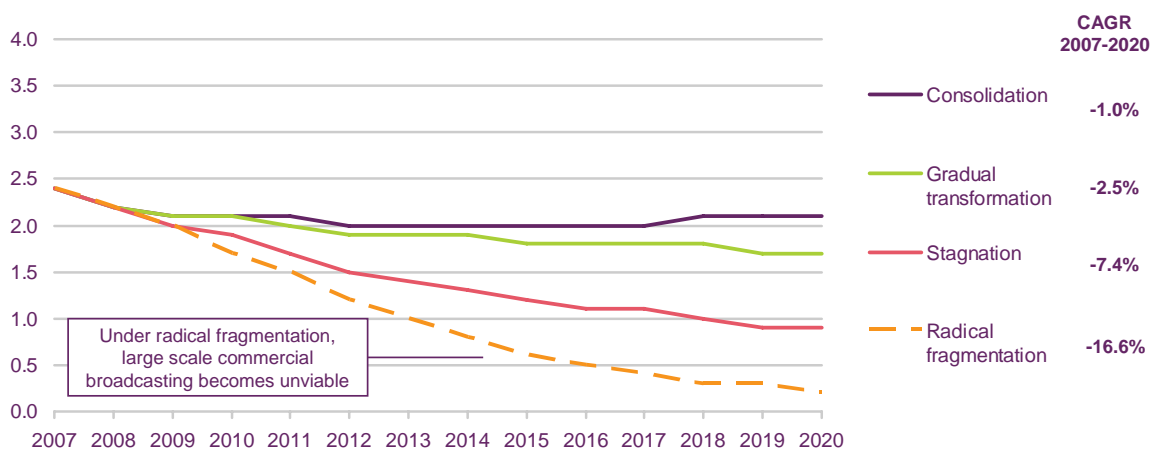
- 5.14 In all the scenarios, the BBC is likely to experience the least decline, as its ability to invest in programming is relatively certain. ITV1, as the leading commercial channel by audience share, may experience the greatest proportional decline as it loses scale.

- 5.15 The different outcomes will influence the ability of the public service broadcasters to distribute programmes to wide audiences and will therefore have implications for the impact of public service content.

Commercial PSBs' revenues are likely to remain flat in real terms

- 5.16 The BBC's main source of income, the licence fee, is set to be flat or declining in real terms after 2010 under the funding formulas announced by the government in 2006 for the first six years of the BBC's current charter. The commercial public service broadcasters' main source of income, advertising revenue, is expected to fall in real terms in the short term, as audience share declines.
- 5.17 There is significant uncertainty as to the prospects for the television advertising market. In the short term, there is the risk of economic downturn. All of the scenarios have assumed a nominal decline in advertising revenue to the industry in 2008 and 2009. If a downturn were to prove more protracted, further similar reductions in the size of the market would reduce the revenues of commercial broadcasters, regardless of the impact of different scenarios.

Figure 36 Commercial PSB revenues, by scenario



Source: Oliver & Ohlbaum

- 5.18 In the medium and long term, revenues will vary depending on the ability of the commercial public service broadcasters to maintain their pricing premia relative to other broadcasters (gradual transformation) or to aggregate and make money from smaller audiences (consolidation), or whether the fragmentation of audiences among many providers (radical transformation) negates these abilities. The spread of potential outcomes for the commercial public service broadcasters' revenue is very broad, as the factors tend to be self-reinforcing; that is if revenue begins to fall, investment in programming will also be reduced, leading to smaller audiences, and therefore less pricing premium in the market and lower revenues in total.
- 5.19 Across the scenarios, the commercial public service broadcasters are likely to lose the same proportional amount of revenue. However, ITV1 and Channel 4 would be more affected under radical transformation as they would lose scale in key audiences, which underpins their current pricing premia to advertisers.
- 5.20 Growth in revenues will be limited to direct consumer payments (mainly via pay-TV subscriptions) or secondary revenues to content owners (overseas sales,

merchandising, online distribution). The public service broadcasters have limited exposure to these sources of revenue.

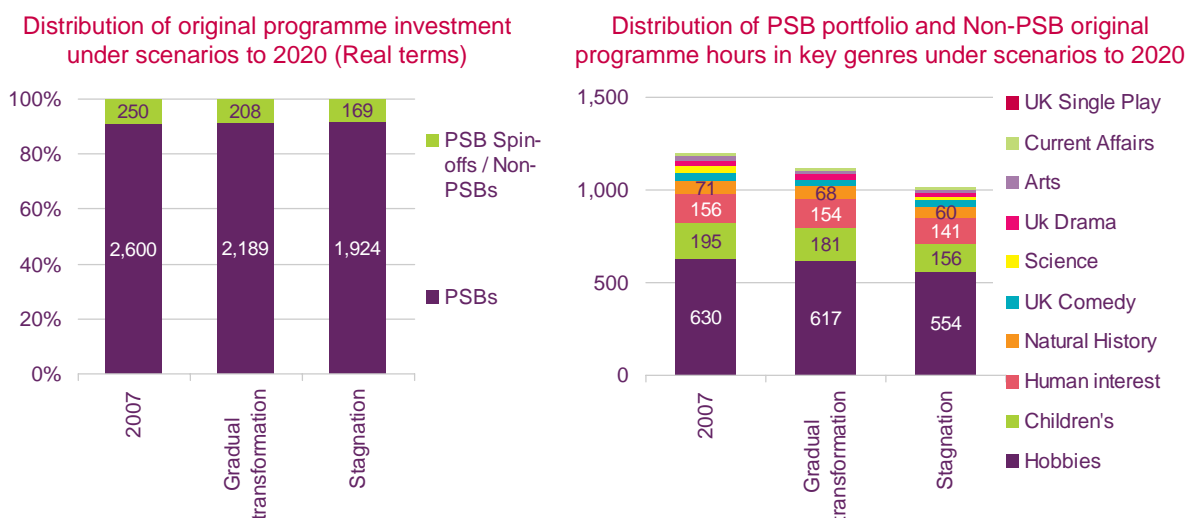
5.21 The different outcomes will influence the economic incentives for commercial public service broadcasters to distribute a mixed schedule of programming that is designed to have wide appeal, rather than to focus narrowly on genres and demographics.

Commercial digital channels remain important, but are unlikely to fill the gap left by PSBs

5.22 As we saw in Section 4, consumers feel that some commercial digital channels meet some of the purposes of public service broadcasting. They also believe that the additional digital channels launched by the commercial public service broadcasters could have a role to play. However, the economics of commercial digital channels mean that they currently have few incentives to develop and invest in UK original programming.

5.23 The economic modelling suggests that this is a pattern that is unlikely to change in the future if left to the market alone; if anything, non-public service broadcaster-originated hours of output will decline as a proportion of all originated output and, of those hours that are originated, a significant proportion will be made in genres that are less relevant to public service broadcasting purposes (e.g. hobbies).

Figure 37 Current and future originated volumes of output under ‘gradual transformation’



Source: Broadcasters and Oliver & Ohlbaum

Consequently, total investment in content reflecting UK values, cultures and perspectives is likely to decline in real terms

5.24 If revenues decline in the short term, broadcasters will be under financial pressure to reduce original programme investment. In the medium to long term, commercial broadcasters’ investment in original production will depend on the resources, incentives and returns for doing so.

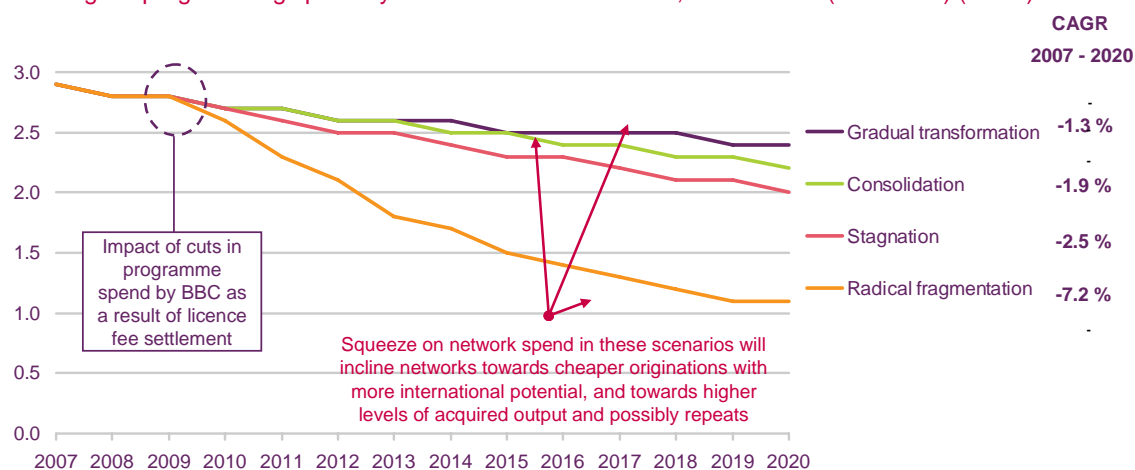
5.25 Under gradual transformation broadcasters retain greatest scope for original programme investment. Large broadcasters would retain the scale to fund a range of

programming: their incentives would be to aggregate audiences with popular content to maximise revenue. Under this scenario, spend would fall in line with revenues.

- 5.26 Under other scenarios, scale would be retained but there would be less incentive to invest in programming due to less competition for audiences (consolidation) or less available revenues for attracting them (stagnation). Under radical fragmentation, rational commercial broadcasters would have neither the resources nor the incentive to invest significantly in original programming.

Figure 38 PSBs' spend on original programming, by scenario

Total original programming spend by scenario: All UK channels, 2007 - 2012 (real terms) (£BNs)



Source: Oliver & Ohlbaum

- 5.27 Across the scenarios, the BBC would be relatively unaffected in the medium term. Its income and remit in respect of original production are comparatively fixed, and therefore investment in original programming would be relatively constant. ITV1 and Channel 4, if experiencing declining revenues, would be under greater pressure to reduce original programme expenditure.
- 5.28 Different outcomes influence the viability of funding of UK original programming and the proportion of UK investment in different types of programmes. In particular, there is likely to be pressure on content that meets some of the public service characteristics - high quality, original, innovative and challenging output. Uncertainty about audiences' changing tastes and broadcasters' capacity to innovate to address changing needs means it is impossible to predict with certainty how broadcasters will respond. However, faced with financial pressure, broadcasters' economic incentives will be to:

- reduce programme costs (via lower budgets and international co-production). This will reduce both the quality and UK character of originated programming;
- improve the 'hit' rate of programmes (via proven brands and formats, and repeats of popular series). This may affect both original investment and innovation in programming; and/or
- reduce risks of loss of audience share (by ceasing to show less profitable genres, and competing closely in terms of schedule composition). This may impact on the challenging and innovative nature of programming and the diversity across schedules.

Some genres are likely to face greater pressure than others

- 5.29 Despite the risk of falling investment in UK content, many public service programme genres are likely to remain profitable for the commercial PSBs. Those attracting large audiences such as UK soaps and drama, factual entertainment, sport and acquisitions would remain profitable under most scenarios.
- 5.30 Other genres which generally attract smaller audiences, such as news, natural history and human interest programming are also likely to remain in profit under some, but not all, scenarios.
- 5.31 However, it is clear that some types of programming which meet public service purposes are already relatively commercially unattractive for broadcasters and are therefore at even greater risk of reduced delivery. Nations and regional news, UK children’s programming and current affairs appear unprofitable genres, whether on public service channels or digital channels. The commercial public service broadcasters have either made, or are proposing to make, reductions in their output of these genres on their main channels.⁷ Additionally, UK film, UK scripted comedy and UK single drama are relatively expensive and therefore not produced in volume.

Figure 39 Current profitability of areas of programming for commercially funded PSBs

Schedule margin of genres for commercially funded PSBs	Small audiences	Large audiences
Very profitable		Soaps Factual Entertainment
Marginally profitable	Arts Factual National News Natural History Human Interest	UK Entertainment Non-UK Film Football Factual Drama UK Drama Series and Serials
Marginally unprofitable	Music Religion Hobbies & Leisure UK Film Current Affairs UK Sitcom	UK One-off Drama
Very unprofitable	Nations and regions news UK Children’s Nations and regions other programming	

Source: Oliver & Ohlbaum

- 5.32 Genres with relatively limited audience appeal, which need to cater for a wide variety of tastes, such as some hobbies and leisure programming, religious programmes and current affairs, are unprofitable for commercial public service broadcasters, as are other genres that are less relevant to the purposes and characteristics (internationally-acquired drama, music, films and entertainment). However, these genres tend to be well-supplied by the wider multichannel market, and on non-linear platforms, where models are more geared to making money from niche audiences.

⁷ Under the Act Ofcom is required to set minimum requirements or ‘quotas’ for the following tier 2 genres: news and current affairs programmes on ITV1, Channel 4 and Five, nations and regions programming on ITV1, and schools output on Channel 4

- 5.33 Under some scenarios, it is likely that additional genres would become at risk on the commercially funded public service channels. Under gradual transformation or consolidation, genres with current positive margins are likely to hold even, as audience sizes gradually fragment, because broadcasters will maintain their ability to make money from viewing. Under a stagnation scenario, a decline of commercial revenue for channels as a whole would mean that low audience and margin genres such as arts, science and specialist factual would probably become loss-making. Conversely, radical transformation poses the greatest risk to the viability of UK drama, UK soaps, football, national news and factual entertainment, as these are high-cost genres dependent on attracting large scale audiences.
- 5.34 Under some scenarios, the margin of different genres on Five is likely to be least affected, as Five already operates at relatively low audience and expenditure levels. Channel 4 is likely to experience the greatest falls in genre margins, with many genres important for its public service remit becoming unprofitable across all scenarios (the genres that are most likely to be affected include UK sitcoms, arts, religious programming, news and current affairs). Based on this analysis, we have assessed the potential impact on delivery of the purposes and characteristics of public service broadcasting (Figure 40).

Figure 40 The impact of future change on the commercially funded PSBs' contribution to public purposes and characteristics

The analysis carried out by Oliver & Ohlbaum traces the impact of market change at a genre level. Based on this analysis, we have assessed how this could impact delivery of the purposes and characteristics of public service broadcasting by the commercially funded public service broadcasters.

Purposes

- Increasing our understanding of the world – UK-wide provision is likely to be broadly unchanged, except under radical transformation. UK news and current affairs, although low-margin, will feature in the schedules of any mass broadcaster. Limited incentive to produce nations and regions news;
- Stimulating knowledge and learning - content with a UK perspective is at risk under all scenarios: there is likely to be less investment in low-margin genres such as arts, education and specialist factual programming. The remaining investment may be targeted at more populist treatment and subjects, rather than programmes with more formal learning components;
- Reflecting UK cultural identity - under threat due to probable declines in provision of content that reflects UK values, cultures and perspectives. Even if investment in UK content remains high, there is likely to be a greater trend towards formats and series that can be sold overseas. In addition, apart from under gradual transformation, there will be little incentive to produce content specifically in and for the UK regions and devolved nations;
- Making us aware of different cultures and alternative viewpoints - the range of content available would be enhanced under radical fragmentation (more providers) but impaired under consolidation and stagnation (same players).

Characteristics

- High quality and original - funding will be best upheld under gradual transformation. The scale required for investment in many genres will fall under radical fragmentation in particular, where high audience fragmentation is likely to make scale commercial programme production dependent on international business.;
- Innovative - innovation compromised by the status quo of providers under gradual transformation and particularly consolidation, where broadcasters can cap investment by exploitation of existing programming. However, under radical fragmentation competition between services on a number of platforms may increase innovation in an environment where risks will be necessary;
- Challenging - under gradual transformation, the pressure and rewards to retain scale audiences will be high, which may make schedules more homogenous but and designed to appeal to a broad audience. Stagnation - where commercial revenues and audience viewing both wane - would be likely to reduce incentives to address these characteristics.

Source: Ofcom

Short term pressures on commercial public service broadcasting remain

- 5.35 Currently, the commercial public service broadcasters deliver their existing public service broadcasting obligations in return for a number of benefits. The largest of these is privileged access to the market through analogue and DTT spectrum but there are also a number of other aspects, such as due prominence on electronic programme guides (EPGs) and preferential access to listings. Put simply, ITV1 licensees, Channel 4, Five and Teletext are able to reach a market of analogue homes that other channels cannot, and are gifted capacity on DTT at a cost which is below the current market price, saving them the cost of acquiring this capacity in the open market.
- 5.36 At present, although there is an opportunity cost to the broadcast of public service content, the commercial public service broadcasters are willing to continue to produce this content as the benefits of their PSB status outweigh the opportunity costs of the public service obligations. Opportunity cost to broadcasters represents the overall - direct and indirect - cost to broadcasters of providing public service programming. It includes the increased direct cost of public service programmes versus the alternative, for example the extra cost incurred by ITV1 producing multiple versions of nations and regional news above the cost of its likely replacement. In addition, opportunity cost includes the advertising revenue foregone from broadcasting public service programming. For example children’s programming incurs a high opportunity cost as advertising revenues are much lower than for other programmes at those time slots.
- 5.37 To assess the point at which the costs of public service broadcasting status outweigh the benefits for each ITV1 licensee and for Five, we have modelled the costs and benefits of holding a public service broadcasting licence for each provider.
- 5.38 Figure 41 outlines the benefits of PSB status for ITV1 and Five set against their public service obligations. Each of these can be valued over time. The costs and benefits of PSB status for Teletext can also be modelled in an analogous way.

Figure 41 The costs and benefits of being a public service broadcaster

Benefits of PSB status	Costs of PSB Status
<ul style="list-style-type: none"> • Access to analogue spectrum – until DSO this is the only way of being received in homes which have not yet switched to digital television • Guaranteed DTT capacity – ITV1 licensees and Five have access to DTT multiplex capacity at a cost which is below current market costs of such capacity • PSB multiplex coverage - the DTT capacity allocated is on a PSB multiplex with universal coverage, which therefore reaches more homes than the commercial DTT multiplexes • Ability to sell regionally – the PSB multiplex is also engineered in such a way as to allow airtime to be sold on a regional basis by ITV and Five, whereas the commercial multiplexes in general allow only national airtime sales • EPG due prominence and listings access • Must-carry status for the channel on cable 	<ul style="list-style-type: none"> • Opportunity costs of positive programme obligations, such as national and international news, regional and nations programmes, current affairs, originated, geographically dispersed and independently produced programmes – these can be modelled by considering what the cost and revenue earning potential would be of alternative commercial programme schedules • Payments for the analogue licence • Extra overhead costs for commissioning programmes, as opposed to acquiring them • The cost of the regulated terms of trade with independent producers, which public service broadcasters are obliged to offer

Source: Ofcom

- 5.39 Although not all of these elements apply in the same way to each broadcaster, we have adopted the same approach for both ITV1 and Five, valuing each element of the benefit of PSB status and assessing the opportunity cost of any obligation relative to an alternative where that obligation did not apply and the company was able to make an alternative purely commercially decision.
- 5.40 The same general approach can be used to assess the costs and benefits of PSB status for individual regional broadcasters within the ITV1 network, and we have similarly modelled the position of the national ITV1 licensees for Scotland, Wales and Northern Ireland, who are subject to a higher level of programme obligations than the English regional licensees.
- 5.41 We have also taken into account specific circumstances where appropriate. For example, in addition to the general costs and benefits of being a Channel3/ITV1 regional licensee, the UTV service achieves significant viewing in the Republic of Ireland and thus generates further revenues both from its commercial and public service programming. We have reflected these benefits in the conclusions of our modelling.
- 5.42 From this modelling a common pattern can be discerned in the likely value of the regional ITV1 PSB licences, though with material differences in timing. At present, all licensees experience greater benefits than costs of holding the public service broadcasting licence, in most cases by a relatively substantial amount. Digital switchover brings some benefits to the PSBs, particularly the need no longer to broadcast in analogue. However it also rapidly erodes the value of analogue spectrum. As a result the benefits of PSB status are exceeded by the cost of PSB obligations for the majority of licences before switchover.

Figure 42 Dates when costs of PSB licences exceed benefits

PSB Licence holder	Estimated date when costs of holding PSB licence exceed benefits
ITV plc	Before 2012
ITV1 Wales*	2009
stv	2009/2010
UTV	Continuing benefits beyond switchover
Channel TV	Continuing benefits beyond switchover
GMTV	Continuing benefits beyond switchover
Five	Continuing benefits beyond switchover
Teletext	2010

Source: Ofcom. * ITV1 Wales is contained within the overall ITV plc numbers

- 5.43 The timing of this crossover point varies significantly between licensees depending on the date of switchover in the region, the nature of benefits and obligations, and the specific commercial circumstances of each.
- 5.44 For some licensees, the opportunity cost of public service broadcaster status is likely to exceed the benefits relatively swiftly. The costs of the Scottish licences is, likely exceed their benefits in 2009 and 2010. The public Teletext licence is also expected to be in deficit by 2010.

- 5.45 ITV plc owns a number of regional licences. 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. Assessing the precise point when the benefits of public service broadcaster status are outweighed by the cost of PSB obligations is difficult across a portfolio of licences; however if the regulatory obligations on ITV1 remain at their current level there will come a point ahead of the completion of digital switchover when ITV plc will have economic incentives to surrender its regional PSB licences.
- 5.46 Any possible surrender of PSB status by ITV plc has implications which go beyond ITV plc itself. While ITV plc would undoubtedly be able to continue broadcasting the ITV1 service on a nationwide basis on satellite and on commercial DTT capacity, it would no longer be under any obligation to provide a core network service to the licensees which it does not own, around which they can sell advertising in their regions, and into which they insert their programmes for the nations. A loss of PSB status by ITV1 would therefore remove the economic foundation of the other national licensees' businesses.
- 5.47 If ITV plc handed back its PSB licences, it would also lose its current rights of access to digital capacity on Multiplex 2. This capacity would then need to be reallocated or released to the market. However, ITV plc would not lose access to the capacity that it controls through its ownership of SDN.
- 5.48 Some other licences will continue to have a net benefit from public service broadcaster status until switchover and beyond. Our modelling suggests that Five and GMTV will see a net benefit from PSB status up to and beyond switchover as their licences carry relatively fewer obligations. UTV and Channel will also do so as a result of circumstances particular to each of these regional ITV1 licensees.
- 5.49 We have not adopted the same modelling approach with Channel 4, but the *Channel 4 Financial Review* forecast that Channel 4's operating model and its remit delivery will face financial pressure after 2010. The prospects for Channel 4 are discussed in more detail in Section 9.
- 5.50 As a result, within the digital switchover period commercial licensees are likely to seek to reduce or remove the cost of public service broadcasting obligations, and to reduce investment in unprofitable genres in favour of more profitable ones.
- 5.51 One particular issue raised by some of the commercial PSBs for the short- and medium-term is their Terms of Trade with independent producers. Although only agreed in early 2006, some broadcasters argue that these terms are increasingly out of step with the way the content market is evolving. In the first instance this is a commercial matter for the broadcasters to discuss with PACT as part of the review process that is built into the new Terms of Trade agreements.

Interactive and online services will play an important role but discoverability is likely to remain an issue

- 5.52 The potential for interactive public service content to deliver public purposes seems likely to increase over the coming decade. This is due to the rapid rate of change in people's media habits and preferences, particularly amongst those who have grown up with the internet. A key uncertainty will be whether those who have grown up with the internet as part of their lives will revert to more traditional linear TV viewing habits as they grow older, or whether they will continue to shift their preferences towards the internet.

