



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Darlledu
The Broadcasting Committee**

**Dydd Llun, 14 Ebrill 2008
Monday, 14 April 2008**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Alun Davies	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Nerys Evans	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Sue Balsom	Aelod Cymru, Bwrdd Cynnwys Ofcom Member for Wales, Ofcom Content Board
Simon Gibson	Prif Weithredwr Wesley Clover Corporation Chief Executive of Wesley Clover Corporation
Ian Hargreaves	Uwch Bartner, Cyfreithiol, Rhyngwladol, Cenhedloedd, Rhanbarthau ac Ysgrifenyddiaeth a Chyfarwyddwr Gweithredol, Bwrdd Ofcom Senior Partner, Legal, International, Nations, Regions & Secretariat & Executive Director, Ofcom Board
Rhodri Williams	Cyfarwyddwr Cymru, Ofcom Director for Wales, Ofcom

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Sarah Bartlett	Dirprwy Glerc i'r Pwyllgor Deputy Clerk to the Committee
Aled Eirug	Ymgynghorydd i'r Pwyllgor Adviser to the Committee
Gwyn Griffiths	Cynghorydd Cyfreithiol i'r Pwyllgor Legal Adviser to the Committee
Chris Reading	Clerc i'r Pwyllgor Committee Clerk

Dechreuodd y cyfarfod am 1.33 p.m.
The meeting began at 1.33 p.m.

Ethol Cadeirydd
Election of Chair

[1] **Mr Reading:** I welcome everybody to the first meeting of the Broadcasting Committee. My name is Chris Reading, and I am the clerk to the committee. Before we start the meeting proper, we have to formally elect its Chair. I invite Members to nominate a Chair in accordance with Standing Order No. 10.18.

[2] **Paul Davies:** I nominate Alun Davies.

[3] **Nerys Evans:** I second that.

[4] **Mr Reading:** Thank you. Are there any other nominations? I see that there are not, and I declare that Alun Davies is elected as Chair. I now hand over to him.

1.33 p.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies, and Substitutions

[5] **Alun Davies:** Diolch ichi am fy ethol yn Gadeirydd i'r pwyllgor hwn. Hwn yw cyfarfod cyntaf y Pwyllgor Darlledu, a chyn inni ddechrau ar ein gwaith, hoffwn inni ailedrych ar bwrpas y pwyllgor. Penderfynodd y Cynulliad sefydlu'r pwyllgor hwn cyn y Pasg i wneud dau beth. Y cyntaf yw inni adolygu ac adrodd ar ddyfodol darlledu cyhoeddus yn Gymraeg ac yn Saesneg yng Nghymru, a'r ail yw inni adolygu ac adrodd ar yr effaith a gaiff y newid i'r system ddigidol ar ddarlledu yng Nghymru, gan greu cynnwys newydd, argaeledd rhaglenni a chynnwys o Gymru ar y llwyfannau newydd. Dyna ddau brif bwrpas y pwyllgor hwn.

Alun Davies: Thank you for electing me as Chair of this committee. This is the first meeting of the Broadcasting Committee, and before we start our work, I would like us to revisit the purpose of this committee. The Assembly decided to establish this committee before Easter to do two things, the first of which is to review and report on the future of public service broadcasting in Welsh and English in Wales, with the second being to review and report on the impact that the change to the digital system will have on broadcasting in Wales, in terms of creating new content, programme availability and Welsh content on the new platforms. Those are the two main purposes of this committee.

1.34 p.m.

Tystiolaeth ar gyfer Ymchwiliad y Pwyllgor Evidence for Committee Inquiry

[6] **Alun Davies:** Hoffwn groesawu ein cyfeillion o Ofcom i'n sesiwn cyntaf. A wnewch gyflwyno eich hunain er budd y Cofnod a gwneud unrhyw ddatganiad agoriadol yr hoffech ei gwneud?

Alun Davies: I would like to welcome our colleagues from Ofcom to our first session. For the sake of the Record, please introduce yourselves and make any opening statement that you would like to make.

[7] **Ms Balsom:** Sue Balsom ydw i. Myfi yw aelod Cymru o fwrdd cynnwys Ofcom.

Ms Balsom: I am Sue Balsom. I am Ofcom's content board member for Wales.

[8] **Mr Hargreaves:** I am Ian Hargreaves. I am the senior partner of Ofcom and I am an executive member of the Ofcom board. Among my responsibilities is Ofcom's work in Scotland, Wales and Northern Ireland.