- 5.53 The internet is unbounded, has lower barriers to entry and is home to an ever growing range of providers of content, be they commercial, publicly owned, voluntary sector or individuals. This will result in an increasingly wide range of media becoming available online, much of which will meet public service purposes.
- 5.54 Despite this revolution in choice, a few areas of interactive public service provision may be at risk, due to the continuing need for fresh content reflecting contemporary UK culture.
- 5.55 A diverse supply of children's interactive public service content looks far from secure given the scale of the UK in a global market, and the difficulties inherent in making money from serving a young audience.
- 5.56 The future supply of high-quality online local journalism outside the BBC is also dependent on the continuation of a business model which enables reinvestment in content, something that is not certain given the success of non-content driven websites such as eBay and Craigslist.
- 5.57 However, innovative new approaches such as Trinity Mirror's piloting of postcode-specific ultra-local websites could improve the relevance of local journalism provided it can develop a sustainable commercial model. The BBC has recently announced plans to invest heavily in its existing suite of more than 60 local websites.
- 5.58 In addition, this abundance of provision, and extreme fragmentation, also leads to an important new barrier to public service content achieving reach and impact: how will people become aware of, or discover, interactive public service content which meets their needs as citizens?
- 5.59 In future, ensuring that people know about, and can find, a wide range of high-quality interactive public service content seems likely to be a greater challenge than ensuring its availability. Our research suggests that many people already find it hard to discern whether or not to trust a website that is new to them, and many are also frustrated by the narrowness of range of online content they consume. The latter frustration is more pronounced amongst those who have grown up with the internet.
- 5.60 Search is rapidly consolidating its position as the starting point for the vast majority of online experiences, and is the most significant driver of traffic to most websites. Very high barriers to entry mean that search has also become highly concentrated, with 88% of all UK web searches being conducted on a single, non UK-based provider. It is in the long-term interest of search providers to meet the needs of their users – needs which encompass people acting both as consumers and as citizens. Ofcom's research suggests that demand for public service content remains very strong, and thus it should continue to be in the interests of search providers to ensure that their results give due prominence, where appropriate, to public service content.
- 5.61 However, search results are generated algorithmically⁸, and are therefore continually prone to manipulation using a range of ever-changing techniques, known collectively as search engine optimisation. An 'arms race' is likely to continue between those search engine providers keen to meet the full range of needs of their users, and those who place the greatest commercial value on the traffic generated by search. Typically, the latter group does not include the providers of public service content.

⁸ Search engines determine which websites are most relevant for a given search query by using a complex computer algorithm which takes into account a wide range of variables such as a page's title, language and incoming links.

- 5.62 This is likely to continue to have an adverse effect on the reach and impact of interactive public service content, despite demand from users. One question is therefore whether intervention might be possible to enhance the reach and impact of existing public service content, and ensure it is easy for audiences to find and access.

Questions for consultation

- i) Do you agree with Ofcom's assessment of the implications of different economic scenarios for the UK TV market for the future prospects for the delivery of the public purposes?
- ii) Do you agree with Ofcom's analysis of the costs and benefits of PSB status?

Section 6

Meeting audience needs in a digital age

Introduction

- 6.1 The preceding section described the future prospects for delivery of public purposes across multiple platforms. This section sets out a vision for the future provision of public service content, based on audiences' priorities and the new opportunities emerging for delivery of public purposes on interactive platforms. We assess whether the existing model for public service broadcasting is sufficiently flexible to adapt to the potentially radical change in audience requirements over the next ten years and beyond, and argue that a new model is likely to be needed to secure the ongoing benefits of public service content.
- 6.2 We investigate two core underlying principles of the existing model – universal availability of free-to-view content, and plural provision – and argue that although these principles remain valid, a more nuanced understanding of their implications will be needed for a new era characterised by greater choice, variety and flexibility in media consumption.

A vision for public service content in a digital age

- 6.3 Audiences remain committed to the principles of public service broadcasting and to the provision of content across platforms that meets those principles. Our vision, driven by audiences' priorities, is for a system that:
- delivers high levels of new UK content meeting the purposes of public service broadcasting – increasing our understanding of the world through news and analysis, stimulating knowledge and learning, reflecting UK cultural identity and making us aware of different cultures and alternative viewpoints;
 - provides public service content which is innovative, original, challenging, engaging and of consistently high quality;
 - is available in a form, and on a range of platforms to achieve maximum reach and impact;
 - ensures competition for the BBC in each public purpose with sufficient scale to achieve reach and impact;
 - exploits the distinctive benefits of different delivery platforms; and
 - supplies diverse content which meets the needs of all communities within the UK.
- 6.4 Our starting point is that this vision would require, at minimum, a range of UK-originated, audiovisual content to be available across a range of platforms and from more than one provider in the following areas:
- high quality national and international news and current affairs;
 - news content which reflects the issues and the needs of audiences in the devolved nations;

- news content which reflect the issues and needs of English audiences at a regional and, where possible, local level;
- high quality, innovative and original children's content, particularly drama and factual programming aimed at older children and young teenagers;
- high quality, innovative and original drama and comedy that reflects UK values, identities and cultures;
- high quality, innovative and original factual content which stimulates knowledge of arts, science, history and other topics; and
- content which reflects the views of, and caters for, different communities of interest, ethnicity, life circumstances and so on.

6.5 The analysis of the preceding sections showed that commercial and community providers will make an increasing contribution to some parts of this vision, but not all. Achieving the public purposes of broadcasting will therefore continue to require significant intervention to ensure availability and access to content that the market would otherwise not provide. However, in future the nature of that intervention is likely to need to be different, to maximise the value for money delivered by investment in public service broadcasting.

The value of public service broadcasting is a function of availability, reach, impact and the cost of intervention

6.6 The value of intervention in public service content is driven by four factors:

- its **impact** on viewers – that is, the difference it makes to people and how highly they value it;
- its **reach** – that is, how many people choose and are able to access it;
- its **availability** – that is, how widely it is available;
- its **cost**, which determines value for money.

6.7 These considerations help identify how the value of public service broadcasting is changing, how intervention should be targeted to maximise value in future, and how much funding for public service content is likely to be required. Our analysis has shown three main factors which we need to consider:

6.8 First, new ways of delivering public service value are emerging as the availability and use of online content has grown. Online services can have very significant impact on users, particularly content that supports informal learning or helps users meet personal needs and interests, which can be provided at a lower cost and in a more targeted way than broadcast content. In particular, as broadband penetration has grown, and as the BBC's services have expanded and their reach increased, so has the public service value of those services. However, the reach of online services generally remains limited compared to TV programmes, and there may be persistent barriers to increasing the reach and impact of online public service content.

6.9 Secondly, the impact of the linear public service channels has started to decline slowly as audiences switch to other channels, and in some cases move away from TV more generally. Although the public service broadcasters retain strong brands

and command large audiences, levels of viewing of the designated public service channels are likely to decline further as digital switchover concludes and new forms of delivering content to consumers continue to emerge.

- 6.10 Finally, the value of some genres of programming has fallen as audiences attach less significance to them and watch in smaller numbers. Programmes about niche interests, religion and non-news English regional programmes come into this category. In other areas, however, audiences continue to attach high importance to provision of public service programming, and its impact remains high.

Intervention to achieve public purposes will need to take different forms in future

- 6.11 If we wish to maximise the total value of public service content in future, our analysis suggests that the methods and purpose of intervention will need to change. The future will not be about linear television alone, but a rich mix of linear broadcasting and new and diverse forms of content and delivery.
- 6.12 In our first review of public service broadcasting, we introduced the idea of the Public Service Publisher (PSP) as a potential institutional response to two issues: potential risks to the plural delivery of public service broadcasting and new opportunities to deliver public purposes via interactive media.
- 6.13 Developments since then, and the analysis carried out for this review, have confirmed the necessity of public service institutions embracing interactive media content and distribution as well as linear television. However the debate has tended to focus on possible institutional solutions rather than the broader, and more important, questions about the ways in which public service providers can exploit the opportunities offered by interactive and digital media.
- 6.14 We can identify three main questions in this respect.
- 6.15 First, can the value of existing broadcast public service programming be enhanced by making current and archive content available on demand and in different forms through a variety of media? This could include broadcasters making their programmes - both current and archive - widely available via a range of on-demand platforms, allowing their audiences to gather around, comment upon and annotate programmes, and encouraging individuals to re-use content from programmes in their own creative endeavours. The BBC currently spends the bulk of its interactive resources in this area. Furthermore a significant minority which is not yet online remains excluded from gaining benefits from online services – even though many in this minority would benefit most from access to these opportunities.
- 6.16 Secondly, what new forms of public service content are now possible, which take full advantage of interactive media's participatory and collaborative potential? Those who have grown up with the internet are expressing an increasingly strong preference for their educational needs to be met via interactive media. New means of encouraging civic and democratic participation, especially at local level, also appear cost-effective compared to broadcast equivalents. Channel 4 has recently stated that it intends to invest significantly in partnerships with other providers to explore new ways of delivering public purposes through its 4IP digital media fund.
- 6.17 Thirdly, how do we capitalise on the wide range of providers – private, public, voluntary sector and individuals – who are already producing an unheralded diversity of digital and interactive content which in many respects meet public purposes and

characteristics already? Online public service content may face barriers to take-up and impact, because users may not know it is available, consider it difficult to find and are unsure how to get maximum benefit from online opportunities. These are issues related to media literacy as much as to the availability of services, but they are just as likely to limit the reach and impact of the online public service content that is already available.

- 6.18 The existing public service broadcasters are well placed to exploit these opportunities, given the strength of their brands and their ability to cross-promote their TV and online services. The BBC has already invested significantly online, and is increasing its commitment. But our analysis shows that public service broadcasters are not the only providers which already contribute to public purposes, via interactive media, and alternative providers which could make an enhanced contribution in future. Some of these providers may be better placed than the existing PSBs to reach particular audiences.
- 6.19 For example, one option would be to work with market providers of search and navigation to boost the reach and impact of online public service content. This does not mean creating a new public service search engine or portal, which is highly unlikely to deliver value for money given the high level of commercial investment and innovation in existing search and navigation tools. But partnerships with existing search and navigation providers could help them ensure they are able to give the prominence desired by their users to online public service content, whatever its source.
- 6.20 The contribution of certain digital channels to programming that meets public purposes – Sky News, Discovery and so on – is also constrained by those services' relatively limited reach. One possibility would be to enhance their impact by subsidising the wider distribution of these channels, if the public benefits of doing so outweighed the costs. Any such arrangement would need to be carefully specified to ensure that it meets principles of good governance and accountability, and that it is consistent with state aid rules.
- 6.21 Further detailed work would be needed on a case-by-case basis to determine whether the benefits of any particular intervention outweighed the costs. There is clearly a risk with public service interventions in media content that they create economic inefficiencies by crowding out private investment in content, in turn limiting consumer and citizen choice and benefit. These concerns have re-emerged as the BBC has increased investment in new platforms in recent years. However, our analysis suggests that to date this has not been a significant factor, and it may diminish in risk as the online content market grows and public funding represents a decreasing share of that market. This analysis is summarised in Figure 43.

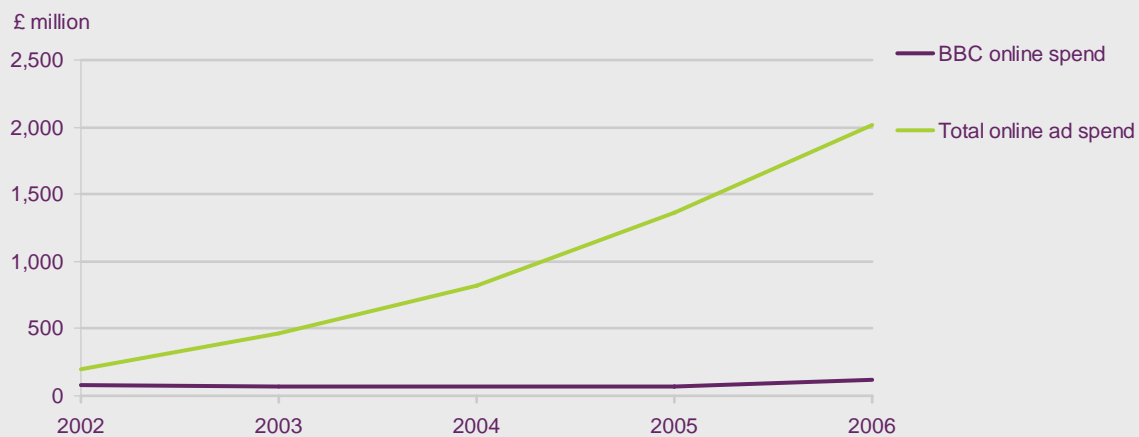
Figure 43 The risk of crowding out in the online content market

The BBC has operated a website since 1994, although bbc.co.uk was officially launched in 1997. Providing a broad range of text, images, video and audio content, bbc.co.uk exists to serve the public purposes through the provision of innovative and distinctive online content, and through distinctive propositions that reflect and extend the range of the BBC's broadcast services.

Some commercial operators have argued that the BBC's online presence has an adverse market impact by diverting audiences and thereby revenues away from their own businesses. Additionally, some argue that new providers are deterred from entering the market because of the scale of the BBC's online presence. However there are also arguments which support such intervention online as it encourages commercial investment and promotes competitive behaviour.

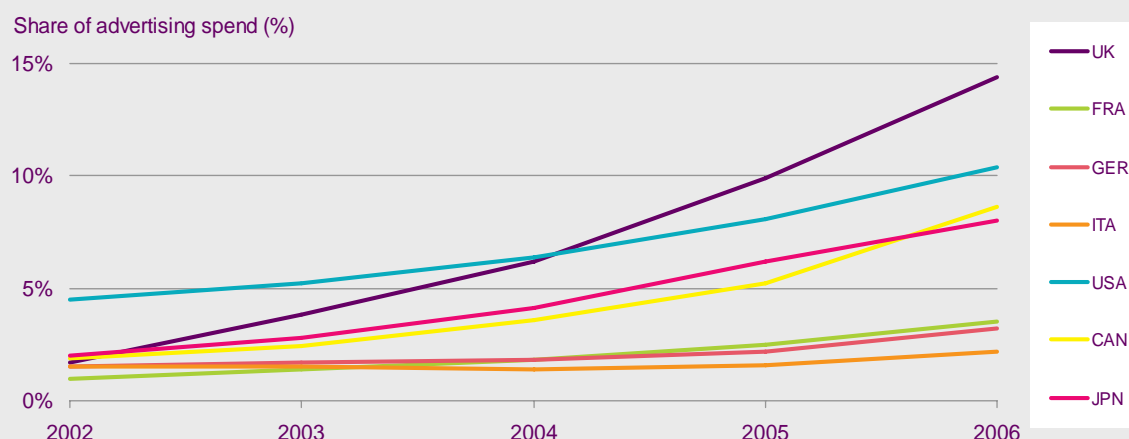
Certainly the BBC's expenditure online is substantially larger than many of its commercial counterparts. It increased from £75 million in 2002 to £116 million by 2006. However, although the BBC's online spend increased by over 50% in five years, online advertising spend in the UK increased by over 1600% in the same period, as illustrated in the chart below. Although this is not an accurate or complete representation of the BBC's impact in the market – and what would have happened otherwise is uncertain – it demonstrates that the BBC represents a declining proportion of the total market, and could suggest that the BBC has not necessarily constrained growth of the market.

Figure 43a Relative increase of BBC's online spend and total advertising spend



Source: BBC Annual Reports; The Advertising Association

Moreover, growth in the UK's online advertising market has been constant and strong over the past few years – actually faster than countries in which there is no comparable public subsidy, as shown in Figure 43b.

Figure 43b Internet advertising spend as a share of total advertising

Source: World Advertising Trends 2007, WARC

This evidence therefore suggests to date that the BBC's online spend has not constrained the growth of the UK's online market overall. That said, certain elements of the BBC's online activities have arguably had a market impact in the past. For example, before it closed BBC Jam faced criticism for crowding out commercial providers of online educational content. Also, Ofcom's Market Impact Assessment ('MIA') of the BBC's on-demand services proposed modifications to the service description relating to audio books and classical music in order to mitigate the potential detrimental market impact of iPlayer. Consequently the impact of any public intervention should be considered on a case-by-case basis either through MIAs or other mechanisms.

- 6.22 As we consider the possibility of new approaches to intervention in public service content, we need to assess whether the existing public service broadcasting model is capable of responding to these new opportunities. Two features have been fundamental to the current model. First, it is underpinned by the principle of **wide availability**: historically, public service channels were available to every home able to receive a television signal. They were easy to find and access, and free at the point of use. Secondly, public service content has historically been provided by a **plurality of providers**, competing with each other and with non-PSB broadcasters for attention and revenues.
- 6.23 Before we consider how the model for delivering public purposes should adapt to an era of vastly expanded choice and fragmentation, it is right to consider whether these two core principles will continue to remain important.

Public service content should continue to be widely available, but some more targeted interventions may maximise overall reach, impact and value

- 6.24 In the analogue era, all public service content was available on a near-universal basis (to an estimated 98.5% of homes), free at the point of use, because there was only one distribution mechanism for TV programmes and no mechanism for charging for them on a pay-per-view basis. Reach and impact were maximised, because all homes that could receive terrestrial television could receive the public service channels, and they had no other choices available to them.
- 6.25 While all homes with TV receiving equipment effectively paid a compulsory subscription fee for BBC services, which in turn enabled access to all commercial broadcasters' services, audiences had a legitimate expectation that public service

broadcasting would be available to almost everybody. In that sense, there were two core elements to access to public service broadcasting services:

- wide availability – the concept that public service television was available to the maximum possible number of UK households; and
- consumption of those services was free at the point of use (although television has never been truly ‘free’, requiring device set-up and payment of the licence fee).

- 6.26 More recently, the picture has become more complex and there are now some variations in the availability of services offered by the public service broadcasters. When Five launched, it was not universally available on analogue television and this remains the case today in terms of analogue provision. The BBC’s digital and online channels are similarly not available in all homes, only in those that have purchased either additional equipment or subscribed to third-party internet access services.
- 6.27 At the same time, other platforms have become established as mechanisms for delivering television services. Satellite can reach a similar or even greater proportion of homes than terrestrial television although there are restrictions on individual households’ ability to put up satellite dishes and receive the signal. Satellite services are available from Sky on a free-to-view basis, although purchase of entry-level equipment is required to receive these services and most people who choose satellite have to date taken up subscription services. Broadband at entry-level speeds is now available via exchanges serving over 99% of homes, although in practice homes that are relatively distant from the exchange are often unable to receive broadband services. Higher-speed broadband services are available to a smaller proportion of homes.
- 6.28 When digital terrestrial television launched, the public service broadcasters were gifted multiplex capacity and allocated the required spectrum to have the opportunity to develop digital services and preserve public service broadcasting for a digital age. Today, digital terrestrial penetration has reached over 85% of households, with digital terrestrial television the most prevalent platform. However, its reach is limited to 73.3% of the population until analogue is switched off.
- 6.29 Nonetheless the terrestrial television platform is still established as the principal instrument for guaranteeing wide availability of public service broadcasting after switchover, with requirements on the broadcasters to fund the roll-out of terrestrial networks to ensure availability of their digital services after switchover matches coverage of their existing analogue services. One major benefit of switchover is that it will enable the BBC’s portfolio channels and Five to be near-universally available on the terrestrial platform for the first time (and Channel 4 to be available in Wales). Digital terrestrial television has a relatively small one-off equipment cost for most households, unless they need to upgrade their aerials, which also makes it more accessible on a cost basis to UK citizens.
- 6.30 However, provision on terrestrial television is no longer the only way to guarantee widespread reach of public service broadcasting, as not all homes take up terrestrial television. Already, some homes rely entirely on cable or satellite services, including Sky’s free-to-view satellite service; a new free-to-view satellite service supported by the BBC is due to launch in the UK. As streaming of broadcast channels grows and becomes more reliable, some viewers may choose to watch only over the internet, either on a PC screen or via a connection to a traditional television. Other networks – particularly mobile – may develop to provide yet more ways for some viewers to

access public service content. At this stage it is uncertain how widely available such networks might be, nor their relative costs.

- 6.31 In future, this complexity is likely to increase. Public service content providers will need to exploit the potential of different platforms to reach different audiences, and deliver a different kind of value, to maximise their reach and impact. But this means that increasingly some forms of public service content will not be available to everybody, and that a subscription to internet or mobile services will be a prerequisite for accessing them.
- 6.32 We therefore need a more sophisticated understanding of what it means for public service content to be widely available, and in what circumstances, if any, additional payments should be required to receive it. This should be driven by an assessment of the value of public service content, which is maximised when its availability, reach and impact are maximised, and the cost is minimised.
- 6.33 Since the costs of producing content are fixed, the best ways to maximise value will generally be to make content as widely available and accessible as possible. But there will be some instances in which the impact of a particular kind of content – such as interactive online content – is sufficiently great that investment in it is justified, even if the platform used to deliver it is not widely available or taken up.
- 6.34 This approach suggests three general principles of availability and access to public service content:
- i) core public service content should remain widely available, free-to-view, through provision on a range of platforms – at minimum, terrestrial and satellite. This should include all current designated public service linear channels;
 - ii) the value of public service content will be maximised if it is provided without additional payment. If content is paid for with public funding, audiences should have at least one opportunity to access it without any such payment. However, if the cost of subsequent distribution exceeds the public value, it may be appropriate to charge consumers some or all of that cost; and
 - iii) use of paid-for platforms and services to deliver some public service content is appropriate if those platforms can deliver greater reach or impact among a particular target audience than free-to-view platforms do.

Plural provision delivers significant benefits to audiences

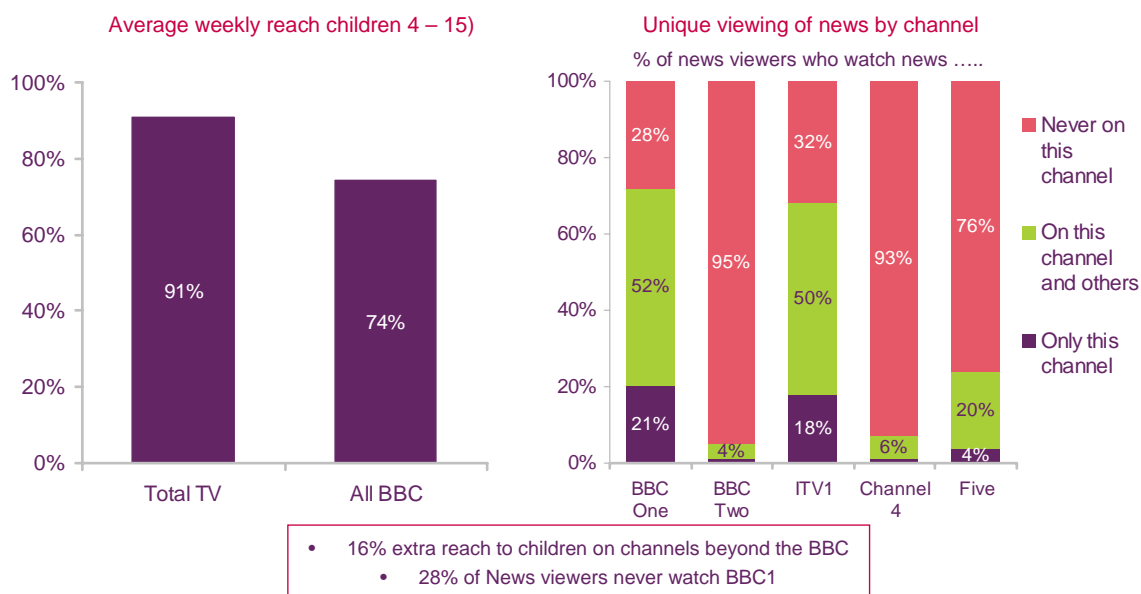
- 6.35 In Section 3, we argued that viewers value plurality in provision of public service programming. But plurality can mean a number of things. It is important to be clear about what the benefits and costs of plurality are; the various ways those benefits can be achieved; and in which cases the benefits of plurality would outweigh the costs.
- 6.36 Historically, plurality has been achieved through:
- provision across genres by a defined set of relatively large institutions with wide-ranging remits and mass reach;
 - the separation of commissioning and production functions, and the creation of multiple commissioning points, within public service institutions; and

- competition for commissions between different producers, internal and external, with different creative perspectives and ideas.

6.37 This historic model delivers three kinds of benefits. First, it delivers **diversity of voice**, ensuring that different perspectives and agendas are provided and preventing the dominance of political and social debates by a particular cultural agenda. These issues are particularly critical in news and current affairs, and our research shows that plurality is highly valued in these areas. However, it is important to note that plurality of provision is not always sufficient to guarantee diversity of voice. Our analysis for *New News*, *Future News* found that despite continued plurality in the provision of UK news, the diversity of news services was limited by commonalities in their editorial agendas and approaches.

6.38 Second, the historic model delivers **enhanced reach and impact** by providing viewers with choice and differentiated services. Figure 44 shows the average reach to children of content on different channels, showing that a third of children do not watch children’s programmes on BBC One. One in six children who watch children’s programmes do not watch any BBC programmes at all. Similarly, over a quarter of news viewers never watch news on BBC One.

Figure 44 Reach of public service programming from different broadcasters – news and children’s



Source: BARB

6.39 Thirdly, and less tangibly, plurality has delivered **competition for quality**, driving up quality and stimulating innovation. Participants in our deliberative research felt this was a critical benefit, although it is difficult to point to systematic analytical evidence for it there are many apparent illustrations. These include competition between the BBC and ITV in high quality drama resulting in a slew of landmark productions especially in the 1980s; while in the 1990s, Channel 4’s new approach to factual programming reinvented a number of genres – like docudrama and factual entertainment.

6.40 Over time, plurality supports the impact of all public service broadcasting, by fuelling innovation and ensuring continual focus on audiences’ needs. Public service

broadcasting has thrived by continually reinventing itself for a different age; there is a risk – to the BBC as much as to commercial providers – that without the stimulus of competition public service broadcasting could become irrelevant and increasingly marginalised.

- 6.41 Plurality in the historic sense seems likely to decline, as the value of commercial PSBs' implicit subsidy declines and their contribution becomes more focused. However, it will not be lost entirely. For example, our modelling suggests that some kind of national and international news service is likely to be provided by ITV1 for commercial reasons, even if it were under no obligation to do so, although whether it would provide the same volume and level of investment in news is uncertain. In addition, in some areas non-PSB providers will increasingly deliver some of the benefits of plurality, as set out in Section 5. Competition between Sky News and BBC News 24 helps to maintain the standards of both services, just as competition between the BBC and ITV1 evening bulletins does.
- 6.42 But it is clear that even in these areas market-driven plurality is unlikely to deliver all the benefits the historic model of public service broadcasting has provided, because the reach and impact of market services is generally less than that of services provided by the main public service channels. There are two million households that watch news on commercial PSB channels, but never watch BBC One or Two news; there are hardly any Sky News viewers who do not also watch BBC news, simply as a function of the relatively limited size of the Sky News audience.
- 6.43 In other areas, there are few alternatives to the commercial PSBs' offerings. Three in ten documentary viewers never watch documentaries on BBC One or BBC Two; if the commercial PSBs no longer provided any original UK factual programming, their viewers would have relatively limited options beyond the BBC, with digital channels generally relying on repeats (often of BBC programmes) and acquired material.
- 6.44 So the market is unlikely to deliver the benefits of plurality without continued intervention. But the costs of intervening for plurality are significant – both in terms of the opportunity costs of provision by commercial organisations who would otherwise offer different, more profitable content, and in terms of its potential impact on the market and other providers, including the BBC.
- 6.45 It is difficult to quantify the benefits of plurality, given the difficulty of knowing how audiences would react if there were no competition for the BBC in delivery of public purposes. However, the benefits can be assessed in qualitative terms. Our analysis suggests that they are likely to be different in different areas of programming.
- 6.46 Figure 45 provides an overview of the current costs and benefits of intervention across all commercially funded channels to secure plurality in different programme areas. In summary, this analysis suggests that interventions in plurality would have high benefits at a relatively low cost, and would not be delivered by the market, in: current affairs; and challenging and serious drama. It is also likely to be required in news for the nations and regions, given audience demand for these services, the democratic value of alternative voices and the low likelihood of commercial provision.
- 6.47 In other areas, the case for intervention for plurality is more complex. In network news, market provision is extensive, although there may be a case for intervention to maintain competition for quality. In specialist factual and children's programming, it may be more effective to deliver plurality via online services or dedicated digital channels, which may be better at reaching particular niche audiences. In some areas – in this illustration, religious programmes – the case for intervention may be

relatively weak, given the lower importance audiences attach to plurality in these areas.

Figure 45 Summary of the case for intervention for plurality in particular genres

Genre	% viewers rating plurality important	Benefits of plurality Diversity of voice Reach and impact Competition for quality	Estimated cost of current intervention beyond BBC	Market contribution and future opportunities
National news	86%	High. Range of voices, viewer choice and competition for quality important	£30-40 million	High. Wide range of providers. Possible role for intervention in ensuring quality and investment
Current affairs	77%	High. Range of voices and different agendas important	£20-30 million	Low. Some relevant material online. Opportunities to reach very targeted audiences online
Nations and regions news	76%	High. Range of voices and viewer choice particularly important	£100 million	Low. Limited commercial business case
Specialist factual	73%	Medium. Different approaches reach different audiences. Some competition for quality	Uncertain (no specific quotas)	Medium. High volume online, not always from UK perspective
Children's	70%	Highly valued by parents. Choices enhances reach and impact	£30 million	Low. Little high quality content reflecting UK perspectives on digital TV or online
UK drama	68%	High. Opportunities for new voices and innovation. Different approaches reach different audiences	Uncertain (no specific quotas)	Mixed. Popular drama likely to remain. Little challenging or serious drama
Nations and regions non-news	65%	Low. Less valued by audiences. Commercial pressures reduce competition for quality	£10 million	Low. Little commercial business case
UK comedy	64%	Medium. Plurality less valued by audiences, but delivers innovation and reaches different audiences. Channel 4 currently main competitor to BBC	Uncertain (no specific quotas)	Medium. Some commercial provision, generally live performance or subsequent runs of tried talent or formats
Religious programmes	41%	Low. Plurality less valued by audiences	Uncertain (no specific quotas)	Mixed. Some dedicated provision on digital channels and online

Source: Ofcom

6.48 This analysis leaves open the question of how plurality should be achieved. Market developments offer the prospect of more effective interventions for plurality in two senses. First, the PSBs may be able to deliver more targeted services – with enhanced reach and impact to particular audiences – through niche services, possibly online. Secondly, other providers – dedicated digital channels or online content services – may be better placed to reach particular audiences than the existing PSBs, and may be able to do so at lower opportunity cost.

6.49 This suggests that in future it could be appropriate to consider alternative models for plurality, that are not based solely on competition within a limited set of specific institutions. The growing fragmentation of media means that plurality can be

delivered in different ways, by different institutions, for different objectives. It is important to recognise trade-offs here, for example between the scale of institutions with mass reach and the targeting potential of a niche service with high reach into a specific audience. One possibility is that different purposes will require different solutions, with plurality in services of wide interest best delivered by mass institutions, and more specific needs met by dedicated providers.

- 6.50 Historically, plurality to the BBC was provided both by commercial organisations, and also by a publicly owned but commercially funded institution – Channel 4. As we evaluate the possible provision of public service content by a wider set of providers, we need to assess whether public ownership will continue to be important to delivery of public purposes, and how the incentives of commercially funded providers can most effectively be aligned with public service purposes. Some commentators believe that public purposes can be delivered effectively by fully commercial providers. Others suggest that some types of public purpose - particularly those less easy to quantify - are better delivered by publicly owned institutions which do not have to balance the interests of shareholders with delivery of public value. We will consider this issue in more detail in phase 2 of the review.

The existing model for public service broadcasting will struggle to adapt to the changing environment

- 6.51 Given the need for different kinds of intervention in public service content in future, we need to assess whether the existing public service broadcasting model is capable of responding to these new opportunities. The existing model represents a complex set of institutions, funding models and accountability arrangements:
- it operates with some providers across platforms, with the BBC, S4C and the Gaelic Media Service delivering their remits across television, online and (in the case of the BBC) radio, but the commercial PSBs' remits only applying to linear television channels;
 - it includes a mix of: publicly owned, publicly funded institutions; publicly owned but partly or wholly commercially funded institutions; commercial institutions with statutory remits; and commercial institutions without remits but which nonetheless provide content meeting public purposes;
 - it is funded in a variety of ways, including the licence fee, direct public funding at UK, national or local levels, implicit subsidies and competitive contracts (e.g. Teachers' TV).
- 6.52 To exploit fully the new opportunities that lie ahead, and to address the risks to public purposes that we have identified, the model for intervention in support of delivering public purposes would need to be able to adapt to potentially radical changes in the way consumers and citizens access public service content. It would need to have the flexibility to fund services on whichever platform represented the most cost-effective way of reaching audiences, and potentially to direct resources to new providers if they were better placed to deliver reach and impact.
- 6.53 The BBC is relatively well placed to address the challenges and opportunities that lie ahead. It has flexibility built into its wide-ranging remit (which extends across television, radio and online), a Charter which defines its responsibilities in terms of purposes rather than specific content requirements, and a formal process by which the BBC Trust can assess and approve new services.

- 6.54 But the model governing public service provision beyond the BBC will face more significant challenges. The only mechanisms for intervention in that model are the designated public service providers identified in legislation: ITV regional licensees, GMTV, Channel 4, Five, S4C, Teletext and the Gaelic Media Service. Within this framework there is no mechanism for public service funding to be dedicated to other platforms or to providers which might deliver greater value for money in achieving particular purposes. Indeed, the statutory framework for public service broadcasting does not define public service broadcasting in terms of overarching principles at all, but as a set of specific content requirements and objectives which may or may not continue to be relevant to consumers and citizens.
- 6.55 Two points illustrate the limitations of the current model. First, there is no incentive for existing PSBs to deliver public service content beyond the designated public service TV channels within the current statutory framework. The commercially-funded PSBs' online and other services beyond their core channel are regulated as purely commercial channels, even if they make a contribution to public purposes, as services like ITV Local, More 4 and 4OD may well do. Even if we, and they, wished to extend the PSBs' remits and funding to support delivery of public purposes via these services, it would take primary legislation to do so.
- 6.56 Secondly, the limited mechanisms for flexibility built into the existing model have tended to allow reductions in the delivery of programming meeting public purposes. Under the 2003 Communications Act, Ofcom must set quotas for news and current affairs for each of the commercial PSBs and for nations and regions output on ITV1 and schools on Channel 4. However, the broadcasters themselves determine what, and how much, programming they should deliver in other genres collectively known as 'tier 3' – arts, children's programmes, religious programmes, drama and so on. Our role is to offer guidance to broadcasters, which they must take into account, but the statute refers only to that the PSB services 'taken together' should include a suitable quantity and range of programming in these genres.
- 6.57 In practice, flexibility in tier 3 has tended to result in declining provision in many of these areas since 2003, but no mechanisms exist to address deficits if they emerge.
- 6.58 Our assessment suggests that the existing model for public service provision is:
- inflexible, and already struggling to adapt;
 - too focused on a specific set of services delivered over one specific platform;
 - dependent on unsustainable commercial funding models; and
 - therefore, not fit for purpose in responding to the opportunities and challenges that lie ahead.
- 6.59 For these reasons, it is likely to be necessary to review the statutory and institutional provisions for public service broadcasting to ensure that it is capable of adapting to the substantial and ongoing change in the ways audiences seek to consume public service content.

Questions for consultation

- i) Do you agree with Ofcom's vision for public service content?

- ii) How important are plurality and competition for quality in delivering the purposes and characteristics of public service broadcasting, and in what areas?
- iii) In maximising reach and impact of public service content in the future, what roles can different platforms and services play?
- iv) Do you agree that the existing model for delivering public service broadcasting will not be sufficient to meet changing needs in future?

Section 7

Future models for funding and providing public service content

Introduction

- 7.1 The previous section identified new opportunities to meet public purposes using innovative, interactive services, and the need to continue to invest to ensure that public service content achieves reach and impact. It also identified risks to the continued plural provision of public service content in a range of genres that are highly valued by viewers. And we argued that the existing model was insufficiently flexible to adapt to these new opportunities and risks.
- 7.2 In this section, we consider whether more or less public funding for public service content will be required in future, and identify a range of possible funding mechanisms.
- 7.3 We also consider the implications of our analysis for the model for delivery of public service content, and set out four possible models for the future, to provide the basis for debate in phase 2 of this review and beyond.

A key dilemma lies ahead

- 7.4 Section 6 showed that if nothing changes in the funding and delivery of public service broadcasting, we are unlikely to be able to continue to secure its potential ongoing benefits. Public funding for commercial public service broadcasters will remain focused on a specific set of linear TV channels whose reach and impact are already declining. Opportunities to exploit the full potential of interactive public service content will be missed. And in many areas the benefits of plurality will be largely lost.
- 7.5 A choice therefore lies ahead, between:
- doing nothing, and accepting a reduced level of public service value, plurality and impact;
 - providing new funds to take the place of the implicit subsidy that is flowing out of the public service broadcasting system; and
 - reducing the scope of the BBC's activities and redeploying some BBC resources to ensure continued funding for plural provision of public service content and to maximise reach and impact.
- 7.6 Our analysis shows that plurality brings significant benefits: to competition for quality, to diversity of voice and to the reach and impact of public service content. However, audiences express strong support for the BBC, and value the contribution it makes. We continue to believe that an appropriately-funded, independent BBC will and should remain the cornerstone of public service broadcasting. And in the context of likely declines in market provision of UK content, any decision which substantially impacts the BBC's public service contribution could be counter-productive.
- 7.7 One question is whether in some specific areas resources could be used more effectively by other providers than by the BBC. For example, the BBC's reach among

younger viewers and minority ethnic audiences is lower than other providers'. One option would be to redistribute BBC funding to those providers, to enable them to provide the kind of public service content that their business case does not support.

- 7.8 There are significant risks with this approach. The BBC benefits from significant scale and cross-promotional capacity, which has historically delivered substantial benefits to its reach and impact, for example with respect to its online services. Few other providers have the same advantages. And over time, redeployment of BBC resources in limited specific areas could undermine the important principle that it should reach all licence fee payers in one way or another.
- 7.9 Moreover, this approach does not preserve plural provision; it merely reallocates resources from the BBC to alternative providers, who may or may not reach particular audiences more effectively. It is only possible to reallocate BBC resources to other providers to retain plurality by reducing funding for BBC services that the market would provide if the BBC did not do so. Whether any such services exist is a matter for the BBC Trust to determine, which has the option of not drawing down full licence fee funding if it assesses that a service does not offer sufficient incremental public value to justify its cost.

New funds may be required to replace the implicit subsidy draining out of the system

- 7.10 Funding for public service broadcasting consists of a mix of direct and indirect funding from a range of sources. The analysis in Figure 46 shows how the level and distribution of funding has changed over time. Since 2003/04, the BBC's spending on TV and online services has increased, due to above-inflation increases in the licence fee and growth in the number of households paying the fee. But over the same period, commercial investment in public service content has declined by around a quarter – from around £520 million to around £390 million.
- 7.11 Looking forward to 2012, our modelling suggests that the BBC's funding will continue to increase, as the numbers of households paying the fee continues to increase and BBC Worldwide profits are expected to increase. But the level of funding for commercial public service broadcasting looks likely to fall even more rapidly as the value of the Channel 3 licences declines and pressure grows on Channel 4's funding model. After switchover, our analysis suggests that funding for the commercial PSBs will probably fall to around half the 2007/08 level. From 2003-2013, total funding for commercial PSB will have declined by around £335 million, or almost two-thirds.
- 7.12 As a result, funding for public service broadcasting is becoming increasingly concentrated in the BBC. By 2012/13, the BBC is forecast to account for 91% of all funding for public service broadcasting, up from 81% in 2003/04.

Figure 46 Funding for public service content under current arrangements, 2003 – 2013

Assessments of the overall level of public spending on public service content are complex, because of the implicit nature of some of the funding, the lack of clear alternative scenarios against which to test its value, and limits to the available data. So these estimates should be seen as indicative. We have estimated funding both from direct sources (the licence fee, funding for indigenous language services) and via implicit subsidies. All data in this analysis are adjusted for inflation based on the Consumer Price Index (CPI).

BBC: The bulk of BBC delivery is directly funded through the licence fee. BBC accounts provide data on spend on content services, although changes in the way these are set out make comparisons over time complex. We have excluded radio from this analysis, since it does not form part of this review, and have assumed that TV and online incur 75% of common costs and 80% of transmission costs. We have projected growth from 2006/07 in line with the rises in the licence fee set in the 2007 licence fee settlement (assuming zero growth in the licence fee in 2012/13); household growth based on forward estimates by the Office of National Statistics; and projected profits from BBC Worldwide.

The BBC also benefits from gifted spectrum. Based on opportunity cost estimates of £0.5 million per MHz used for broadcasting, we estimate the value of this to be £90 million for 2003/04 (representing both analogue and digital capacity), falling to £50 million in 2012/13 assuming £25 million per multiplex (all numbers in real 2007 prices). 2007/08 is taken as the midpoint of this decline.

S4C / GMS: Both Welsh and Celtic language services are directly funded in the main, and – apart from an increase (<£5 million) in GMS funding for its expanded services – static. In addition, we have assumed a proportional spectrum subsidy based on population. This figure is less than £1 million p.a.

ITV plc: In 2003, we and ITV plc separately estimated that the cost of obligations to ITV1 was c. £260 million p.a. At 2007 prices, this is equivalent to £280 million. Our analysis for this review suggests the costs of its remaining obligations are around £140 million. This includes the opportunity cost of programming and production quotas, but not the relatively large licence fee payments made by ITV in 2008 and in the next few years.

In 2013, although the precise level of obligations is not known, the benefits of public service broadcaster status will be much lower. The cost of the obligations that can be imposed in the long term cannot therefore significantly exceed these benefits, mainly comprising gifted multiplex capacity and higher coverage of that multiplex, which we estimate will be worth approximately £45 million p.a. This analysis differs in approach from that of the BBC as we have modelled the value of capacity, not the opportunity cost of spectrum.

Channel 4: its public service obligations are defined by a combination of its statutory remit and its quantitative licence quotas. Given the nature of the remit, modelling the opportunity cost of its schedule is difficult. Channel 4 has conducted analysis of the value of a hypothetical alternative schedule, which we and LEK reviewed for the financial review of Channel 4. This suggested that the opportunity cost of Channel 4's schedule in 2003 was around £160 million (£175 million in 2008 prices), and was between £150-170 million in 2005. Given further limited change to the less commercial aspects of the schedule since 2005, we estimate this has changed little since then.

This is partly funded from a foregone dividend, estimated at 5% of turnover, and also from the value of gifted analogue and digital capacity, which is lower to Channel 4 than ITV1 because ITV1 reaches larger audiences and can extract more value from the same amount of capacity. By 2013, the declining value of analogue spectrum and increasing pressure on Channel 4's commercial funding model suggests the value of Channel 4's contribution will fall to around £80 million.

Five: Our analysis for this review suggests that the level of Five's investment in meeting its public service obligations will remain at around £50 million p.a. throughout the current licence period. In 2003, we have estimated that the cost of obligations was slightly lower due to the lower opportunity cost of production at this time. These costs are offset by benefits derived from being a PSB, including the value of reserved digital and analogue capacity, EPG and listings due prominence and regional coverage benefits. In line with other commercial PSBs, the combined level of these benefits reduces in the run-up to switchover, partly due to the reducing value of analogue spectrum. However, they remain above the cost of meeting its obligations.

Other licensees: In addition, UTV, SMG, Channel, GMTV and Teletext also incur costs from their

obligations. The regional ITV1 licensees have obligations in relation to news and local non-news programming as well as being part of the ITV Network. Teletext also incurs costs also from its regional obligations. Discussion with GMTV suggests there is currently minimal opportunity cost to its public service obligations. In total, we estimate the costs to these licensees to be in the region of £25 million p.a.

By 2013, these explicit benefits will have fallen materially as the benefits of PSB status are likely to be small after switchover. However, the specific circumstances of the regional ITV1 licensees and their economic reliance on ITV1's PSB status may result in their maintaining a higher value of PSB investment. By 2013 we expect that GMTV's public service benefits will still exceed their opportunity cost.

Institution	2003/04	2007/08	2012/13
BBC Television and Online	2,700	2,865	3,010
S4C/GMS	105	110	110
ITV plc	280	140	45
Channel 4	175	175	80
Five	40	50	50
Other licensees	25	25	10
Total	3,325	3,365	3,305
Commercial PSB	520	390	185

Note: all figures in real 2007 £ million. BBC data for financial years 2003/4, 2007/8, 2012/13; others for 2003, 2008 and 2013 respectively

Source: Ofcom estimates, BBC annual reports, financial data from broadcasters

- 7.13 Since 2003 market provision has grown in some areas. By 2007, investment by non-PSB channels (including the commercial PSBs portfolio channels) in original UK content had reached £268 million, up by around £50 million on 2003.
- 7.14 But this remains a fraction of the investment in UK content by the public service broadcasters, and there is no evidence to suggest that the market will fill the gaps left by the declining contribution of the commercial PSBs: in investment in UK-origination in general, and in particular in children's programming, nations and regions, specialist factual programmes, current affairs and innovative, risk-taking narrative programmes.
- 7.15 Furthermore, as audiences' needs expand to encompass public service content on interactive as well as linear platforms, the costs of providing services to meet all audiences' needs may rise. The costs of repurposing broadcast content for different platforms and distributing it on those platforms are not negligible. And if entirely new forms of content are needed to meet public purposes or to maximise the value of the large volume of public service content that already exists, the public service institutions will need to find ways of doing more with constant or declining resources.
- 7.16 Given this analysis, and in the light of our statutory duty to recommend ways to maintain and strengthen the quality of public service broadcasting, our recommendation is that new funds should be found to replace the current declining implicit subsidy.
- 7.17 Ultimately, the future level of funding for public service content will be a decision for Parliament. The Communications Act set out the substantial contribution that

Parliament sought from ITV1, Channel 4 and Five in 2003. Our analysis suggests that by 2012 the value of implicit funding for those institutions will have declined by around two-thirds or £335 million since the Act.

New funding sources will be needed for providers beyond the BBC

- 7.18 If plurality is to continue to play a central role in the provision of public service content, and the existing implicit funding for commercial public service broadcasting is declining, in future new sources of funding will be required for providers other than the BBC. Any new funding arrangements would need to comply with principles of proportionality, transparency and accountability, ensuring that impact on market competition is limited to what is necessary to deliver public service purposes.
- 7.19 There is a wide range of possible funding sources, most of which are for government and Parliament to consider rather than Ofcom. We can identify four broad categories:
- 7.20 First, a number of possible **direct public funding** sources exist: including general taxation, Lottery funds or hypothecated proceeds from spectrum awards or imposition of Administered Incentive Pricing (AIP), either on spectrum in general or on broadcasters in particular.
- 7.21 Secondly, the **licence fee**, within which two options can be distinguished: firstly, allocating funding from existing BBC services or redeploying BBC assets to other providers. The key question here will be whether the benefits of the services delivered by alternative providers with this funding would outweigh the costs to consumers and citizens resulting from a reduction in BBC services.
- 7.22 The second possibility is to redistribute excess licence fee revenues currently set aside for purposes other than BBC content services., or to increase the licence fee faster than needed for the BBC's services. The current licence fee settlement includes ring-fenced funding for the Digital Switchover Help Scheme and Digital UK's marketing budget, which over the five years of the current licence fee settlement account for over £800 million of licence fee revenues not directed to BBC content services. If this excess funding were retained in a new licence fee settlement from 2012/13, the additional funding could be made available to other providers without affecting the BBC.
- 7.23 Thirdly, there are a number of **regulatory assets** that are, or could be, provided to broadcasters. These include access to spectrum at lower than market prices or guaranteed access to broadcasting capacity; public service broadcaster status for niche channels, with accompanying prominence on electronic programme guides (EPGs); or increased advertising minutage.
- 7.24 Fourthly, **industry funding** for public service content could be introduced through levies. President Sarkozy has proposed this as a possible approach for France. It might be possible to introduce levies on providers not currently part of the formal public service broadcasting model, such as broadcasters, equipment sales, internet service subscriptions or UK online content providers.
- 7.25 An initial list of possible options, and their pros and cons, is set out in Figure 47. All these options raise important issues, including questions of state aid, which need careful and rigorous consideration. To inform that consideration, we will carry out a more detailed assessment of these options in phase 2 of this review.
- 7.26 Ultimately, most of these options are for government and Parliament to consider.