[9] **Mr Williams:** Rhodri Williams ydw i. Myfi yw cyfarwyddwr Ofcom yng Nghymru.

Mr Williams: I am Rhodri Williams. I am Ofcom's director for Wales.

[10] **Alun Davies:** A fuasech yn hoffi gwneud unrhyw fath o ddatganiad agoriadol?

Alun Davies: Would you like to make any sort of opening statement?

[11] **Mr Hargreaves:** I do not wish to make an opening presentation, but I will make a few very brief comments. I am sure that you will be aware that Ofcom published, at the end of last week, the initial consultation document in Ofcom's second review of public service

broadcasting. Ofcom reviews public service broadcasting at five-yearly intervals at least because it is required to do so by Parliament, with a view to advising on the steps that are necessary to maintain and strengthen public service broadcasting in the United Kingdom.

[12] In carrying out this second review, we have been very mindful of the pressing nature of the questions that face public service broadcasting in Scotland, Wales and Northern Ireland. The situation in each of those places is different from each other and different again from the perspective of the English regions. In framing the consultation, we have tried to do it in a way that explains and sets out the general economic and policy context for the future of public service broadcasting as we see it. We have tried to set out the audience's view of that situation and, in that, we find that audiences are still very strongly committed to the importance of public service broadcasting. We have then tried, as it were, to refocus all of the questions that we have set up on the most relevant perspective, and clearly, in today's case, that is Wales. I hope that, to an extent, the committee has had chance to look at what is, I am afraid, as is always likely to be the case with Ofcom, a substantial and bulky report. I hope that we will have at least succeeded in convincing you that we have tried to address the question as we believe that it exists in Wales, at the start of what is a long consultation period. The process will not end for Ofcom until we publish our final thoughts on this matter in the early part of next year.

[13] **Alun Davies:** Thank you very much, Mr Hargreaves. We have received your documentation. It will form an important part of our deliberations, not simply during this session this afternoon, but as we go forward over the next few months. You are aware that this committee will report to the National Assembly by the end of the summer term in July. The documentation that you have provided, for which we are very grateful, will form an important part of the whole review that we are undertaking. We are very grateful to you for that. To start off this afternoon, could you explain to us Wales's place in Ofcom and how Wales is represented?

1.40 p.m.

[14] **Mr Hargreaves:** Wales is represented formally in Ofcom, as an institution, in a number of ways. Ofcom has a content board that is responsible for broadcasting issues and issues that sometimes range beyond broadcasting. Sue Balsom is Wales's member on that Ofcom board. We also have a consumer panel, and, coincidentally, later this afternoon, the Wales member for the Ofcom consumer panel will appear before this committee wearing a different hat to talk to you about aspects of your inquiries on broadcasting.

[15] What Ofcom does not have—and there was much debate about this when the Communications Act 2003 went through Parliament—are members of its main board who are representative of particular geographies or other particular interests; it is a relatively small board, and it is intended to be a board that provides the balance of expertise that is needed to do the job.

[16] I have been involved in Ofcom since before it was created, as it were—I was a founding non-executive member of the board—and, therefore, I was closely involved in the discussions that we had at that time about what type of infrastructure Ofcom should have in Wales. I knew a little about Wales at that time, because I had been running the centre for journalism studies at Cardiff University, and I was quite closely in touch with debates in Wales at that time. I felt very strongly that Ofcom needed to be able to do a job in Wales of gathering evidence and making research available, which seemed to be lacking in some of the debates that were taking place. So, we have an office here in Cardiff, headed by Rhodri, and I believe that that office has done a good job of supporting Ofcom's thinking and activities in Wales. I spend most of my time in Ofcom's London office, but Rhodri, like his colleagues from Scotland and Northern Ireland, is constantly connecting the London base of Ofcom with

its activities in Wales. That is the working level, the representation level and how everything works.

[17] **Alun Davies:** Thank you for that clarification. You probably have an embarrassment of riches in terms of background knowledge from Wales at the highest decision-making levels of Ofcom at the moment, with your background and also the chief executive's background.

[18] **Mr Hargreaves:** We try to keep that quiet when we are not in Wales.

[19] **Alun Davies:** You are well-advised to do so. Do you think that the weakness is that it is linked to individuals rather than structures?