- 7.27 Two particular mechanisms sit within Ofcom's remit: advertising minutage and pricing for spectrum. Currently designated public service channels are not allowed to show as much advertising as non-PSB channels, particularly in peak viewing hours. These and other advertising restrictions are currently being considered in a separate review of the rules on amount and distribution of advertising by Ofcom, on which we will consult later in 2008. If the outcome of that review were any relaxation of current restrictions on PSB advertising minutage one effect could be to offset decline in their share of net advertising revenue, at least in the short to medium term, and make available additional resource, and make available additional resources that might help support the delivery of their remits. We have already published a document inviting views on possible options.⁹
- 7.28 Ofcom published a statement on future pricing of spectrum used for terrestrial broadcasting in June 2007, which confirmed our intention to introduce Administered Incentive Pricing (AIP) for broadcasting from 2014. This proposal was based on the principle that one of the best ways of ensuring that the opportunity costs of spectrum are fully and accurately reflected by decision-makers is for those opportunity costs to be reflected in the prices that have to be paid to hold the spectrum. We noted at the time that before introducing any charges, we would consider carefully any potential effects on broadcasting output, and the right options to address or mitigate them.
- 7.29 Work on setting prices for spectrum used for digital broadcasting will commence nearer the time of implementation. So the level of any charges is uncertain at this stage and is likely to be informed by the outcome of the digital dividend review process. However, our current, indicative assessment is that after 2014, the introduction of AIP would increase the PSBs' annual costs by around £75 million. This is less than the full value of gifted capacity, which includes wider business benefits of ownership of multiplex capacity and the ability to carry other channels, so the PSBs would retain some value from gifted capacity even if AIP were imposed.
- 7.30 As we confirmed in our statement on the future pricing of spectrum used for terrestrial broadcasting, we retain the option of not introducing AIP, or levying it at a reduced rate, if this was necessary to ensure public service broadcasting requirements could be met. We recognise the interplay between funding available for public service broadcasting and AIP. However, we believe that spectrum efficiency objectives, and AIP as a means of achieving them, should be taken into account in any future funding for public service broadcasting, and any waiver of AIP would be a definitive change from our general approach to spectrum policy to date. Government reserves the right to decide on the imposition of AIP through its powers of direction on Ofcom's spectrum decisions; state aid issues would also need to be considered.

⁹ <http://www.ofcom.org.uk/consult/condocs/rada/>

Figure 47 Possible mechanisms for funding public service content

Potential source	Description	Pros	Cons
Direct public funding	<p>Grant-in-aid from central government or devolved administrations</p> <p>Grants from local government/Regional Development Agencies</p> <p>Currently supports BBC World Service, S4C, Gaelic Media Service and a range of new media content and specialist digital TV (e.g. Teachers' TV).</p> <p>Lottery funding already funds NESTA initiatives in digital media</p>	<ul style="list-style-type: none"> • Explicit/transparent • Accountable • Reasonably flexible 	<ul style="list-style-type: none"> • Potential risks to relation to independence, creative freedom and governance
	Hypothecated proceeds from spectrum awards/Administered Incentive Pricing	<ul style="list-style-type: none"> • Could provide benefits for all UK consumers from use of spectrum 	<ul style="list-style-type: none"> • Lack of stability and certainty • No direct link between price of spectrum and level of funds needed • Risk to independence.
Licence fee	Excess licence fee: use of licence fee ring-fenced for Digital Switchover Help Scheme and DUK marketing	<ul style="list-style-type: none"> • Flexible • Transparent • Accountable • Stable and transferable 	<ul style="list-style-type: none"> • Risk of dilution of connection between licence fee payer and BBC
	Core licence fee: some or all licence fee funding open to periodic competition between BBC and other PSB providers.	<ul style="list-style-type: none"> • Flexible • Transparent • Accountable • Benefits of a competitive process 	<ul style="list-style-type: none"> • Risk of dilution of connection between licence fee payer and BBC • Risk to critical mass of BBC
	BBC assets: e.g. Channel 4 granted a stake in BBC Worldwide. Parallels include content provided by BBC for S4C and Gaelic Media Service.	<ul style="list-style-type: none"> • Scope for commercial synergies and cost savings 	<ul style="list-style-type: none"> • Weaker transparency and accountability • Compromises other providers' independence

Potential source	Description	Pros	Cons
Regulatory assets	Access to scarce spectrum	<ul style="list-style-type: none"> • Independence. • Fairly stable 	<ul style="list-style-type: none"> • Not transparent. • Inflexible
	Revised advertising minutage rules	<ul style="list-style-type: none"> • Independence • No direct cost to public purpose 	<ul style="list-style-type: none"> • Not transparent • Possible audience detriment • Impact on market • Uncertain and unstable
	Public Service Broadcaster status for additional channels	<ul style="list-style-type: none"> • Possible in existing statutory framework 	<ul style="list-style-type: none"> • Value likely to be limited • Impact on market
Industry levies	Range of potential sources	<ul style="list-style-type: none"> • No direct cost to public purse • Transparent. 	<ul style="list-style-type: none"> • Enforceability and risk of off-shoring • Possible detrimental impact on market development

Source: Ofcom

Any new model needs to meet a number of tests

- 7.31 In Section 6, we argued that a new model for delivery of public purposes would be required – one characterised by greater flexibility, use of a wider range of platforms and potentially a broader set of providers, and new funding models to ensure continued competition for quality in the provision of public service content.
- 7.32 Such a model could help to address many of the opportunities and risks identified for the future of public service content. For example, to meet older children’s needs, a new model could enable public service providers to exploit growing enthusiasm for and use of interactive mobile and online services, to reach children where they already spend a significant proportion of their time. And for nations and regions services, provision could be opened up to new providers who are not part of the current statutory framework but who already deliver services that partially meet national and regional audiences’ public service needs. We return to discuss these opportunities in more detail in Sections 8 and 9.
- 7.33 There is clearly a risk that moving to a new more flexible model could result in less effective governance of public resources, greater duplication or crowding out of private sector activity and undermining the independence of public service providers. To mitigate these risks, any new model would need to meet a number of tests to ensure that it was likely to be effective. The tests that might underpin such a model are set out in Figure 48.

Figure 48 Tests for a future model for public service broadcasting

Requirements of a future model		Test
Effectiveness	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: Ofcom

7.34 Some of these tests may be more important than others, and we will explore the issues raised in more detail in phase 2. Note that the governance test, in particular, covers a wide range of complex issues, including the need to balance the strategic and editorial independence of content providers – which should continue to be a fundamental feature of the public service model – with transparency and accountability in the use of public resources.

Options for the future depend on the availability of additional funding for providers beyond the BBC and the desired roles for the existing PSBs

7.35 As we set out in Section 6, the current system of public service broadcasting is characterised by a complex mix of providers, distribution platforms and methods of funding. Current methods of funding for public service broadcasting include: the licence fee allocated to the BBC and the grant-in-aid for the BBC World Service; the value of the implicit subsidy held by the public service broadcasters; commercial funding for Channel 4; direct funding to S4C, supplemented by advertising, and the Gaelic Media Service. These services are funded alongside other non-public service broadcasting services like Teachers TV and the Community Channel, which are funded directly by government.

7.36 On the assumption that an appropriately funded, independent BBC will continue to be the cornerstone of public service broadcasting, at least for the lifetime of its current Charter to 2016, two questions stand out:

- i) Should some or all of the existing commercially-funded PSBs retain special roles in the delivery of public purposes in future?
- ii) Should further funding be available for provision beyond the BBC?

7.37 Based on these two questions, we have developed four possible illustrative models, which we will evaluate in more detail in phase 2 of our review:

- **Model 1 - Evolution:** the current commercial public service broadcasters (PSBs) retain a designated public service role. Either their public service responsibilities

are reduced in line with the declining value of their gifted spectrum, or additional support is provided to retain or expand those responsibilities which remain high public priorities but which can no longer be supported through the value of existing gifted spectrum;

- **Model 2 - BBC only:** the commercial PSBs do not retain special designated roles and no additional public funding is provided for public service broadcasting beyond the BBC. The BBC becomes the sole UK-wide intervention in public service content, and may need to take on additional roles to meet needs not served by the market. Limited plurality is provided only to the extent possible through content supplied by fully commercial broadcasters;
- **Model 3 - BBC/C4 plus limited competitive funding:** Channel 4 retains a designated public service role to provide plurality with the BBC but other commercial PSBs lose their public service obligations and benefits. Channel 4's remit is extended across platforms and into new programming areas, supported by new funding. Any remaining public purposes not served by the BBC and Channel 4 – potentially for example non-BBC programming for the nations and regions – could be delivered through long-term but transferable funding agreements with other providers, awarded competitively through a funding agency; and
- **Model 4 - Broad competitive funding:** the commercial PSBs do not retain special institutional roles. Instead additional funding is made available by government for public service content beyond the BBC. Long-term but transferable contracts for meeting specific public service purposes would be awarded competitively through a funding agency. Those contracts would be open to bids from a wide range of organisations, including the existing PSBs. The BBC would have a core role in areas where the market is unlikely to deliver but where a competitive process would be difficult to specify.

7.38 These are intended to be illustrative models to indicate the nature of the choices that lie ahead. We will flesh out the possibilities in phase 2 of the review, taking into account responses to this consultation. In each model we would expect the market to provide some public service content.

7.39 At this stage, however, it is possible to identify the main areas of difference between these four models.

7.40 In **Model 1 'evolution'**, the existing public service broadcasters would maintain their special institutional roles but either their public service responsibilities would be reduced in line with the declining value of their gifted spectrum, or additional support would be provided. Channel 4 would remain as publicly-owned competition for the BBC. ITV1 would retain its role, particularly focused on provision of original programmes that reflect UK cultures, values and identities, and services that address the needs of the nations and regions. Five could also retain a role, particularly in UK origination. These roles could be limited to the scope of the value of the commercially funded PSBs' implicit subsidies.

7.41 Alternatively, existing institutions could retain or expand those commercial public service responsibilities which remain high public priorities but which could no longer be supported through the value of gifted spectrum. For example, Channel 4's remit could be enhanced to enable it to compete in delivery of public purposes across all platforms and audiences. ITV1 could have an expanded role in delivering national and regional news, and possibly enhanced services at more local levels. Five could

have more explicit ongoing obligations in areas such as children's and factual programming.

- 7.42 To achieve this, new funding solutions would need to be found. One variant of this model would be for ITV1 and Channel 4 to retain or expand their roles, but for Five to move to a purely commercial model, in which case one option would be for the benefits contained in its licence – principally, rights to access digital terrestrial capacity on a regionalised multiplex, and due prominence on electronic programme guides – could be used to provide enhanced indirect funding to other commercial public service broadcasters to support delivery of their remits.
- 7.43 The existing PSBs have strong brands and the ability effectively to promote public service content to audiences. However, under this model, there would be limited or no opportunities to direct resources for public service content to other providers beyond the existing PSBs. Given that Oliver & Ohlbaum's modelling suggests that the commercial PSBs will continue to derive most revenue from broadcast services for the foreseeable future, this model is likely to retain a greater focus on linear television than other models, and therefore may be best suited to an environment in which changes in audiences' use of media are incremental rather than profound.
- 7.44 In **Model 2 'BBC only'**, the BBC would become the sole significant UK-wide intervention in public service content as commercial funding models decline, sitting alongside S4C and the Gaelic Media Service serving indigenous language needs. ITV1 and Five would play a purely commercial role, losing the benefits and costs associated with their public service broadcaster status. Channel 4 could either play a purely commercial role or alternatively, its contribution could decrease in line with the value of its implicit subsidy, reaching a newly sustainable but much lower level of public service commitment.
- 7.45 Plurality in some areas would be provided by independent market, community and civic providers operating across platforms. But the BBC would remain by far the largest contributor to public purposes and would in some areas become the sole provider of public service content. The BBC might need to take on an enhanced role to ensure continued high levels of UK origination, particularly in innovative or risky content, and to meet other needs not served by the market. The BBC Trust would become the principal body responsible for allocating resources for public service broadcasting, within an overall funding framework established by government.
- 7.46 It might be possible to secure some of the benefits of plurality through reform of the structures and operating practices of the BBC. For example, greater separation of different commissioning teams could help generate competition for quality though at some risk to reach and efficiency. Quotas could be set for independent production within particular genres, to ensure that different perspectives and talent are represented even within a single commissioning organisation.
- 7.47 However, unless addressed by BBC provision, the implications for audiences would be a decline in provision of content meeting public purposes that is not commercially viable: current affairs, international news, specialist factual programming, one-off and short-run drama, UK comedy, nations and regions services and children's programming. Overall there would still be a decline in the range and diversity of content available to audiences.
- 7.48 In **Model 3 'BBC/Channel 4 plus limited competitive funding'** intervention would be focused on the BBC and Channel 4, and would seek to retain the benefits of competition between well-funded, publicly owned institutions with scale. These two

institutions would account for the majority of public funding for content meeting public purposes. However, this model could also introduce an element of flexibility by providing for any needs not served by the BBC and Channel 4 to be met through separate stable but transferable supply agreements. ITV1 and Five would become purely commercial organisations, losing the benefits and costs associated with their public service broadcaster status, but could tender for these agreements if they wished to do so.

- 7.49 Channel 4's remit would need to be considered and extended across platforms and into new programming areas. It would require new funding to replace its declining implicit subsidy. The implications for Channel 4's processes for accountability need careful consideration. Our financial review of Channel 4 identified that it was already difficult to assess Channel 4's delivery of its remit, given the relatively loose definition of its remit; greater public funding and a more flexible remit would tend to suggest a need for greater transparency and accountability in Channel 4's governance processes.
- 7.50 Solutions to future risks to public service delivery could take a number of forms in this model. Enhanced public support for Channel 4 could enable it to maintain or increase its investment in UK content, particularly in innovative and challenging content that is least likely to be provided by commercial organisations. This could also include a role in delivering UK content for older children. Alternatively, other providers, with better reach among older children could be invited to bid for funding to deliver public service content to those audiences.
- 7.51 Any remaining public service broadcasting needs not served by the BBC and Channel 4 could be delivered through long term but transferable funding agreements opened up to a range of new providers and awarded competitively through a funding agency. For example, this could apply to non-BBC programming for the nations and regions. A number of providers – perhaps Sky News, national newspapers, the Press Association, local TV providers – might be interested in tendering for such services.
- 7.52 In **Model 4 'broad competitive funding'**, a large proportion of public service needs would be delivered through long-term but transferable supply agreements awarded by competitive tender. A new independent funding agency would need to be created to award and oversee these agreements, within an overall funding settlement and framework of purposes established by government. The commercial PSBs would not retain special institutional roles.
- 7.53 Long term but transferable supply agreements could ensure delivery of a wide range of content, potentially including children's content, nations and regions services, indigenous language content, factual programming and risky or innovative content for which a commercial model is not established. Agreements could also be used to underpin the reach and impact of existing content, as well as to fund production of new content, which could enable existing providers to make a greater contribution; for example, to maintain universal provision of a plurality of news services, it might be effective to fund the distribution of existing digital news channels on the digital terrestrial platform where it is not profitable for commercial providers to do so, rather than to fund an entirely new service.
- 7.54 The BBC would continue to have a critical role, focused particularly on purposes that are difficult to secure through transferable funding agreements, either because no other organisations exist with the capability to deliver the services; because the objective is intangible and difficult to put out to competitive tender; or because scale is required in order to achieve maximum impact. For example, the BBC's role in

bringing audiences together for national events, or reflecting the diversity of the UK across a wide range of content, would be difficult to deliver through competitive tenders. However, this might result in a smaller role for the BBC than at present.

- 7.55 This model would likely result in all existing commercially-funded PSBs going down a purely commercial route, although they would be able to bid for funding for any services they wished to provide. One variant of this model, proposed by the Culture Media and Sport Select Committee, would be to retain Channel 4 in public ownership, without dedicated funding, but to enable it to compete for additional funding through a model of this kind.
- 7.56 These four models have different strengths and weaknesses, and we will carry out a comprehensive evaluation of their pros and cons in phase 2 of this review. However, they raise two related questions that need careful consideration:
- i) Who should be responsible for allocating public service funding?
 - ii) How much competition for public service funding should there be?
- 7.57 Model 2 ‘BBC only’ and Model 4 ‘broad competitive funding’ represent models in which responsibility for allocating funding sits with one institution – either the BBC Trust, or a new independent funding agency. In a competitive funding model, the BBC could continue to have sole access to licence fee funding, with other funding raised from other sources – but in an alternative option, the licence fee could also be brought within the purview of the funding agency with responsibility for deciding the right distribution of resources between the BBC and other providers.
- 7.58 Model 1 ‘evolution’ and model 3 ‘BBC/C4’ involve spreading resources across a larger number of institutions.
- 7.59 The appropriate level of competition for public service funding is likely to vary by public purpose. As a rule, when public service purposes can be easily specified and delivery against them measured, there may be advantages in introducing more competition for public service resources. So, for example, it is relatively easy, although by no means straightforward, to specify what would be needed from a regional news service. Seeking ways to introduce greater competition for the right to distribute regional news services may deliver significant benefits.
- 7.60 On the other hand, where public service purposes are diffuse, difficult to specify and difficult to assess - such as representation of the UK’s diverse communities - it will be more difficult to tender for services that achieve these goals, and more difficult to monitor delivery against them. These purposes may require the continued involvement of public service institutions whose incentives are not primarily aligned to commercial objectives, including the BBC and Channel 4.
- 7.61 We will explore these issues in more detail in phase 2.

New models of public service delivery have implications for content regulation

- 7.62 In the models set out above there are two extensions of the concept of public service broadcasting:
- Public service broadcasting institutions can deliver public purposes through investment in, and distribution of content over, interactive platforms, as well as on broadcast platforms.

- Under transferable funding models, non-public service broadcasting institutions can receive public funding to create and deliver public service content.
- 7.63 Both of these extensions raise new questions about the accountability framework under which these new public service content forms are funded and delivered.
- 7.64 For the BBC's publicly-funded content, everything falls under the existing framework: the BBC Trust is responsible for the broadcast and online content services that the BBC creates and delivers. However, there is a gap: the existing commercial public service broadcasters' online content services have no explicit public accountability - in contrast to the position which holds for their broadcast activities, where Ofcom also has a role.
- 7.65 There is a second gap which will emerge in the event that competitive funding is introduced as part of a new model for delivering public service content. In this case, an appropriate framework will be required for the new commercial, public and civic bodies which receive public money for delivering public service content.
- 7.66 Alongside the debate over the possible models for future funding and institutional structure of public service broadcasting, which are the subject of this consultation, it will also be necessary to determine which aspects, if any, of the regulatory framework for public service broadcasting are appropriate in the wider context of public service content. Specific issues which must be considered include, for example, the impartiality requirements applied to broadcast news, in relation to the news services provided online by the public service broadcasters— or, for that matter, by any new publicly-funded originators of public service content.
- 7.67 These questions are specific to the public service broadcasting debate; however, they must be considered in the broader context of the evolution of audiovisual content regulation. The regulatory oversight of audiovisual content is already a complex system, involving many regulators with adjacent or even overlapping domains of responsibility. For example, a specific feature film can be subject to regulation by Ofcom, and/or the BBC Trust when broadcast; to the self-regulatory code of the Association for Television on Demand on some on-demand platforms and to the code of the Independent Mobile Classification Board on others; to the BBFC's ratings when on sale in a video store; and when offered as an online download to no regulation beyond the laws on illegal content - such as the Obscene Publications Act or the Protection of Children Act. Furthermore, the proliferation of new services and platforms, and in particular the growing importance of the internet as a platform for audiovisual media, has led to rapid development in the policy thinking and legislative frameworks now in place. Notable recent developments have included:
- the Press Complaints Commission's recent (2007) extension of its remit to cover audiovisual content offered on its members websites;
 - the recent publication of the conclusions of the Byron Review on children and harmful content on the internet and in video games;
 - the ongoing CMS Select Committee inquiry into harmful content on the internet and in video games;
 - the announcement in February by the Broadband Stakeholders Group of a self-regulatory code for audiovisual content information, supported by industry players from the BBC to Yahoo!; and

- the adoption in December 2007 of the EU's Audiovisual Media Services Directive, which requires that on-demand television services (including those on the internet) be subject to a statutory or co-regulatory framework.
- 7.68 The continuing development of policy and of practice in this area will be informed by initiatives such as the government's Convergence Think Tank, and Ofcom's joint work with government on the implementation of the Audiovisual Media Services Directive. However, it is possible to discern some of the overall direction of policy from work and legislation already completed or in place.
- 7.69 It is clear that the wholesale extension of statutory regulation to cover audiovisual media on the internet is undesirable and impractical; among other factors this is a consequence of the global reach of the network. At the same time, there will continue to be some services and some service providers, online and offline, which are subject to formal regulation, whether statutory or co-regulatory; this is an unavoidable consequence of the Audiovisual Media Services Directive. Future audiences will therefore be faced with choices between audiovisual service providers operating under different regulatory frameworks and potentially to different codes and standards.
- 7.70 This is not necessarily an undesirable position: as noted above, audiences already navigate such choices as they choose between the BBC and ITV; or between impartial broadcast news providers and partial newspapers. What is important in the context of the public service content debate is that the rules and the frameworks which apply to public service content are clear for content providers; and that the rules and the boundaries between public service and other types of content are clearly understood by audiences. In the second phase of this review, Ofcom will explore further the specific accountability frameworks under which providers of public service content should operate.

Questions for consultation

- i) What are your views of the high-level options for funding public service broadcasting in future?
- ii) Are the proposed tests of effectiveness for future models for public service broadcasting the right ones?
- iii) Of the four possible models for long-term delivery of public service content, which, if any, do you consider the most appropriate and why? Are there any alternative models, or combination of models that could be more appropriate, and why?

Section 8

Options for the commercial public service broadcasters

Introduction

8.1 Section 7 sets out four possible long-term models for the delivery of public service broadcasting. This section explains the implications of these models for the existing public service broadcasters and identifies future options for ITV1, Channel 4, Five, GMTV and Teletext.

There are a range of potential roles for the commercially funded PSBs in future

8.2 The BBC is the cornerstone of PSB and it would retain an important role in each of the four models outlined in the previous section. Here, we focus on the changing roles for the commercially-funded public service broadcasters.

ITV1

8.3 In the current public service broadcasting ecology, ITV1 plays a key role in delivering public service programming, especially services for and from the devolved nations and English regions, a role which is valued by audiences. It has wide-ranging obligations covering: overall levels of UK origination; national and international news; current affairs; nations and regions services comprising dedicated news, current affairs and other programmes; independent production; network production out of London; and a number of other areas in which it must determine the most appropriate level of provision.

8.4 ITV plc's submission to Ofcom says that it sees itself as a public service broadcaster continuing to provide high quality national and international news and a large volume of high quality UK-commissioned and UK-made programmes. ITV says that it aspires to continue to produce news output for the nations and regions, but believes this is only sustainable if the service is modernised and adapted for the digital environment with a substantially lower cost base.

8.5 The modelling that Ofcom has undertaken for this review suggests that the cost of ITV1's PSB obligations is significant, and that programming for the nations and regions is the most significant of these costs. Section 5 discusses the short-term pressures on the delivery of ITV1's remit and the fact that the difference between benefits and costs is changing rapidly. In the absence of change to the level of ITV1's public service obligations, their cost will exceed the benefits of public service status in advance of the completion of digital switchover. This brings with it the attendant risk that in the medium term ITV plc will seek to hand back its PSB licences and continue as a wholly commercial broadcaster, without any obligations to provide, for example, nations and regions programming.

8.6 A PSB licence surrender by ITV plc would also represent a threat to the viability of the regional licensees which ITV plc does not own. As a wholly commercial provider, ITV plc would be under no obligation to provide the network schedule to the other regional licensees, which is the 'carrier service' for their regional or nations output. While they would no longer have to pay for the network schedule, they would equally

have no access to programmes such as *Coronation Street*, around which they are currently able to sell airtime, thereby calling their business models into serious question. In the meantime, ITV plc would be able to provide a wholly commercial version of ITV1 to viewers right across the country on satellite, cable and the commercial DTT multiplexes.

- 8.7 This medium-term risk represents part of the context for Ofcom's consideration of ITV plc's proposals for the reshaping of regional news and non-news programmes, which we will undertake as part of our phase 2 work. In Phase 2 we will also consider ITV1's other public service obligations, and how a sustainable level of public service obligations might be shaped for the remainder of the current licence period.
- 8.8 In addition to these medium-term pressures, the regional ITV licensees in Scotland face short-term financial pressures in delivering their existing obligations for programmes for the nation. We have suggested that, in addition to considering the case for some relaxation in regional obligations, there may be a need for further funding to enable continuing delivery of their remit.
- 8.9 In the long term, the different models for public service content delivery have differing implications for the PSB status of ITV1. Only under Model 1 'Evolution' would ITV1 retain its existing public service broadcaster status, though even here it may be appropriate to review both the regional map and the split between ITV and GMTV within the licence structure as part of the process of developing a sustainable regional broadcasting model.
- 8.10 In the other three models, ITV1 would lose its public service broadcaster status, although it could still bid for competitive funding in models with elements of transferable funding. The benefits attached to that status, such as privileged access to DTT capacity, could be redeployed as part of the funding solution for the rest of public service content delivery.
- 8.11 However, we recognise that ITV1's regional history, its unique reach, audience share and regional infrastructure make it an effective carrier for the delivery of regions and nations content. It may be that there are ways of taking advantage of these characteristics and allowing ITV1 to continue to play a role in regions and nations delivery without retaining the rest of the existing regulatory framework. ITV1 would be in a strong position, for example, to bid for funding for the delivery of nations' and regions' content under the competitive funding models.

GMTV

- 8.12 GMTV holds the Channel 3 breakfast-time licence, broadcasting between 6 and 9.30am. It is obliged to provide news, current affairs and children's programmes, together with regional information (mainly news, travel and weather). In discussion with GMTV representatives, they told us that they see GMTV's commercial interests and the licence obligations as being aligned. Given the hours that GMTV broadcasts and the audience availability, they believe that scheduling of a news magazine programme on weekdays and children's programmes at the weekend is the commercially optimal way of targeting audiences. Although the diminishing value of the analogue spectrum affects GMTV in just the same way as the other commercial public service broadcasters, it sees little need for any regulatory relief.
- 8.13 Given that GMTV's licence obligations and its commercial interests are aligned, Ofcom believes that it will see a continuing net benefit from PSB status in the short and medium term, until the end of the current licence period.

- 8.14 In the longer term, Ofcom believes that GMTV's status should be considered in the round, alongside that of ITV. GMTV was created as a separate breakfast-time licence, as a means to extend commercial television broadcasting into the morning hours and to deliver further plurality of news and current affairs.
- 8.15 Looking to the long term, as with ITV1, GMTV would retain a continuing public service broadcaster status only under the evolution model. However, even under this scenario, given the wide range of services available to viewers, both broadcast and online, we believe that it may be important to consider whether there are economies of scope or scale which might be created by merging the morning licence back into the ITV1 licence structure. This could enhance the viability and flexibility of that licence structure.
- 8.16 Under the other scenarios, in which Channel 3 would not have PSB status, GMTV and its owners, ITV plc and Disney would be free to make a commercial decision as to the continuation of its existing business model.

Channel 4

- 8.17 The Act assigns a specific and unique remit to Channel 4 that applies only to its core channel. Channel 4's remit requires it to:
- provide a broad range of high quality and diverse programmes, demonstrate innovation, experimentation and creativity in the form and content of programmes;
 - appeal to the tastes and interests of a culturally diverse society;
 - make a significant contribution to meeting the need for the licensed public service channels to include programmes of an educational nature and other programmes of an educative value; and
 - exhibit a distinctive character.
- 8.18 Channel 4 also has a number of specific requirements set out in its licence, including quotas for originated programming, independent production, the provision of news and current affairs and schools programming. Channel 4 is not subject to any obligation to produce programmes of particular interest to the nations and regions, though it is required to source at least 30% of its schedule, by volume and value, from outside London.
- 8.19 The *Financial Review of Channel 4*¹⁰, commissioned by Ofcom from LEK in 2006-07, concluded that:
- there is a wide degree of uncertainty about Channel 4's forecast performance, particularly in the period beyond 2009;
 - while Channel 4's recent commercial performance has been strong, its commercial performance is likely to deteriorate in the short and medium term;
 - the Group is likely to be loss-making beyond 2010, even after taking advantage of cost-saving measures and the contribution from its other commercial ventures;

¹⁰ See Financial Review of Channel 4 at http://www.ofcom.org.uk/tv/psb_review/c4review/

- current cash reserves could be sufficient to cover losses until at least 2012; and
 - Channel 4 will increasingly be forced to decide between different types of investments that, on the one hand, support the Group's long-term commercial health and, on the other, ensure the continued delivery of public service content.
- 8.20 Channel 4's recent financial performance has been somewhat better than LEK's central case projected. However, there is little evidence that the fundamentals of LEK's analysis have been challenged by this performance, which is more driven by short-term features within the television advertising market (ITV1's relatively poor performance and Channel 4's strong audience performance in 2006). Given that Channel 4's audience performance deteriorated significantly in 2007, it is unlikely that this strong financial performance will be maintained.
- 8.21 Channel 4 has recently presented its vision of its distinct public role in the evolving media sector (see Figure 49). This vision includes partial solutions to several of the challenges facing delivery of public purposes over the next few years: overall investment in UK programming, particularly innovative and risk-taking approaches; children's services, securing public service value online and enhanced representation of the nations on network TV.

Figure 49 Channel 4's future vision

Channel 4 launched its new vision in March 2008. It set out four core public purposes for the organisation:

- to nurture new talent and original ideas;
- to champion alternative voices and fresh perspectives;
- to challenge people to see the world differently; and
- to inspire change in people's lives.

To achieve this vision, Channel 4 proposed to extend its public role into new digital media, including digital radio and online, with a £50 million initiative funded by jointly by Channel 4 and partners to enable UK audiences to access high-quality content at the time and on the platform of their choosing. It also announced a series of specific initiatives in four broad areas:

- a greater commitment to new talent, voices and ideas (including an annual commitment to broadcasting more new programmes in peak than any other public service broadcaster, the equivalent of at least one new documentary in peak each weekday, increasing the number of dedicated slots for new talent across platforms, increases in Channel 4's annual spend on news and ring-fencing £10 million annually for British film)
- a leading role engaging younger viewers with public service values, including a new public service role in children's content, targeting 10-15 year olds and a £10 million pilot fund for cross-platform projects and £6 million per annum in educational multi-media content for teenagers
- reinvigorating its connection with minority audiences, including appointing a new Head of Diversity, assigning a commissioning editor specific responsibility for multicultural programmes, with a ring-fenced budget and slots at 9pm and 10pm, and doubling the budget for the commissioning team's diversity placement scheme; and
- greater investment in creative partnerships, including working with more independent producers than other broadcasters, securing a new digital rights agreement with the independent sector, increasing the proportion of Channel 4's commissioning spend in

Scotland, Wales and Northern Ireland by 50% by 2012 and forming alliances with other public bodies.

To help deliver these commitments, Channel 4 intends to free up £35 million per annum for UK originated content by reducing its annual spend on acquired programming by 20% over the next five years. In addition, Channel 4 has asked for further public support of at least £100 million a year.

This vision will be backed by fresh accountability initiatives, including measurement of the organisation's performance against a basket of measures; publication of an annual Public Value report; and a new content sub-committee of the Channel 4 Board.

We would welcome your comments on Channel 4's vision and these associated proposals.

- 8.22 Any long-term decisions about Channel 4's future role will be for government to make. However, even if its remit is not changed, it will face increasing challenges in meeting its existing remit after 2010. And if a wider set of public service responsibilities were entrusted to Channel 4, the pressures would come greater and earlier. It is therefore important that we consider carefully the potential funding options for Channel 4 at this stage, recognising that the long-term decisions are for government to make.
- 8.23 Funding options for Channel 4 fall into three broad categories: funding from regulatory assets, public funding and funding from the industry.
- 8.24 Of these options, increased advertising minutage would appear to offer most value to Channel 4 in the short term. Our initial economic modelling indicates that increasing the peak-time advertising minutage for the terrestrial public service broadcasters might result in significant benefits for Channel 4.
- 8.25 Allowing Channel 4 to deliver its remit across a range of platforms may deliver some value by freeing up the core channel to focus, in part, on more commercially attractive programming. For example, moving schools programming online might enable Channel 4 to broadcast more attractive content in the morning schedule, although this could have relatively limited impact, given low audiences at that time of day. Moreover, this change would require primary legislation, in which case more substantial measures could be considered.

Five

- 8.26 As the most recent of the public service broadcasters, the regulatory obligations placed on Five are significantly lower than those for other public service broadcasters. The channel is subject to quotas for originated and independently produced programmes, news and current affairs. Ten per cent of its schedule by volume and value must be commissioned from outside London.
- 8.27 Output analysis and audience research conducted for this review show that there are relatively few areas in which the audience believes Five plays a distinctive role in delivering the public purposes. Currently, Five's main contributions to delivering the public service purposes are:
- investing in original UK-orientated content, particularly in the areas of children's and factual content; and
 - contributing to plurality (particularly in news and current affairs).

- 8.28 Five sees itself as providing plurality, having a distinctive approach to key PSB programme genres and a track record of innovation, particularly in news and current affairs. It believes that the channel embodies a difference of tone and approach, and that it is able to deliver public service programming in a down-to-earth and accessible way. Five says that it is committed to a continuing role as a public service broadcaster throughout the transition to a fully digital world.
- 8.29 Audiences value Five's contribution and think that it has a distinctive voice. The deliberative research showed that viewers think that it offers clear and simple presentation of news and current affairs.
- 8.30 Economic modelling undertaken by Ofcom for this review indicates that Five should see a benefit from PSB status up to and beyond switchover. This benefit should allow Five to make a continuing contribution in these two areas until the end of the current licence period in 2014. Five might also demonstrate how its contribution to public service broadcasting matches the benefits it currently receives. We will consider this issue as part of phase 2 of the review.

Teletext

- 8.31 The Public Teletext licence allows for distribution of a commercial text service on analogue TV and the commercial public service broadcasting digital terrestrial television multiplex. The licence has specific quota obligations on both platforms which require a minimum number of pages for national news and regional news and regional non-news content.
- 8.32 The analogue service is currently more popular with viewers than the digital terrestrial television service, even in digital television households. Teletext's own research indicates that two major reasons for this loyalty to analogue are viewer concerns over the breadth of content and the speed of the digital services, factors which are heavily influenced by the limited amount of available broadcast capacity. Despite this, Teletext research suggests that more than 40% of its digital viewers are not accessing any other TV text service.
- 8.33 Across the analogue and digital services, Teletext's research shows that news, weather, lottery, TV listings and sport are the most popular content areas. Ofcom's PSB tracker suggests that viewers value the up-to-date, accurate and impartial nature of the services.
- 8.34 Teletext considers that, going forward, there will continue to be demand for text information services delivered to the TV set. Though it considers that the Digital Teletext service is currently compromised by its limited DTT capacity, technological developments may make delivery of text services less dependent on broadcast spectrum. Teletext considers that in the long term a less prescriptive regime without minimum page quotas would allow greater flexibility in a limited content environment, without harming the overall public value of the service. In particular, Teletext consider regional obligations will be unsustainable going forward, and that before switchover the level of obligations for regional news and non-news pages should be reduced, and that the number of regions that they are provided across should reflect the coverage of other commercial PSBs with regional news obligations.
- 8.35 Recognising these changes and constraints, and the increasing availability and reach of reliable and high quality text based services on other platforms, Ofcom considers that there is a broad question of whether intervention is still of value in the text

information market. It may be unnecessary to continue intervention through a statutory licensing regime for a text based service delivered by television.

Conclusion

- 8.36 The roles that existing public service broadcasters take in future will depend on which of, or which combination of, the four long-term overall models are deemed appropriate in the future. This is ultimately a decision for government, and will require detailed debate and consideration.
- 8.37 However, as we work towards a longer-term solution to the future of public service broadcasting in the UK, it remains important in the short term that none of the possible long-term options are foreclosed. In making regulatory decisions in the period between now and the development of new legislation, we will need to preserve the important elements of the roles that the commercial public service broadcasters are currently playing, while remaining flexible about the roles that they institutions might play in the long run.

Questions for consultation

- i) What do you think is the appropriate public service role for Channel 4 in the short-, medium- and long-term? What do you think of Channel 4's proposed vision?
- ii) Which of the options set out for the commercial PSBs do you favour?

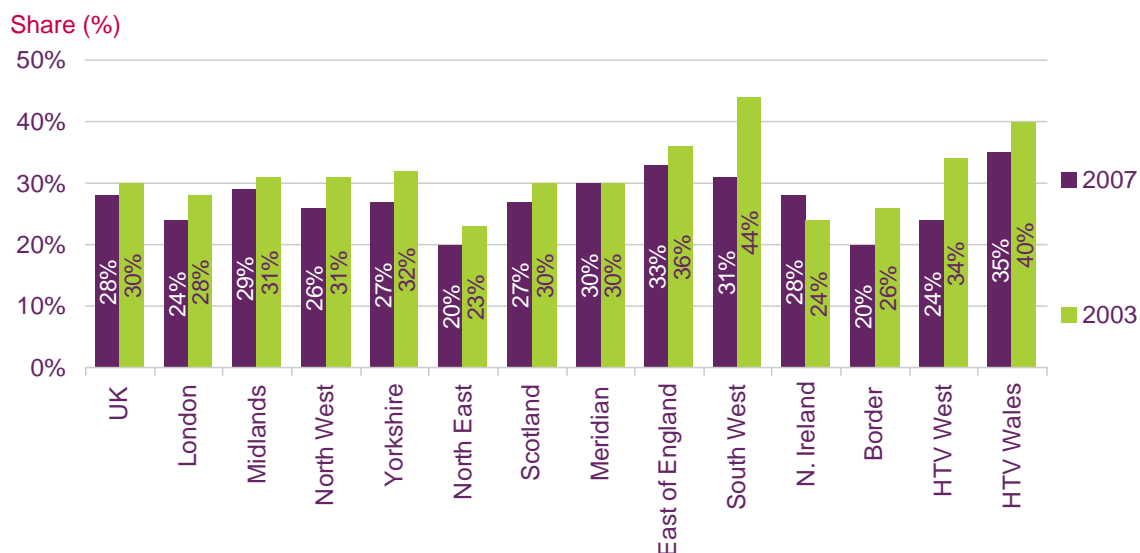
Section 9

Scenarios for the UK's nations, regions and localities

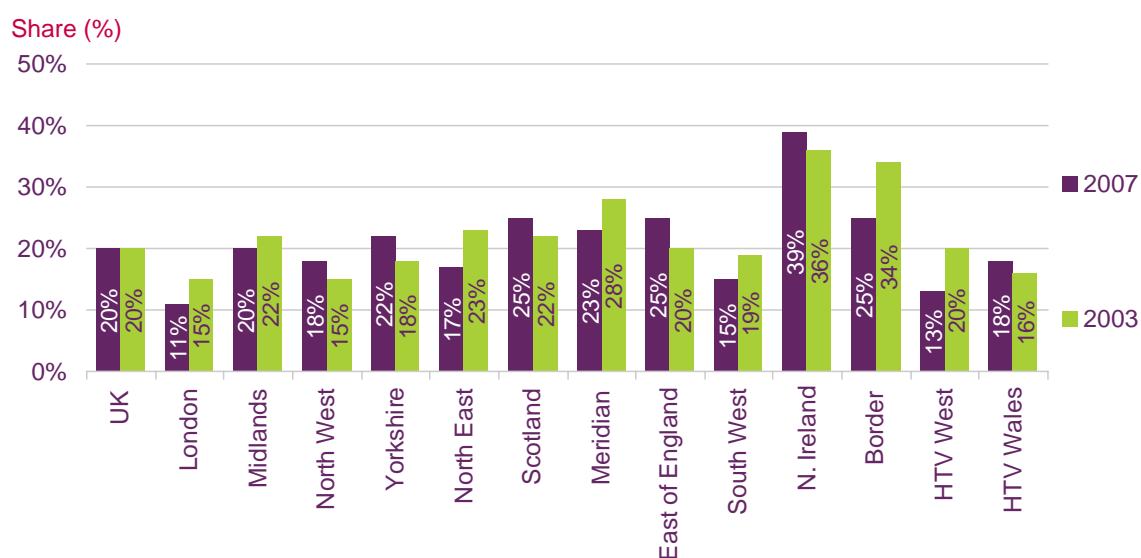
Introduction

- 9.1 This section gives general context to issues concerning the nations and regions, and some background on viewers' priorities, before turning to the implications of the models set out in Section 7 for each of the nations of Scotland, Wales, Northern Ireland and England. It then deals with the portrayal of the nations and regions on UK networks, and concludes with a summary of issues for the future.
- 9.2 Ofcom's first PSB review recognised the important role that television plays in reflecting the diversity of the UK's nations, regions and localities. It found that nations and regions news was the most valued element and that viewers also valued seeing their nation or region reflected on network television. And it established that non-news programmes in the nations and regions, while still valued, were not such a high priority for viewers as news.
- 9.3 Audience research for the current review confirms that viewers continue to value nations and regions content, especially news from more than one provider. Given the rapidly increasingly competitive environment, viewing figures for nations and regions programmes have held up well from 2003 to 2007. Average viewing share for the early evening news programmes has declined slightly on the BBC, but has actually increased very slightly on ITV1. And BBC One at 6.30pm remains the most watched news slot on UK television.

Figure 50 Change in BBC early evening regional news share, 2003-2007



Source: BARB

Figure 51 Change in ITV early evening regional news share, 2003-2007

Source: BARB

- 9.4 But audience dynamics are changing: television remains important for all, especially for older viewers, with the young being increasingly inclined towards new media. However the limitations in broadband speeds in some rural areas of the UK are a factor for all users.
- 9.5 In terms of economic viability, our first review recognised that nations and regions programming was by far the ITV network's most expensive contribution to PSB and that the economic pressures would increase.
- 9.6 The economics are no less challenging four years on; the rapidly declining value of the gifted analogue spectrum, which was at the heart of the PSB compact, suggests that ITV's PSB costs will outweigh the benefits of holding PSB status at or before switchover time in each nation and region. And our analysis suggests that Scotland is likely to be one of the early pressure points.
- 9.7 In terms of the wider market context, there is increasing local online activity from: the nations and regions press; the ITV Local online service (and equivalent activity from non-ITV plc licensees in Scotland, Northern Ireland and the Channel Islands); and - subject to approval of the relevant public value and market impact tests - the BBC. Research indicates that the internet is not currently seen by viewers as a substitute for nations and regions provision on broadcast television, and local video content remains an emerging and to some extent unpredictable sector. Nevertheless, there is real potential to develop new online services which meet the needs of citizens in the nations, regions and localities of the UK in new ways.
- 9.8 In radio, local and community stations are significant players at a local level. They make important contributions both in terms of their provision of material at a more granular, local level than is provided on broadcast television, and in their ability to contribute different voices and perspectives and to support plurality at a wider media level. Community radio, for example, covers a wide range of target audiences and localities, such as Takeover Radio for children in Leicester, Radio Cardiff, which provides a music mix aimed at ethnic minority communities, and Angel Radio for over-60s in Havant, Hampshire.

- 9.9 The political context has changed substantially since the first review, especially in the devolved nations, where different and distinct devolution journeys have continued. Reflecting the different cultures, perspectives and policies of the various parts of the UK has, if anything, become more important four years on.
- 9.10 There are, however, a number of common features across the nations: throughout the UK, audiences place a lower priority on non-news programmes than they do on news; ensuring the provision of news from more than one provider remains important; local services are not seen by audiences in the devolved nations as a substitute for national provision; programming in indigenous languages is valued in the nations; and there are challenges across all of the devolved nations in terms of developing and sustaining successful clusters of network production.
- 9.11 While the out-of-London production quotas are being met or exceeded by the PSBs, they have not delivered significant levels of production from outside England. In addition, the quotas deliver investment and production outside London rather than - necessarily - on-screen portrayal of different communities around the UK.
- 9.12 Network out-of-London production and portrayal are major issues that we shall return to in phase 2 of this Review. Quotas have had some success in moving production out of London, but much less in achieving further dispersal around the nations and regions (ITV in-house production, for example, is heavily concentrated in Manchester and Leeds). Our previous PSB Review referred to the possibility of a more specific ITV quota for production from Scotland, Wales and Northern Ireland. We shall analyse this issue further in Phase 2. Such a quota would clearly have an effect in moving production. But other remaining public service objectives for ITV (maintenance of nations and regions news for example) might take higher priority; additionally, a quota of this kind might disproportionately restrict ITV's commissioning freedom. It may be that progress in this area would be better delivered by publicly owned institutions with public service purposes at their core, i.e. the BBC and Channel 4. Both have recently announced initiatives in this area.
- 9.13 There is security in terms of indigenous language provision for Wales, and also, in the near future, for Scotland, with the establishment of the Gaelic Digital Service. But this aspect of nations and regions provision remains an issue in Northern Ireland, where programming in Irish and reflecting the Ulster Scots identity is less secure.
- 9.14 Issues associated both with out-of-London production and with indigenous language programming in Northern Ireland are explored in more detail later in this section.
- 9.15 Overall, therefore, some nations and regions provision (for example in the form of the BBC and S4C) is assured. But there are some real - and increasing - tensions between what is appropriate from a citizen perspective, and what might be sustainable from an economic one. At the same time, there is a real opportunity to develop new ways of meeting the needs of viewers in the nations and regions and of enhancing the provision of content at nation, regional and local level.
- 9.16 Our medium- to long-term objective is competition and plurality of content, at nation, and local and/or regional levels. But it is clear that broadcasting landscapes and political needs differ between nations, so each nation and the English regions (together) will need differently tailored solutions.

ITV plc has made proposals for regional news in England and the Scottish Borders

- 9.17 In England it is clear that people place more value on regional news than on other types of regional programming. However, regional news is also by far the highest single cost of the ITV1 licences. ITV plc has asked Ofcom for consent to restructure its regional news services in England and the Scottish Borders. (ITV plc also operates ITV Wales, which is unaffected by this plan.)
- 9.18 For the first 25 years of ITV the licensees provided one regional news service for each licence area. But in the 1980s applicants for licences began committing to provide more local news services in what became known as 'sub-regions' or 'local opt-outs'. This process developed over the next twenty years.
- 9.19 In 2007 ITV plc proposed to Ofcom that to try to cut costs from 2009 onwards it wished largely to merge the Border region with Tyne-Tees, and the West with the Westcountry region which would effectively reduce the number of regions by two. And it wished to phase out most of the news programmes produced in what are known as 'sub-regions'.
- 9.20 After consultations with Ofcom, viewer groups, MPs and other stakeholders ITV plc has now put forward an alternative structure from 2009 which while still effectively reducing the number of regions by two would provide most of them with peak-time sub-regional or local 'opt-outs' – news summaries targeted at specific areas which are included within regional news programmes. Overall ITV plc would be providing 18 different versions of regional news services in England and Wales.
- 9.21 ITV London and Granada, with no existing sub-regions, would be unaffected by either the previous or current restructuring plan as would ITV Wales. The Channel 3 news services not operated by ITV plc in Central and Northern Scotland, Northern Ireland and the Channel Islands would also be unaffected.
- 9.22 ITV plc has argued that a restructuring of services in England is necessary to make regional news sustainable in the short and medium term. ITV says that the current cost of regional news is around £100 million per annum and that it generates only marginal revenue. With the net benefit of public service broadcaster status declining significantly ITV is looking to make cost savings in the region of £35-£40 million per annum and ITV's proposals for restructuring regional news would be expected to achieve this. If it is unable to proceed with these proposals, ITV says it would need to make savings within the existing pattern, which is not a decision on which it is required to consult Ofcom or seek our approval.
- 9.23 We recognise that continued provision of regional news is one of the most important short-term issues in the public service broadcasting debate and one that will require a clear decision by Ofcom supported by significant evidence. We have launched an extensive research and evaluation programme and will in Phase 2 of this review (to be published in the autumn) put forward our preferred policy option in relation to regional news provision in England and the Border region for public consultation.
- 9.24 Ofcom could respond in a number of ways, for example by:
- refusing any change to current licences;
 - allowing ITV plc to reduce its costs by a version of its re-structuring plan;

- considering other options for the sustainability of regional news.

9.25 We would welcome your initial views about these and any other potential options.

Nations and regions news remains a high priority for viewers

9.26 Our viewer research shows that levels of support for various elements of nations and regions provision are nearly always higher in the devolved nations than in England, although within England opinions vary considerably - and support for regional content is lowest of all in the London region. Generally, levels of support have stayed at similar levels or increased since 2004.

9.27 News remains the key element of nations and regions provision. Viewers also continue to think that plurality of news provision is particularly important. This is especially the case in the devolved nations.

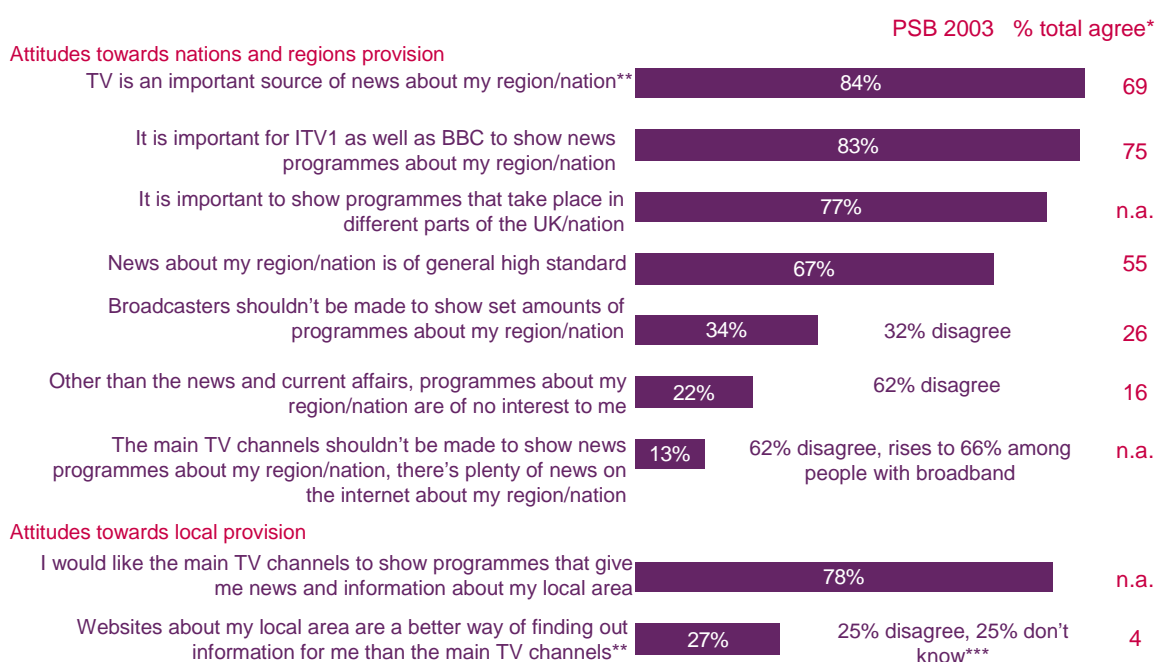
9.28 Across the UK, viewers believe that the delivery and plurality of nations/regions current affairs are less important than for news, but more important than other non-news programmes. The importance of nations and regions programming other than news shows some variation around the UK, but overall, viewers in the devolved nations see it as more important than do viewers in England. Plurality of non-news provision is also seen as more important in the devolved nations than it is in England.

9.29 However, the quality of content is also critical for viewers. Therefore, while the principle of dedicated programmes for each devolved nation is articulated strongly, given the particularity of cultures and politics, the deliberative research indicates that satisfaction with non-news programming is lower than it is with network programmes.

9.30 For many viewers, reflection at network level of where they live, at network level is an important part of PSB. In broad terms, it is seen as being more important by those in the devolved nations, and somewhat less so by those in England, especially in the South. There are some indications that viewers think that this aspect of nations and regions programming is not currently being particularly well delivered.

9.31 There is also interest in more local content relating to news and information across the UK, although there is little support for new platforms such as the internet as a substitute for TV provision of nations and regions programming.

Figure 52 Attitude statements about nations and regions provision



Source PSB Review Q39-Q41: 2,260 interviews with UK adults aged 16+, October - December 2007

* Source: PSB Review 2003 - please interpret any changes over time with caution - see Section 2 for details

**Question wording varied slightly in 2003. Interpret with caution

*** Among people with broadband results are 40% agree and 28% disagree

9.32 Turning to programming in indigenous languages, 69% of people in Wales believe some provision in Welsh is important; 53% of Scots believe Gaelic provision is important; with 29% of people in Northern Ireland thinking provision of Irish language programming is important and 20% thinking that provision of Ulster Scots programming is important. (The figures for Northern Ireland potentially reflect continuing divisions over cultural and national identity.)

Scenarios for Scotland

9.33 The current context within which public service television broadcasting operates in Scotland is characterised by a mixture of change and stability. Key factors include:

- the continuing devolution process;
- the setting up of the Scottish Broadcasting Commission;
- a BBC in Scotland that is well funded, compared with other providers;
- the increasingly challenging economics of provision by stv as a commercial operator;
- the low level of network production from Scotland across all the PSBs (although some voluntary action to address this is planned by the BBC and Channel 4);
- the relative strength of the national press and radio within Scotland, albeit that London-based titles are advancing at the expense of purely Scottish newspapers, and that consolidation within the radio sector has meant there are fewer commercial stations in Scottish ownership than a few years ago;

- some limited developments in online local content;
 - the prospect of a secure future for Gaelic provision, in the form of the newly-approved Gaelic Digital Service.
- 9.34 In Scotland, the costs of the PSB obligations of the ITV1 licences are likely to exceed the benefits of PSB status from around 2010; the cost of news alone, for Scotland and its regions, would have this effect. Therefore, the scenarios outlined below, involving funding from new sources, may need to be considered in Scotland ahead of other parts of the UK.
- 9.35 In Section 7 of this document we identified four possible models for the longer-term future.
- 9.36 Applied to Scotland, Model 2 'BBC only', would also include delivery of Gaelic programming (in the form of the Gaelic Digital Service). However there would be no public service broadcasting plurality in English language content for Scotland.
- 9.37 Model 1 'evolution' could involve supporting the existing main commercial broadcaster in Scotland, stv, in order to maintain plurality of television news and current affairs and - where possible - other non-news programming, and also, perhaps, to maintain provision at a regional/sub-regional level within Scotland (something that is not provided by the BBC on broadcast television).
- 9.38 Although Ofcom will consider all the potential areas of support that lie within the current regulatory framework, our analysis suggests that it is unlikely that these will be sufficient to maintain current levels of output, and that new forms of funding would therefore need to be considered in order to support this option in the medium term (i.e. between 2011 and 2014, when the current ITV1 licences end). Funding from the Scottish or UK government (although each is already involved in funding indigenous language services in Scotland and Wales) would bring with it the attendant issues of editorial independence. State aid rules would also need to be taken into account.
- 9.39 In any scenario involving provision of content for Scotland on ITV it may be necessary to consider redrawing the regional map within the nation. Separate licences for North and Central Scotland increase the cost of regulatory obligations without necessarily providing the means to fund them. Citizens' need for both news and non-news content associated with devolution is also increasingly difficult to meet within a region such as Border, which covers parts of both the English and Scottish border areas. In this context a shift (in the longer term) to a single Scotland Channel 3 licence could be considered. This would be in line with current provision in the other two devolved nations, Wales and Northern Ireland).
- 9.40 Beyond 2014 - when the current ITV regional licences end - Model 1 'evolution' might possibly be further developed to encompass new forms of licensing for ITV as a continuing public service broadcaster. Possibilities after 2014 could include:
- a continuation of today's networking structure whereby (existing or new) nations and regions licensees provide non-network output and are members of the ITV network, which provides a network programme schedule to all licensees;
 - the creation of four national licences (for Scotland, Wales, Northern Ireland and England), each with significant shared content at a network level (although not necessarily on exactly the same basis as currently); or

- the creation of an ITV UK-wide licence into which content targeted at the whole of, or part of, Scotland could be inserted. New or existing suppliers could be licensed to provide this content, and might be given the right to sell advertising around the 'contracted out' slots.
- 9.41 The latter two approaches could imply a significant change to the Scottish licensees' existing relationship with the ITV network and with ITV plc and a move towards an approach more analogous to that of the model in the US, whereby a local TV company is affiliated to a major network and runs a mixture of its own programming and the network's schedule. Some affiliates are wholly owned by the networks; others retain their independence.
- 9.42 Under the existing networking arrangements, the regional licensees provide only a limited volume of regional programmes but share the costs of the network schedule and are able to sell advertising in their regions across the whole of the network schedule. By contrast, under the affiliate model the affiliate provides programming, both regional and of more general entertainment value, into time slots in the networked schedule. But it sells airtime only around the programming that it provides, with the network paying for the whole of the networked schedule and owning the right to sell all the advertising around it.
- 9.43 The level and geographical spread of local content that both Models 1 and 2 ('evolution' and 'BBC only') might deliver is uncertain, particularly outside the major conurbations, although the 'evolution' model might possibly deliver some continuing news at a regional and/or sub-regional level within Scotland.
- 9.44 Under Model 3 'BBC/C4' outlined in Section 7, contracts could be advertised which would allow new national and perhaps, in particular, local entrants to emerge in Scotland, alongside the BBC and Channel 4. This approach would be developed further under Model 4 'broad competitive funding'. Both models could exploit the potential of online development, as well as linear television, and might also deliver a geographical spread of activity less focused on big cities.
- 9.45 A feature that could emerge from Model 4 'broad competitive funding' might be a new national channel for Scotland. This has been proposed by the Scottish Broadcasting Commission, but would need extensive funding to be able to deliver the reach and impact that, for example, stv programmes - in part by virtue of their incorporation within the ITV network schedule - are able to deliver currently.
- 9.46 The Gaelic Media Service (GMS) could also potentially be funded within this scenario; and as an alternative to a new national channel, consideration could be given to the inclusion of English language programmes on the Gaelic Digital Service, provided this was additional to, rather than a substitute for, Gaelic provision.

Scenarios for Wales

- 9.47 Key features of the broadcasting context for Wales include:
- the continuation of the devolution process;
 - a strong BBC, in terms of its provision for Wales (less so in terms of its network provision from Wales, although there have been some welcome recent developments in this area);

- strong and secure provision in the Welsh language via S4C (although with limited in-built plurality with regard to news, in that BBC Wales supplies the S4C news service);
 - commercial provision for Wales - in the form of ITV Wales - facing some challenging economics;
 - more limited indigenous press than in Scotland or Northern Ireland;
 - some limited developments in online local content for Wales;
 - BBC radio, but no commercial radio service, at a nation level, and the growth of local and regional commercial radio;
 - the strong development of community radio, supported by the proposed Welsh Assembly government community radio fund; and
 - low levels of local production/on-screen portrayal at network level, although there are recent positive signs from the BBC.
- 9.48 The funding of ITV programming for Wales - from the near future onwards - will be sustainable only as part of the wider ITV plc group (see Section 5, above).
- 9.49 For the longer term, we identified in Section 7 above four indicative models for delivery of PSB content by, and in competition with, the BBC'. Our objective, in considering these alternatives, is sustainable plurality of content across all platforms, in competition with the BBC.
- 9.50 In Model 2 'BBC only', a role could continue for S4C as a publicly funded institution delivering Welsh language output. Plurality in English language content would likely be limited.
- 9.51 In Wales Model 1 'evolution' could involve supporting the existing main commercial broadcaster - ITV Wales - in order to maintain plurality of TV news and current affairs and - where possible - other non-news programming within Wales at a nation level.
- 9.52 Our analysis indicates that, given that ITV Wales is part of ITV plc, it is probable that reviewing and prioritising the PSB obligations placed on ITV1 as a whole could be sufficient to ensure a viable ITV Wales service (focused on news, but with some non-news) in the short to medium term. However, in the long term it is possible that new funding (e.g. from the Welsh Assembly government or from the UK government) would be required. Although the UK government is already involved in the funding of S4C, funding from the Welsh or UK governments would bring with it the attendant issues of editorial independence. State aid rules would also need to be taken into account.
- 9.53 While this model would potentially support news and non-news provision for ITV Wales at a nation level, it would not deliver an increase in production in, and portrayal of, Wales at a UK network level; similar concerns exist in all three devolved nations. As noted above, Ofcom will consider the issue of network production outside London in phase 2 of this review.
- 9.54 In addition both Model 2 'BBC only' and Model 1 'evolution' would be likely to deliver an uncertain spread of local content services within Wales.

- 9.55 Further development of Model 1 'evolution' after 2014 - when the current licence period ends - might involve new forms of licensing within ITV1, such as a single licence for each nation (ITV Wales is currently part of the ITV Wales and West dual licence) although this would not in itself be likely to solve the economic viability issues.
- 9.56 Under some of the models, new licence structures might be devised allowing the existing licensee or new providers (at a nation level and possibly also at a regional/local level within Wales) to tender for contracts to provide various types of programming within the ITV1 schedule and especially to provide online content.
- 9.57 Some stakeholders have suggested that there might be some potential for spare capacity on the part of the DTT multiplex, also used by Welsh language broadcaster S4C, to be used for English language content for Wales, in particular non-news programmes which might not be provided elsewhere on a commercial basis. This would be over and above S4C's Welsh language services, not at its expense, and could potentially be an outcome within Model 3 'BBC/C4 plus limited competitive funding' outlined in Section 7.
- 9.58 Under this model, contracts could be advertised that would allow new national and perhaps in particular local entrants to emerge - in Welsh and in English. Both Models 3 and 4 (BBC/C4 and broad competitive funding) might also deliver a geographical spread of activity less focussed on big cities. S4C could also potentially be funded within the latter scenario.

Scenarios for Northern Ireland

- 9.59 In common with Wales and Scotland the context in Northern Ireland is one of:
- increasing developments in terms of devolution;
 - a relatively strong BBC in terms of programming for Northern Ireland;
 - some limited developments in online local content; and
 - very low levels of production in, or portrayal of, Northern Ireland at a network level.
- 9.60 Significant areas of difference between Northern Ireland and the other devolved nations in this context include:
- the strength of UTV – based on a combination of ITV networking arrangements and merger undertakings which have operated largely to its advantage, and its unique position as a commercial broadcaster (of both TV and radio) with an ability to attract audiences in both Northern Ireland and the Republic of Ireland;
 - the relatively undeveloped status of indigenous language broadcasting (both Irish language and Ulster Scots) from within Northern Ireland;
 - the lack of guaranteed public funding for Irish language broadcasting (similar to that provided for broadcasting in Welsh and Gaelic);
 - the need for broadcasting to affirm Northern Ireland's indigenous cultural as well as linguistic diversity - cultural representation is often regarded by some within the Ulster Scots community as at least as important as language; and

- the presence of Republic of Ireland broadcasters RTÉ (English language) and TG4 (Irish language) as part of the public service broadcasting landscape in Northern Ireland in both television and radio.
- 9.61 The presence of a comparatively strong press sector in Northern Ireland is another important factor. The radio sector is also well developed; for example, the Northern Media Group has established a strong presence in commercial radio, holding six licences in Northern Ireland; and there are now 14 community stations, such as Raidió Fáilte, which broadcasts in the Irish language to parts of Belfast.
- 9.62 The benefits of PSB status to UTV are - as noted above in Section 5 - likely to outweigh the costs at least until switchover, which falls in 2012 in Northern Ireland.
- 9.63 This influences the application in Northern Ireland of the four models described in Section 6. The strength of UTV relative to some other parts of ITV makes Model 1 'evolution' more likely to deliver plurality for longer without additional funding. Northern Ireland's television plurality is further strengthened when the contribution made by the Republic of Ireland channels is also taken into account as part of the Northern Ireland audience's PSB mix.
- 9.64 However, some degree of intervention or evolution may be needed, for example to:
- maintain availability of TG4 and RTÉ channels in Northern Ireland after digital switchover and the continuing availability of cross-border radio services. The government committed in the Belfast/Good Friday Agreement to make TG4 available to audiences throughout Northern Ireland; and
 - renew the Irish Language Broadcasting Fund from April 2009 onwards to ensure Irish language content originating from within Northern Ireland.
- 9.65 The government is on course to meet its commitment to make TG4, the Irish language channel broadcast from the Republic, available throughout Northern Ireland. However, support for the production, from within Northern Ireland, of Irish language programming of particular relevance to Northern Ireland audiences is uncertain; current government funding for Irish language provision is not guaranteed beyond March 2009. This is likely to place a greater burden of responsibility on BBC Northern Ireland which is currently not resourced to deliver indigenous language programming in the way its counterparts in Wales and Scotland are.
- 9.66 The issue is a live one and consideration has been devoted to it in recent months by the BBC's Audience Council for Northern Ireland, the Trust and the Executive. In January 2008 the BBC Trust agreed that there was a case for an incremental increase in Irish and Ulster Scots broadcasting and online services and invited the Executive to come up with proposals for the provision of indigenous minority languages in Northern Ireland. The Trust also noted that there was an opportunity for the Executive to work in collaboration with other language providers in Ireland and Scotland. This supports the suggestion we made in our first Public Service Broadcasting Review that there was scope for BBC Northern Ireland to explore the development of synergies with TG4 and RTÉ as regards Irish language programming and indeed with BBC Scotland, some of whose programming in both Gaelic and Scots may be relevant to Northern Ireland audiences.
- 9.67 Further development of the 'evolution' model after the current licence period ends in 2014 might involve various options for redrawing the ITV licence structure, such as the creation of four national licences (for Northern Ireland, Scotland, Wales and

England) or the separate licensing of nations (and regions) slots within a separately licensed ITV network schedule. Under this model UTV or new providers (possibly at a local level within Northern Ireland) could tender for contracts to provide news and non-news programming within the ITV1 schedule and to provide online content.

- 9.68 However, UTV's financial health as a television broadcaster draws on the existing ITV regional licence structure and its networking arrangements, as well as its ability to reach an audience in both Northern Ireland and the Republic and to sell advertising accordingly. The merger undertakings given by ITV plc have effectively capped UTV's contribution to the cost of network schedule, despite the increasing share of ITV1 advertising revenue that UTV has taken¹¹. If the nature of UTV's relationship with the ITV1 network were to change its current financial model might be difficult to sustain.
- 9.69 Models 3 and 4 (BBC/C4 and broad competitive funding) outlined above might deliver new entrants with new approaches and more local and multi-platform activity in Northern Ireland. The broad competitive funding approach might also be used to deliver support for Northern Ireland-originated programming at a network level. The Irish Language Broadcasting Fund could also potentially be funded within the latter scenario.

Scenarios for England

- 9.70 Although devolution in England has not changed greatly in the last four years, regionalism has clearly moved up the political agenda. The government has recently appointed nine Ministers for the nine English regions (defined by government Offices of the Regions) and has proposed nine English regional Parliamentary select committees. Also proposed is a strengthening of the role of Regional Development Agencies.
- 9.71 The response of the audience in England is more varied. Support for regional news remains at a relatively high level - similar to 2004 - both to people as individuals and when they consider society as a whole. However, the pattern varies considerably. Support in some regions such as the North-East and South-West England is at high levels; comparable with the devolved nations. In others, most notably London, it is much lower.

¹¹ Issues relating to the exclusivity of ITV transmission: Annex 2 of Further Statement on the ITV Networking Arrangements, published on 3 October 2005.

Figure 53: Attitude statements by nation and region

	All (2,260)	England (1,046)	Scotland (411)	Wales (397)	N. Ireland (406)	Tyne Tees (112)	Granada (150)	Yorkshire (132)	Central (229)	Anglia* (82)	London (204)	Meridian* (86)	W. Country (89)
Television is an important source of news about my region/nation	84	82	90	91	95	92	87	88	82	86	71	83	86
It is important to show programmes that take place in different parts of the UK/nation	77	75	89	87	85	86	75	81	70	81	65	83	87
It is important for ITV1 as well as BBC to show news programmes about my region/nation	83	82	94	91	93	90	83	87	84	91	65	83	91
News about my region/nation is of general high standard	67	66	67	79	81	78	79	85	64	66	44	68	75
Broadcasters shouldn't be made to show set amounts of programmes about my region/nation	34	34	37	36	32	31	33	25	37	36	27	40	52
Other than the news and current affairs, programmes about my region/nation are of no interest to me	22	23	9	13	17	15	26	18	21	19	35	17	17
The main TV channels shouldn't be made to show news programmes about my region/nation, there's plenty of news on the internet about my region/nation	13	14	11	14	9	11	28	5	15	10	19	5	5
I would like the main TV channels to show programmes that give me news and information about my local area	78	79	77	80	81	90	83	88	76	77	70	82	81
Websites about my local area are a better way of finding out information for me than the main TV channels	27	26	33	30	28	16	29	16	30	30	32	19	21

Source PSB Review Survey, Q39-Q41: 2,260 interviews with UK adults aged 16+, October - December 2007.
Note: Green denotes a figure significantly higher than 'All'; red denotes a figure significantly lower than 'All'

- 9.72 As in the other nations of the UK, audiences in England generally attach high importance to provision of regional news from more than one supplier, providing plurality and competition for quality.
- 9.73 As reflected in Section 5 of this document, the economics of regional news (and non-news regional programmes) are challenging for ITV1. Development of other commercial TV services at a regional level is very restricted, with activity tending to be focused at a local rather than a regional level (such as newspapers providing video content online, the ITV Local initiative, television stations such as Manchester's Channel M or Lincolnshire's Channel 7, the BBC's local proposals, and initiatives by local authorities or community groups) tending to be focused at a local rather than at a regional level.
- 9.74 Audience research for our *New News, Future News* report found that, when asked about current regional news provision in their area, 71% of viewers thought that the BBC's geographical coverage was 'about right', with 73% thinking the same about ITV's coverage (although with some variation between regions for both the BBC and ITV). Those who disagreed tended to do so on the basis that the geographical coverage was too wide, with very few people saying that it was too local.
- 9.75 It might be that - in the longer term in particular - it will be appropriate for provision in England to shift from a regional to a more local level, delivered via broadband and digital television in larger conurbations. In addition to being more flexible (and more independent of the terrestrial transmitter map) this would build on the ability of internet based services effectively to serve communities, whether geographic in nature or communities of interest.

- 9.76 Turning to models for the future, considerable uncertainty exists as to whether model 2 involving only the BBC and purely market-driven activity would satisfy consumer and citizen expectations, with much depending on where, and how, local content might develop in the face of a continuing decline in regional output on ITV1.
- 9.77 Under Model 1 'evolution', changes in regulation might be needed over time to enable ITV to continue with regional news. This could (as reflected in ITV's current proposals, which we shall consider in phase 2 of this review) involve fewer programmes covering regional and/or sub-regional services and more local news 'opt-outs' within these programmes. Regulatory assistance might also involve allowing ITV to raise more revenue to fund regional news; one possible way to do this might be to allow extra advertising around regional news programmes.
- 9.78 In order to sustain regional news as ITV's primary PSB obligation, other obligations might need to be reduced or fall away - for example, quotas for network production from outside London (which ITV argues has an opportunity cost). The latter is important to viewers, to varying extents around the English regions (see Figure 54 below).
- 9.79 ITV network production is currently heavily concentrated in the north of England, with on-screen portrayal of different parts of England strongly (but by no means exclusively) orientated to soaps. This would be likely to continue to be delivered by ITV in the absence of regulatory obligations.
- 9.80 Under some of the models, ITV would become a purely commercial operator and TV provision at an English regional level would be likely to be increasingly the province of the BBC alone. In the longer term, under a developed Model 1 'evolution' where ITV1 remains a public service broadcaster after the current licences end in 2014, new licence structures might possibly be devised to enable new entrants to deliver regional, or more local, news and possibly other programmes. This would have the benefit of maintaining the reach and impact associated with the ITV network schedule.
- 9.81 Model 4 (broad competitive funding) would open up the possibilities of new forms of multi-platform content, possibly moving to more localised rather than regional formats. Another aim might be to develop new, plural sources of news, rather than merely aggregating existing ones.

Opportunities for local and communities services continue to expand

- 9.82 Audience research indicates that there is appetite for local news and information content on TV in the devolved nations and the English regions. Overall, 78% of respondents agreed with the broad statement: "I would like the main TV channels to show programmes that give me news and information about my local area". Agreement was particularly high in north east and north west England. However, it is also worth noting that our *New News Future News* audience research found that, of those people who said they were interested in local news, 44% did not want more than was currently provided and just 29% said that they wanted more on TV.
- 9.83 Our audience research also found that people are using the internet as a means of linking up with people with similar interests, and that there is increased appreciation of the internet as a source of local information. However, there was little support for new platforms as a substitute for TV provision of nations and regions programming.

- 9.84 The distinction between regional and local is to some extent blurred. One person's 'local' is their street or immediate community (something that has been described as 'ultra local' in some quarters), whereas others see 'local' as applying to their town or city (as per local TV station Channel M in Manchester) or indeed to their county (as is largely the case in the BBC's local radio map). And perceptions of localness in metropolitan areas may be very different from those in more rural locations. Similarly, there is sometimes a distinction between the regions as defined by government (for example South West England or the East Midlands) and television regions (such as Border, Granada, stv North, the West of England, Central etc) which are largely defined by analogue transmitter patterns.
- 9.85 We will examine further the relative value that viewers ascribe to news at a regional, sub-regional and local level as part of the second phase of this review. There may be some circumstances in which it might be appropriate for plurality of local or regional news and other local or regional content to come from a wider range of providers that are focused on a more local level than the current level of provision.
- 9.86 The UK has a complex network of local newspapers and radio stations. Many newspapers are now providing video content online. Trinity Mirror-owned Media Wales, for example, plans to deliver daily audiovisual news content on its website in the near future and has recently built a television studio at its base in Cardiff. Other internet initiatives include ITV Local (and equivalent online activity from the Channel 3 licensees in Scotland, Northern Ireland and in the Channel Islands), and sites funded by Regional Development Agencies and local authorities, such as Kent TV. And at a very local level there are community initiatives, some on a very small scale, such as Urban 75 in Brixton, and Holmes Chapel Village Site.
- 9.87 The BBC has proposed to expand its delivery of local content, providing some 60 local broadband sites covering the whole of the UK, modelled on its pilot in the West Midlands. This is subject, as noted above, to a Public Value Test, including a Market Impact Assessment from Ofcom and a decision by the BBC Trust. And Channel 4 has recently announced plans to establish regional hubs in Glasgow, Leeds, Birmingham and Bristol (in partnership with nations and regions screen development agencies) in connection with its 4IP interactive media initiative.
- 9.88 However, other local activity is currently very patchy and future developments may tend to benefit urban areas more than rural ones.
- 9.89 In Ofcom's analysis, ITV Local editorial content is dependent on the existence of the current regional TV infrastructure; the extensive gathering of video reportage from localities around the regions that is required for ITV1 services, could not be sustained by revenue from the websites.
- 9.90 Local newspapers may succeed in their digital ambitions, but might remain monopoly suppliers outside the BBC, adding little to plurality. Other possible models for new entrants might include online aggregators of local journalism.
- 9.91 Some communities are linked by more than geography. There is already a good deal of provision for different types of communities - of faith, racial background or personal interests - at national and indeed international level on cable and satellite TV channels, and especially online. But some communities may have geographical concentrations; this is already evident in community radio, where one-third of stations are directed at particular groups, whether by religion, culture or age group (children and elderly people, for example).

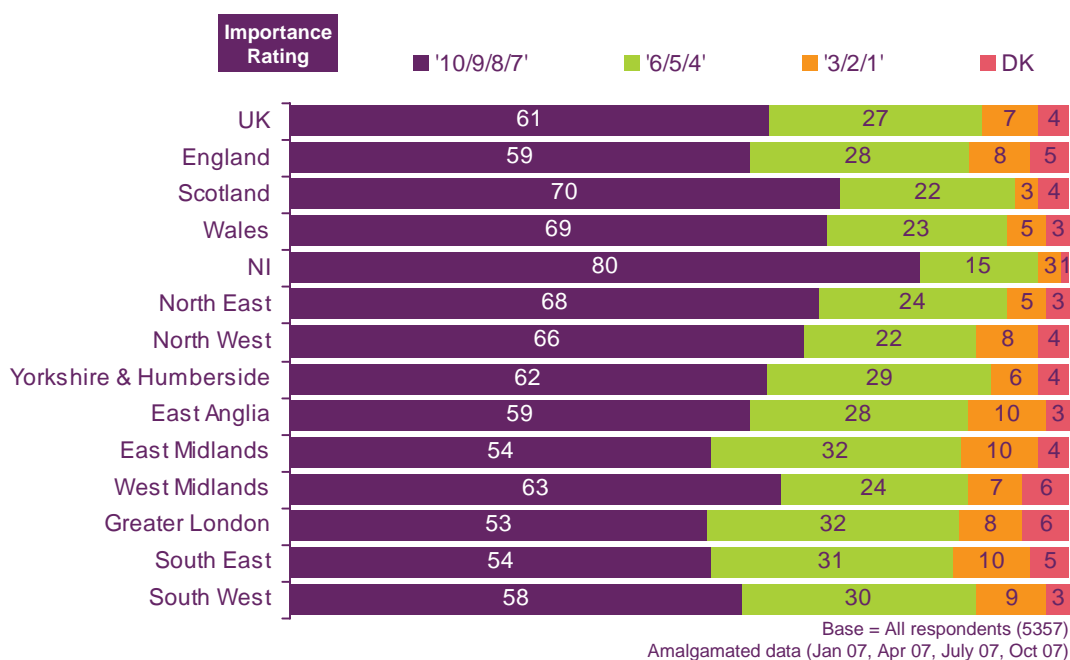
9.92 Turning to the four models, Models 1 and 2 ('evolution' and the 'BBC only') would be likely to deliver an uncertain level of geographical spread of local content, with provision outside the major conurbations being particularly uncertain. The 'evolution' model might, however, deliver some continuing regional or sub-regional news within Scotland (where stv and ITV Border are the only providers), although this would be likely to require new sources of funding. In Northern Ireland and Wales the 'evolution' model would be unlikely to deliver TV provision at a sub-nation level while in England it would be likely to deliver regional rather than local services.

9.93 Models 3 and 4 (BBC/C4 and broad competitive funding) might deliver new entrants with new approaches and more local and multi-platform activity across all four nations, alongside a geographical spread of activity less focused on big cities.

Nations production outside England and portrayal of the nations and regions has not increased since our first review

9.94 For many people, representation of the place where they live on network TV is an important part of PSB. In broad terms, it is seen as being more important by those in the devolved nations, and somewhat less so by those in England, although this varies from region to region (see Figure 54).

Figure 54 Attitudes to the importance of portraying nations and regions well to the rest of the UK



Source: PSB Tracker 2007; base = all respondents (5,357).

9.95 The Communications Act introduced a requirement for Ofcom to ensure that a proportion and range of programmes are made outside the M25 and that a proportion of production money is spent in a range of production centres. The requirement applies across all the main PSBs and is represented in the form of volume and value quotas for out-of-London production.

9.96 Ofcom's first PSB review identified the dispersal of network production around the UK - particularly to the nations - as an issue and suggested that ITV1 should aim for

an 8% target in the nations, in line with its delivery in the late 1990s. ITV set up a regional production fund (£9 million over 3 years) partly in order to address this. The BBC and Channel 4 have also made some voluntary commitments in this area since the first review. Channel 4 has made a commitment to increase its spend on original commissions in the nations by 50% by 2012, while the BBC has introduced a target of 17% of network commissions from the nations by (this is according to the BBC's definition of out-of-London production, which is broader than Ofcom's). However, at present the volume of network production from the nations remains very low.

- 9.97 In order to qualify against the out-of-London quotas, as regulated by Ofcom, programmes must comply with our definition. This is focused on investment and on sustaining nations and regions production centres rather than on-screen representation or portrayal of the nations and regions. Our analysis suggests that - across all the PSBs - the majority of programmes returned against the out-of-London quotas do not portray the nations and regions on screen, although a significant volume of programmes returned against the quota do so. Of course, a great many programmes made inside the M25 do not portray London, as distinct from anywhere else, either.
- 9.98 As noted in the first PSB review, Ofcom will consider whether a quota for network production from Scotland, Wales and Northern Ireland would be appropriate, and will include this work - in the wider context of such quotas for other broadcasters - in the second phase of this review.
- 9.99 We will also assess the potential for voluntary initiatives from the broadcasters (the BBC and Channel 4 have recently announced these in relation to the nations) and other potential partnerships, including screen agencies.

Options for intervention: summary

Short- and medium-term issues (to 2014)

- 9.100 Ofcom will consider within phase 2 of this review:
- whether any change is needed in out-of-London production quotas for ITV1, Channel 4 and Five including whether out-of-England quotas are appropriate;
 - noting voluntary initiatives by the BBC as well as Channel 4, whether any change is needed to BBC out-of-London quotas. These must be agreed by both Ofcom and the BBC Trust;
 - whether, it would be possible (and if so, whether it would be appropriate) to agree to some or all of ITV plc's current proposals to merge some news regions and sub-regions in England and the Borders;
 - whether, and if so what, further changes would be appropriate to non-news programme quotas for ITV in the nations and regions; and
 - whether any other changes to ITV regulatory requirements are needed in the short to medium term, such as: increased use of macro-regional 'hubs' to produce regional news services; possible consideration of direct funding support in Scotland and Wales, if regulatory relaxation is not sufficient.

Other issues to explore include:

- 9.101 Funding for indigenous language provision in Northern Ireland, the role of the BBC in supporting production of both Irish language and Ulster Scots programming, obtaining secure and widespread distribution for TG4 in Northern Ireland and the prospects for similar distribution of RTÉ.
- 9.102 Possible use of spare S4C multiplex capacity for the provision of English language programming for Wales.

Long-term issues (after 2012)

- 9.103 From the perspective of the nations, regions and localities, models involving only the BBC (and S4C/GMS) plus market delivery would pose significant challenges to plurality of provision in most parts of the UK.
- 9.104 Competitive funding for multi-platform and broadcast content, including on devolved bases could be considered - at nation, regional, local and community levels.
- 9.105 The evolution, or competitive funding, of ITV1 might involve direct funding from governments (in some nations); advertisement of separate nations licences for ITV1; and/or possible redrawing of licences (both map and clock), with nations and regions slots licensed separately, when existing licences expire (and if they are not renewed). Both competitive funding models might also offer new opportunities in the sphere of online content at a national, regional and local level.

Questions for consultation

- i) To what extent do you agree with Ofcom's assessment of the likely future long-term issues as they apply to the nations, regions and localities of the UK?
- ii) Which model(s) do you think would be most appropriate in each of the nations and in the English regions in the long term, and why?
- iii) What are your views on short/medium-term issues referred to, including the out-of-London network production quotas?
- iv) What are your initial views on the preliminary options set out relating to ITV plc's regional news proposal? (Please note that Ofcom will put forward firm options on these issues, and consult also on ITV plc's regional news proposal, in phase 2 of this Review.)

Section 10

Prospects for children's programming

Introduction

- 10.1 This section sets out the implications of our analysis for provision of programmes for children, and considers the issues raised by responses to our report on *The Future of Children's Programming* published in 2007.
- 10.2 There remain a number of outstanding issues for provision of public service content for children. In the short term, it is increasingly likely that UK production of older children's programming as a whole will become less viable for the commercial PSBs.

Satisfaction with children's public service content remains relatively low

- 10.3 Any long term solution for children's programming needs to address two core issues emerging from our research. First, achieving reach and impact in a world where consumption patterns are rapidly fragmenting. Second, ensuring plurality of provision, which parents believe should play a central role in delivering public service content for children.
- 10.4 Section 3 summarises evidence that the purposes and characteristics of public service broadcasting are not being effectively delivered with regard to children, especially older children and teenagers.
- 10.5 To date, there is no evidence that the market will fill the gaps left by falling investment in UK origination by the commercial PSBs. No commercial digital channel has established a business case for investment in high quality UK programming for older children or teenagers, and our modelling suggests that such a case is unlikely to emerge.
- 10.6 Our analysis suggests that intervention in the delivery of public service content in interactive media (in addition to linear television) could help meet the public purposes for these audiences in new, more effective and efficient ways.
- 10.7 Reach and impact will be more important than ever in an environment where older children's consumption of media is rapidly fragmenting. Parents also believe that it is important for plurality to continue to play a central role in delivering public service content for children.
- 10.8 In Section 6, we estimated that the cost of added intervention in children's content to maintain historic levels of reach and impact and achieve plurality of provision, would be around £30 million per annum.

Different long-term models could deliver different solutions for children's public service content

- 10.9 Each of the long-term models outlined in Section 7 presents an alternative framework for delivering public service content for children in the future.

Model 1 - Evolution

- 10.10 In this scenario the BBC, Channel 4, ITV1/GMTV and potentially Five would all retain public service roles, along with S4C and GMS. The BBC would continue as the cornerstone of public service broadcasting, funded by a universal licence fee, while Channel 4 and ITV1 would have revised PSB remits, potentially funded by enhanced indirect funding. Competition in the allocation of resources would come only through periodic licence renewal.
- 10.11 The implications for children's programming would be:
- the BBC would continue to be the main provider of high quality children's content with investment and output set through service licences;
 - Channel 4 could take on a dedicated children's programming role across a range of platforms, focusing on older children in line with its recent vision statement; and
 - additional indirect funding could allow explicit quotas for children's content to be placed on ITV1 and Five, although this would have to take into account the very significant opportunity cost as well as the production cost of children's content. Quotas could focus on areas of specific need, such as content for older children and teenagers.
- 10.12 One strength of this approach is that it would enhance plurality in children's programming, although there would be no opportunities for new providers
- 10.13 There is also a risk in this approach in that the implicit subsidy to commercial PSBs could subsidise commercial activity. On top of this, the commercial PSBs are incentivised to minimise the cost of PSB. The indirect nature of any funding would also limit the transparency and efficiency of any intervention along these lines.
- 10.14 The need for flexibility would, in practice, limit how tightly remits could be defined. It is likely that a new mechanism for clear and robust accountability for Channel 4 and the commercial PSBs would be required.

Model 2 - BBC only

- 10.15 In this model the BBC would be the only UK-wide institutional intervention in PSB, and the only publicly-owned UK-wide distributor of public service content. Plurality would be delivered by commercial, public and community organisations operating on various platforms.
- 10.16 The BBC would take on an enhanced role (potentially with increased funding) to deliver children's programming needs currently met by other institutions that the market will not provide in the future.
- 10.17 The implications for children's programming would be as follows:
- the BBC service licences could be reviewed, with the BBC increasing its investment in children's programming, especially that aimed at older children and teenagers (this is a matter for the BBC Trust);
 - the BBC could also extend the availability of its children's offering, potentially by extending the hours of CBBC to 9pm (this is also a matter for the BBC Trust);

- the share and reach of commercial digital children's channels might grow, but this would be largely based on imported or re-versioned content;
- there would be little competition to the BBC in the provision of children's programmes that reflect UK cultures, values and identities;
- market provision of online services for older children and teenagers might grow, although business models in this area are uncertain; and
- Government and other third parties would continue to provide some content, but in an uncoordinated way across a range of policy agendas (including health, education, children and families, and skills).

10.18 It might be possible to vary this model to try to preserve some of the benefits of plurality within BBC provision. For example, this could involve having separate commissioners for certain kinds of content on different channels, or it could mean establishing quotas for independent production within areas particularly at risk, such as children's drama. Again, these are matters for the BBC Trust.

10.19 This model could be sustainable and could complement existing market provision. However, plurality would be significantly limited and there would be no mechanism for allocating resources to other providers. There would also be a risk of the BBC extending its scope too far if it was left as the sole provider.

Model 3 - BBC/C4 plus competitive funding

10.20 Under this model the BBC, Channel 4, S4C and GMS would retain their roles as publicly-owned public service institutions with remits to maximise reach and impact across platforms. Channel 4 would take on an enhanced role in older children's content provision to ensure plurality. The ITV1 and Five licences would become purely commercial.

10.21 The implications for children's programming would be as follows:

- the BBC would continue to be the main provider of high quality children's content, with investment and output set through service licences;
- Channel 4 could take on an enhanced role in providing children's content, to provide plurality. This role could extend across the range of older children's content, across a range of platforms; and
- other providers, which are already reaching the children's audience, could be funded through competition for funding to deliver UK children's content.

10.22 In this model, other broadcasters would also be able to compete for long term but transferable funding to provide public service content. However, competition for this funding would be limited to UK content serving targeted needs not met by the BBC and Channel 4, and resources would be allocated by competitive tender.

10.23 Any intervention of this type would need to ensure that the incentives given to commercial providers were aligned to public purposes. This would need tightly-defined contracts and ongoing effective oversight.

Model 4 - Broad competitive funding

- 10.24 In this approach, the BBC would be the only institutional provider of public service content for children. All other services would be provided through long term but transferable funding, and providers would tender periodically for both production and distribution contracts.
- 10.25 Plurality would be delivered where a clear case could be made based on benefits to audiences and impact on the market. Funding would be awarded by a new independent body. Providers of content could include commercial, public or community organisations.
- 10.26 In practice, this scenario might mean that:
- the BBC's role would be focused on delivering a, high quality, UK-originated service for children, with investment and output set out in its service licences;
 - funding for targeted services and programming would be awarded through competitive tenders;
 - a wide range of providers would be able to bid, perhaps including commercial digital channels which already reach this audience, websites, social networking providers, games producers and a range of government and voluntary sector organisations, including schools, universities and other social and educational institutions.
- 10.27 This model has the benefit of being potentially very flexible in its use of resources, and would be likely to complement existing market provision well, as long as robust market impact assessments were carried out.
- 10.28 However, the effectiveness of this approach could also be limited by the dispersal of resources to a wide range of providers, making some children's public service content difficult to find.
- 10.29 It would also be important to ensure that the allocation body was independent and processes for awarding and monitoring highly efficient.

Possible short-term responses are limited

- 10.30 Stakeholder responses to *The Future of Children's Television* discussion paper were broadly consistent in their view that some form of short-term intervention in children's programming was necessary to ensure continued delivery in the medium to long-term. Our analysis in Section 5 also shows that in the short term, it is increasingly likely that UK children's production will become less viable for the commercial PSBs.
- 10.31 In our accompanying statement on children's programming we have assessed each of the five stakeholder approaches set out in *The Future of Children's Television Programming* discussion document according to how they might fit in with the four models of future delivery.

Tax incentives

- 10.32 Our assessment suggests that of the approaches suggested by stakeholders, only tax incentives have any potential to be introduced in the short term. As part of its consultation response, PACT argued for a production tax credit, worth 30% of the

production costs of qualifying programmes attached to a broadcast outlet. This scheme would last until 2012, at which point PACT envisaged that longer-term solutions for children's programming might have been implemented.

- 10.33 Stakeholder responses to *The Future of Children's Television Programming* showed that there is support from the industry for this type of short-term intervention. Our research report also shows that tax incentives have been adopted as regulatory tools in other countries to encourage the production of indigenous children's programmes, with France, Canada and Australia being particular cases in point.
- 10.34 A tax credit of this type, it is argued, could provide significant support to the independent production industry, and could lead to more investment and increased plurality of children's content. It also has the advantage in that it could be implemented relatively quickly.
- 10.35 However, there may also be potential drawbacks to this type of intervention:
- it is very difficult to measure the impact of such schemes. The evidence is not conclusive as to how well tax incentives have worked in France, Australia or Canada, nor the extent to which they have encouraged the production of indigenous programming;
 - this sort of intervention has been known to be subject to abuse in similar industries. The section 48/42 scheme in the UK was launched in 1998 and was designed to incentivise low-budget UK films. However, it was subject to widespread abuse, with public money in some cases subsidising projects which would have been undertaken anyway. (This scheme has been recently replaced by a simplified tax credit, which aims to eliminate such abuses);
 - there is some evidence that a producer tax credit would do little to address the need for an outlet for children's public service content, with commercial PSBs most concerned about the opportunity cost (foregone advertising revenue from more popular programmes), rather than the cost of programme production; and
 - questions of state aid would need to be considered.
- 10.36 While there may be a value in investigating this type of intervention, it is beyond the scope of our remit, and is therefore a matter for government to decide upon and take forward.

Enforcing Ofcom's existing powers under the Communications Act

- 10.37 Under the Communications Act 2003, the commercial PSBs are no longer under an obligation to provide a set number of hours of children's programmes per week. It is up to them to decide how much to provide. When they plan to make a significant change to their output they must seek Ofcom's opinion and take account of it. However there is no obligation on the commercial PSBs to follow Ofcom's guidance - this was recently demonstrated by ITV's proposals to reduce the amount of children's output on the ITV1 channel.
- 10.38 Given these constraints, we believe that there are three possible approaches to the issues facing children's programming in the short term. These are:
- developing the BBC's role in delivering children's content;

- extending Channel 4's current provision to include older children and teenagers; and
- exploring the role S4C could play in delivering content to all UK children.

Developing the BBC's role in delivering children's content.

- 10.39 The BBC increased its investment in original children's programming in 2007 to £70 million (up from £63 million in 2006).
- 10.40 The BBC Trust is undertaking a review of its provision for children and young people. Ofcom supports any moves by the BBC Trust to clarify the service licences for BBC children's output.
- 10.41 We are particularly interested in the BBC Trust's findings in three areas:
- First, establishing greater certainty in the BBC's overall levels of investment in children's programming during the period of the current licence fee settlement. The existing service licences offer no guarantees over funding for children's programming, although the Trust has stated that it sees the children's genre as a priority.
 - Second, widening the availability of BBC output for older children at times when most children watch television, particularly after 7pm. Currently, 70% of children's viewing is in adult airtime and there is currently very little choice of public service content during the evening peak period.
 - Third, new moves by the BBC to cater for older children and young teenagers particularly provision of UK-produced drama and factual programming for these groups.

Extending Channel 4's remit to include older children and teenagers

- 10.42 In the recent announcement of its future vision, Channel 4 outlined its intention to pilot a new service for older children and teenagers (aged 10-15). In the longer term, this could be part of a new remit to cater for this age group. Channel 4 believes that it can play a greater role in reaching older children and recognises that this is an audience identified by Ofcom as being under-served by UK content.
- 10.43 The broadcaster has committed to a new pilot fund of £10 million over two years to invest in new services for this age group. These would include traditional linear television as well as content on a range of online and interactive platforms. Commissioning would begin in 2008.
- 10.44 Over the longer term, Channel 4 has stated that it would need additional funding to cover this new provision if made part of a new statutory remit. It has said it will announce its own suggested approach to its future funding later in 2008.

Exploring the role S4C could play in delivering content to all UK children

- 10.45 S4C is currently the second largest commissioner of original children's programming in the UK. In 2007 S4C invested nearly £10 million in children's programming, an increase of over £1 million on the previous year. S4C is planning gradually to increase its commitments to children's programming over the next few years, with a

significant increase in spend planned for 2008 and plans for a Welsh language children's channel, using spectrum currently allocated for S4C2.

- 10.46 We believe that there is some scope for S4C to play a broader role in helping to facilitate the wider exploitation of Welsh-language originated content for a broader English-speaking children's audience.
- 10.47 S4C commissions content from a range of independent partners, many of which are based in Wales. It could create stronger incentives for independent producers to reversion content for a UK (and possibly international) audience. This might mean producing certain types of programming in both English and Welsh languages, and providing English language voiceovers for animation. This might enable S4C-funded children's programming to be made available to commercial PSB or digital channels.
- 10.48 We will continue to have a constructive dialogue with the BBC Trust, Channel 4 and S4C over the next few months. In the meantime, Ofcom will continue to work within the limits of its powers in the short term, ensuring that broadcasters understand the importance of delivery of the PSB purposes and characteristics for this important audience.

Questions for consultation

- i) Do you agree with our assessment of the possible short term options available relating to children's programming; are there any other options available?

Section 11

Timetable for implementing a new model

Introduction

11.1 This section sets out the implications of our analysis for any future review of the statutory framework for public service broadcasting.

Objectives will be different in the short, medium and long term

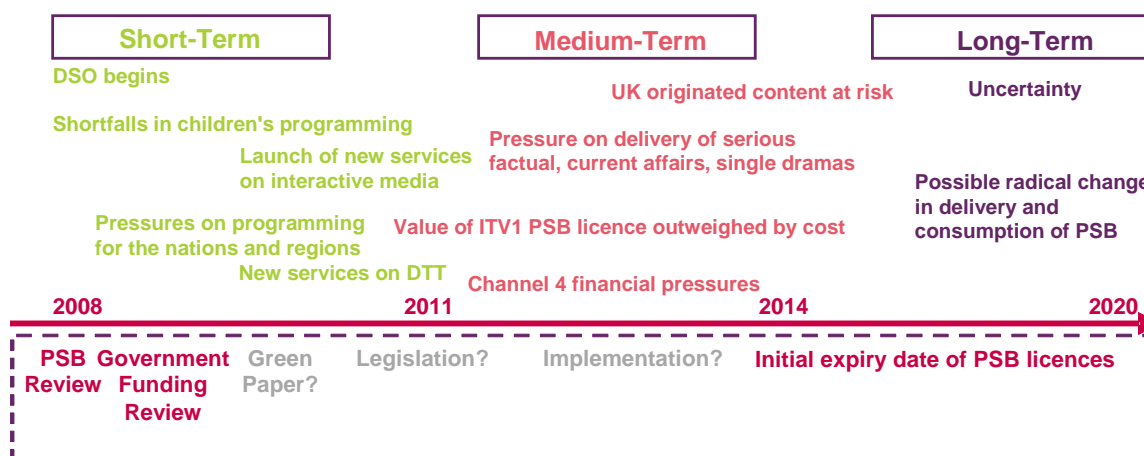
11.2 The future of the UK media landscape is highly uncertain and difficult to predict. There is likely to be rapid change in the way that audiences consume media, which will lead to new opportunities. However, changes in media consumption also entail a number of risks for the commercial public service broadcasters.

11.3 Key variables such as the level of take-up of new services and the speed of audience fragmentation mean that there is a great deal of uncertainty about the future output, reach and impact of public service broadcasting.

11.4 We outlined earlier a number of possible future scenarios and set out arguments suggesting a new statutory and regulatory model may be needed. Any new model would need to be capable of adapting to changing circumstances to ensure the continued delivery of public service broadcasting.

11.5 In this uncertain climate we need to think about how to mitigate the risks and take advantage of the opportunities facing PSB in three distinct time periods: The short term (up to 2011), the medium term (from 2011 - 2014) and the long term (2014 - 2020).

Figure 55 Timetable for implementing a new model



Note: PSB Licences - 2014 is the initial expiry date but the licences will renew under the legislation unless steps are taken otherwise.

The short term (up to 2011)

11.6 It is possible to predict with some certainty the risks and opportunities that will emerge in the short term.

Opportunities

- Digital switchover will occur in most parts of the UK.
- New services will be launched in interactive media, offering new opportunities for public service broadcasters to deliver public service content
- The Digital Dividend Review will also create new opportunities and to introduce a wide number of new services including possible mobile television, more DTT services and wireless broadband. The expected reorganisation of the digital terrestrial television multiplexes will also enable the introduction of new services, including high definition services on the digital terrestrial television platform.

Risks

- Shortfalls in UK-originated programming for children
- Increasing pressures on the delivery of programming for the devolved nations and the English regions.
- A potential digital divide. Despite increased take up of digital television and broadband, take-up will not be universal by 2011. Some groups of people are less likely than others to take advantage of interactive services.

The medium term (2011 - 2014)

- 11.7 The public service broadcasters will face an increasing number of risks between 2011 and 2014 when the initial licensing periods of the commercial public service broadcasters' expire.
- 11.8 Channel 4 is likely to face growing financial pressures and, without a new financial solution, will find it difficult to deliver its public service remit. Economic modelling indicates that in the medium term the value of some of the commercial public service broadcasters' licences are likely to be outweighed by the costs.
- 11.9 As the commercial public service broadcasters face increased pressure, a growing number of public service genres will come under threat. Genres that are likely to come under strain in the medium term include: specialist factual programming, current affairs, scripted comedy and some forms of UK drama (alongside UK children's content and programming for the nations and regions). UK-originated programming in general may also be at risk.
- 11.10 There is limited flexibility in the current system to address these issues given the existing statutory requirements. As demonstrated in Sections 7 and 8, there are few existing levers capable of addressing either Channel 4's financial pressures, the costs associated with delivering a wide range of public service programming or the problems with programming for the devolved nations and English regions.

Long term (2014 - 2020)

- 11.11 In the long term, change is very difficult to predict and there is a great deal of uncertainty about outcomes. However, it is clear that there is the possibility of radical change, both in the delivery of PSC and also in audience behaviours.

11.12 Despite the uncertainty it is evident that, beyond 2014, commercially-funded PSB will not be sustainable at anything like the current level.

New legislation is likely to be required by 2011

11.13 Looking ahead to the medium and long term there is the prospect of developing a new regulatory model that will enable broadcasters and audiences to capitalise on new opportunities and deflect the risks.

11.14 Any new regulatory model will require new legislation. It is important that this new legislation is put in place well before the initial licensing period of the existing commercial PSB licences expires in 2014 to give certainty to public service broadcasters and to audiences.

11.15 New legislation will require careful consideration and will entail a wide-ranging debate embracing a large number of stakeholders. It is clear that any new legislation must be capable of remaining relevant throughout a period of great uncertainty. Putting legislation in place which is fit for purpose will require lengthy parliamentary consideration and careful planning.

11.16 Taking into consideration the opportunities and risks we have identified in this review, we suggest that it would be appropriate to aim for new legislation to be in place by 2011. This would mean that a new regulatory model could be put into operation in time to address the risks arising in the medium term. It would also offer certainty to the existing PSB providers in advance of the end of expiry of the initial licensing period of their licences and would ensure that audiences' needs continue to be met in a period of flux and uncertainty.

Questions for consultation

- i) Do you agree that new legislation will need to be in place by 2011 in order to ensure continued delivery of the public purposes in the medium and long term?

Annex 1

Responding to this consultation

How to respond

- A1.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on Thursday 19 June 2008**.
- A1.2 Ofcom strongly prefers to receive responses using the online web form at <http://www.ofcom.org.uk/consult/condocs/psb2/howtorespond/form>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response cover sheet is incorporated into the online web form questionnaire.
- A1.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email PSBReview@ofcom.org.uk attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A1.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.
- Rhona Parry
PSB Review
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- Fax: 020 7981 3406
- A1.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A1.6 It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together after the Executive Summary It would also help if you can explain why you hold your views and how Ofcom's proposals would affect on you.
- A1.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please email PSBReview@ofcom.org.uk.

Confidentiality

- A1.8 We believe that it is important for everyone interested in an issue to see the views expressed by other consultation respondents. We will, therefore, usually publish all responses on our website, www.ofcom.org.uk, ideally on receipt. If you think your response should be kept confidential, can you please specify which part(s) or whether all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A1.9 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.10 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/about/accoun/disclaimer/>

Ofcom's consultation processes

- A1.11 Ofcom seeks to ensure that responding to a consultation is as easy as possible. For more information, please see our consultation principles in Annex 2.
- A1.12 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at consult@ofcom.org.uk . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.13 If you would like to discuss these issues or Ofcom's consultation processes more generally you can, alternatively, contact Vicki Nash, Director Scotland, who is Ofcom's consultation champion:

Vicki Nash
Ofcom
Sutherland House
149 St. Vincent Street
Glasgow G2 5NW

Tel: 0141 229 7401
Fax: 0141 229 7433

Email vicki.nash@ofcom.org.uk

- A1.14 Please note that you can register to receive free mail updates alerting you to the publication of relevant Ofcom documents. For more details please see: http://www.ofcom.org.uk/static/subscribe/select_list.htm

Annex 2

Ofcom's consultation principles

A2.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

Before the consultation

A2.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

During the consultation

A2.3 We will be clear about who we are consulting, why, on what questions and for how long.

A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will consult for up to 10 weeks depending on the potential impact of our proposals.

A2.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's 'Consultation Champion' will also be the main person to contact with views on the way we run our consultations.

A2.7 If we are not able to follow one of these principles, we will explain why.

After the consultation

A2.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

An impact assessment will be carried out in phase 2

A2.9 Impact assessments provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policy-making. This is reflected in section 7 of the Act, which means that generally we have to carry out impact assessments where our proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out and publishing impact assessments in relation to the great majority of our policy decisions. For further information about our approach to impact assessments, see the guidelines, Better policy-making: Ofcom's approach to

impact assessment, which are on our website:

http://www.ofcom.org.uk/consult/policy_making/guidelines.pdf

A2.10 An impact assessment will be carried out during phase 2 of this Review which will set out policy options and recommendations.

Annex 3

Consultation response cover sheet

- A3.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, www.ofcom.org.uk.
- A3.2 We have produced a cover sheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A3.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their coversheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A3.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this coversheet in Word or RTF format from the 'Consultations' section of our website at www.ofcom.org.uk/consult/.
- A3.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing	<input type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
Whole response	<input type="checkbox"/>	Organisation	<input type="checkbox"/>
Part of the response	<input type="checkbox"/>	If there is no separate annex, which parts?	

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

Annex 4

Glossary

Administered Incentive Pricing (AIP) A fee charged to users of the spectrum to encourage them to make economically efficient use of their spectrum

ATT Analogue terrestrial television

AVMS, Audio Visual Media Services Directive The successor to the TVWF, adopted by the European Council in 2007

Average Weekly Reach the number of adults aged 4+ who watch at least 15 consecutive minutes of a specified TV channel or genre in a specific week (or in an average week over a longer period)

BARB The pan-industry body which measures television viewing (Broadcasters' Audience Research Board)

Broadband a service or connection which capable of supporting always-on services which provide the end-user with high data transfer speeds. Large-capacity service or connection allowing a considerable amount of information to be conveyed often used for transmitting bulk data or video or for rapid Internet access

Cabsat (Cable and/or satellite) The collective term for cable and satellite multichannel services are usually digital services (DCab, DSat), or in a few cases analogue (DCab)

CAGR Compound Annual Growth Rate The average annual growth rate over a specified period of time. It is used to indicate the investment yield at the end of a specified period. The mathematical formula used to calculate CAGR = $(\text{present value}/\text{base value})^{(1/\#\text{of years})}$.

Channel 3 refers to the 15 regional ITV licensees and one licensee (GMTV) providing the national breakfast-time service. (see also ITV, below)

Commercial PSB main terrestrial channels ITV1, GMTV, Channel 4, Five

Commercial PSB portfolio channels refers to channels that are owned and operated by the same parent company as the commercial public service broadcasting main terrestrial channels, but which do not have public service broadcaster status, e.g., ITV2, ITV3, ITV4, E4, More 4, Film 4, Five US, Five Life.

Communications Act Communications Act 2003, which was passed in July 2003

Country of Origin The geographic territory where the programme was either primarily produced, or the territory or location that the programme was acquired from (normally territory where first broadcast).

DAB Digital Audio Broadcasting A set of internationally accepted standards for the technology by which terrestrial Digital Radio multiplex services are broadcast in the UK.

DCMS Department for Culture, Media and Sport.

Digital switchover (DSO) The process of switching over the current analogue television broadcasting system to digital, as well as ensuring that people have adapted or upgraded their televisions and recording equipment to receive digital TV.

Digital Terrestrial Television (DTT) currently most commonly delivered through the Freeview service.

DTV Digital television

Digital Video Recorder (Also Personal Video Recorder) A device, usually built into a set-top box or TV set, which records content digitally onto a hard disk. The unit may have several tuners to record programmes simultaneously, as well as enabling facilities such as live pausing.

Electronic Programme Guide (EPG) A programme schedule, typically broadcast alongside digital television or radio services, to provide information on the content and scheduling of current and future programmes.

First-run acquired programme A programme broadcast for the first time that has previously been shown by another broadcaster.

First-run original programme A programme commissioned and broadcast for the first time by a UK broadcaster

Free-to-view TV Channels or services for which no payment is required at the point of reception (excluding the licence fee), except for the initial cost of reception hardware.

Genre a category of television programming, for example current affairs or entertainment

High definition (High definition television) A TV system which provides a clearer, sharper picture than standard definition through higher resolution. HD transmission format must display at least 720 lines on screen.

Hours transmitted Transmission time by the broadcaster, excluding simulcasts or time-shifted transmission, but including all advertising and promotional time. Therefore, for a channel broadcasting 24 hours per day, 365 days per year, total hours should be 8,760.

Independent production Programmes made on behalf of the broadcaster by a producer that qualifies under the Independent Production Order.

In-house production Programmes made entirely or largely using staff employed or otherwise contracted to the broadcaster. This excludes programmes made by a broadcaster's parent company or international affiliate.

Interactive media digital media such as text, graphics, video and sound, which users can interact with, typically delivered via the internet

Internet protocol television (IPTV) The term used for television and/or video signals that are delivered to subscribers or viewers using internet protocol (IP), the technology that is also used to access the internet. Typically used in the context of streamed linear and on-demand content, but also sometimes for downloaded video clips.

ITV Refers to the Channel 3 service, apart from GMTV. ITV plc operates 11 licences in England, Wales and the Scottish Borders, known collectively as ITV1. Other ITV licences are

operated by stv, UTV and Channel TV. At times in this document we have used the term ITV1 to cover the network and nations/regions services throughout the UK and Channel Islands. This is to distinguish it from ITV plc's other channels, ITV 2, 3 and 4. (See also Channel 3, above.)

Long-term past the end of current commercial broadcasting licences - beyond 2014 (usually but to 2020).

Mb/s Mega (million) bits per second. A measure of the speed of transfer of digital information

Medium-term from 2011 to the end of current commercial broadcasting licences in 2014

Multichannel In the UK this refers to the provision or receipt of television services other than the main five channels (BBC One & Two, ITV1, Channel 4/S4C, Five) plus local analogue services. 'Multichannel homes' comprise all those with digital terrestrial TV, satellite TV, digital cable or analogue cable, or TV over broadband. Also used as a noun to refer to a channel only available on digital platforms (or analogue cable).

Multiplex A device that sends multiple signals or streams of information on a carrier at the same time in the form of a single, complex signal. The separate signals are then recovered at the receiving end.

Net advertising revenue (NAR) Revenue received by a channel for the sale of airtime (usually spot advertising) to advertisers. This is expressed in real terms at 2006 prices.

Network programmes The programme is produced for broadcast to households across the UK.

Non-network programmes The programme is produced for broadcast to households within a specific region or number of regions within the UK. This is only possible where a programme is broadcast in a regional slot on BBC1, BBC2 or ITV.

Non-PSB channels refers to channels other than the public service broadcasting channels

Ofcom's first PSB review (2003-5) Ofcom's first statutory review into public service television broadcasting, undertaken in 2003-5.

Ofcom's second PSB review (2007-9) Ofcom's second statutory review into public service television broadcasting, the terms of reference for which were published on 11 September 2007.

Originated programme A programme commissioned and either broadcast for the first time or repeat broadcast by a UK broadcaster.

PACT The trade association which represents the commercial interests of the independent production sector.

Pay-per-view TV Programmes, channels or services for which a one-off payment is required to enable reception or use.

Pay TV channels or services typically available in a package or bundle for which a regular subscription or other payment (excluding the licence fee) is required to enable viewing.

Peak time The period during which a television station broadcasts its early and mid-evening schedule, typically used by Ofcom to refer to the period between 18:00 and 22:30 each day (including weekends).

Personal Video Recorder (PVR) (see Digital Video Recorder) A device, usually built into a set-top box or TV set, which records content digitally onto a hard disk. The unit may have several tuners to record programmes simultaneously, as well as enabling facilities such as live pausing.

Place-shifting A television programme that is viewed in a different location to the equipment that they are being received by or are stored on

Platform the mechanism through which content or services are delivered to the home, for example digital terrestrial television, satellite, cable, IPTV and broadband

Plurality the delivery of PSB content by more than one provider.

Portfolio channels refers to channels that are owned and operated by the same parent company as the public service broadcast channels, but which do not have public service broadcasting status, except in the case of the BBC

PRS Premium Rate Services Revenue received by a channel or service from payments from consumers for use of phone services prompted by a programme e.g. text voting.

Programme sales Revenue received by a channel or service from the sale of previously broadcast programmes to another broadcaster.

Premium subscription TV Channels or services for which a regular subscription or other payment (excluding the licence fee) that is specific to the channel is required to enable viewing.

Programme cost The total cost of all activities associated with programme making, including the fees paid to external producers, artists and presenters, internal production staff costs, rights costs, costs of facilities and resources, and all associated overheads. It does not include other operational costs, including expenditure relating to management, marketing, finance or programme commissioning (as distinct from programme-making), or overheads.

PSB Public service broadcasting, or public service broadcaster

PSB channels BBC One, BBC Two, ITV1, GMTV, Channel 4, Five, S4C, CBBC, CBeebies, BBCNews24, BBC Three, BBC Four, BBC Parliament.

PSB main five channels BBC One, BBC Two, ITV1, GMTV, Channel 4, Five, S4C.

PSB purposes, the public purposes Objectives of programming set out by Ofcom in its 2004 public service broadcasting review, which are used to measure how well public service programming is being delivered by the public service broadcasters.

Purpose 1: *Informing our understanding of the world* - To inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas

Purpose 2: *Stimulating knowledge and learning* - To stimulate our interest in and knowledge of arts, science, history and other topics, through content that is accessible and can encourage informal learning

Purpose 3: *Reflecting UK cultural identity* - To reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences

Purpose 4: *Representing diversity and alternative viewpoints* - To make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere

PSC (Public service content) content that meets some, if not all, of the public service broadcasting purposes and characteristics.

PSP Public service publisher, proposed by Ofcom in its first public service broadcasting review (2003-5) as a possible new institution for public service broadcasting in the digital age.

Reach (TV) Proportion of total TV households viewing a particular channel over a specified time, expressed as a percentage of total available TV households.

Reach and Impact ensuring that public service content reaches the maximum possible audience, or reaches a smaller audience but in a way that has maximum personal and social value to that audience

Regional production Programmes that meet the regional production definition. This stipulates that programmes should meet at least two out of the following three criteria:

- i) the production company must have a substantive business and production in the region;
- ii) at least 70% of the production budget (excluding the cost of on-screen talent, archive material and copyright costs) must be spent in the region;
- iii) at least 50% of the production talent (i.e. not on-screen talent) by cost must have their usual place of employment in the region.

Repeat programme A programme broadcast on a second or further occasion by the same broadcaster that it was originally shown by.

Share (TV) Proportion of total TV viewing to a particular channel over a specified time, expressed as a percentage of total hours of viewing.

Short-term before the completion of digital switchover - from now to 2011

Simulcasting The broadcasting of a television or radio programme service on more than one transmission technology (e.g. FM and MW, DAB and FM, analogue and digital terrestrial television, digital terrestrial and satellite).

Standard definition (SD) A TV system for broadcast. In the UK, this is the 625 line system, of which 576 lines are visible to the viewer. This is a lower resolution than HDTV.

Tier 1 refers to broadcasting standards, such as avoidance of harm and offence, and maintenance of due impartiality. Tier 1 applies to all UK-licensed broadcasters.

Tier 2 refers to programme and production quotas. These mainly apply to PSB channels, and include news, current affairs and regional programmes; also originally-produced and commissioned programmes, independent productions and production outside London, for example.

Tier 3 refers to the other PSB genres, where the PSB channels themselves are mainly responsible for determining delivery: arts, drama, religious and children's programmes, for example.

Time-shifting The broadcasting of a television service on more than one channel with a specified delay (typically an hour), to provide more than one opportunity for viewers to watch the service. Alternatively, the recording of programmes by viewers (using PVRs, recordable DVDs or VCRs) to watch at another time

TV Programme Rights The definitions of primary and secondary rights to programming vary slightly by purchaser. The major terrestrial broadcasters (BBC, ITV, Channel 4, Five) all publish their definition of what these rights constitute in their respective codes of conduct for contracting with independent producers.

TV over DSL/TV over Broadband A technology that allows viewers to access TV content - either in a linear programme schedule, or on-demand - using internet protocol via broadband services, either on a PC or (via a set-top box) on a TV set.

TVWF, Television Without Frontiers A range of provisions designed to achieve coordination of the legal, regulatory and administrative frameworks of European Union member states with respect to television broadcasting, adopted by the European Council in 1989 and amended in 1997.

VoD Video on demand A service or technology that enables TV viewers to watch programmes or films whenever they choose to, not restricted by a linear schedule. Also Near Video on Demand (NVoD) is a service based on a linear schedule that is regularly repeated on multiple channels, usually at 15-minute intervals, so that viewers are never more than 15 minutes away from the start of the next transmission.

WOCC In 2006, the BBC introduced a Window of Creative Competition (the WOCC), for the commissioning of TV programmes for its services. Under the terms of the WOCC, 50% of all BBC original commissions by volume is guaranteed to be in-house programming. With 25% commissioned under the independent production quota, the remaining 25% is open to competition between in-house and external producers for commissions.