[20] **Mr Hargreaves:** Ofcom must be judged by results, and I am sure that the people of Wales and Wales's elected politicians will be fair enough to judge us by results. I do not think that Scotland and Northern Ireland are badly served by the way in which Ofcom works for and with them, although they do not have the coincidences of history that you described. I do not think that this is an issue of representation—it is a question of effectiveness. If the people of Wales think that Ofcom is not effective and attentive to their perspective, they would be right to tell us and to complain about how the organisation works. That is not what our research tells us—we ask people in Wales what they think of Ofcom, and although they do not think that we are perfect, they give us a reasonable report card when we ask them.

[21] **Alun Davies:** Excellent; that is good to hear.

[22] **Nerys Evans:** Diolch yn fawr am y cyflwyniad. Yr wyf yn deall bod memornadwm o ddealltwriaeth rhwng Ofcom a Llywodraeth yr Alban ynglŷn â phenodiadau. Sut yn union mae hynny'n gweithio? Beth yw'r broses, ac a oes unrhyw gynlluniau i ddatblygu hynny yng Nghymru?

Nerys Evans: Thank you for the presentation. I understand that there is a memorandum of understanding between Ofcom and the Scottish Government regarding appointments. How does that work exactly? What is the process, and are there any plans to develop such a system in Wales?

[23] **Mr Williams:** Credaf mai cwestiwn i fi yw hwn. Yr ydych yn iawn—mae dogfen wedi ei chytuno rhyngom ni yn yr Alban a Llywodraeth yr Alban. Ar y pryd, yn ôl yn 2004, ysgrifennwyd llythyr tebyg gennym at Lywodraeth y Cynulliad. Gan nad yw'r cyfrifoldeb am ddarlledu wedi ei ddatganoli, mae gan Swyddfa Cymru, ac Ysgrifennydd Gwladol Cymru, rôl statudol mewn rhai o'r materion hyn, felly yr oedd y llythyr yn mynd i dri chyfeiriad. Anfonwyd drafft gan gadeirydd Ofcom, David Currie, at Ysgrifennydd Gwladol Cymru ar y pryd, ac at y Prif Weinidog yn Llywodraeth y Cynulliad.

Mr Williams: I believe that this is a question for me. You are right—a document has been agreed between Ofcom in Scotland and the Scottish Government. At the time, back in 2004, we wrote a similar letter to the Assembly Government. As responsibility for broadcasting is not devolved, the Wales Office, and the Secretary of State for Wales have a statutory role in some of these issues, so the letter was sent to three addresses. A draft was sent by David Currie, the Chair of Ofcom, to the Secretary of State for Wales at that time, and to the First Minister of the Assembly Government.

[24] Yr hyn sydd wedi digwydd ers hynny yw bod rhywfaint o wahaniaeth barn wedi datblygu rhwng swyddogion yr Ysgrifennydd Gwladol a swyddogion y Prif Weinidog, ac nid ydynt wedi gallu cytuno ar fersiwn derfynol. Mân newidiadau i'r llythyr a oedd o

What has occurred since then is that some difference of opinion has developed between the Secretary of State's officials, and the First Minister's officials, and that they have been unable to agree on a final version. The changes to the letter that were being

dan drafodaeth, ond mae'n amlwg eu bod hwy—ar y naill ochr neu'r llall—yn teimlo bod newidiadau o bwys yma. Yr ydym wedi crybwyll y mater, oherwydd yr wyf yn cwrdd â swyddogion a Gweinidogion Llywodraeth y Cynulliad yn gyson. Yr ydym wedi trafod y mater ar rai adegau, ond, i bob pwrpas, anghofwyd amdano erbyn hyn, gan nad oes unrhyw un yn teimlo'n arbennig o awyddus i wthio ymlaen i geisio sicrhau cytundeb.

discussed were minor, but it is obvious that they—on one side or the other—thought that these were significant amendments. We have raised the issue, because I meet with Assembly Government officials and Ministers regularly. We have discussed the issue on occasion, but, to all intents and purposes, it has been forgotten by now because no-one feels particularly eager to push this forward to try to ensure agreement.

[25] Yr unig beth arall y byddwn yn ei ychwanegu yw bod y ddogfen yn ceisio gosod sut y bydd Ofcom yn ymddwyn mewn perthynas â'r Cynulliad ac â Llywodraeth y Cynulliad. Y peth pwysig yw bod popeth sydd yn y llythyr drafft hwn yn cael ei weithredu. Yr ydym yn cwrdd yn gyson â swyddogion a Gweinidogion, ac yr ydym hefyd yn ymddangos, fel yr ydym yn ei wneud heddiw, gerbron unrhyw un o bwyllgorau'r Cynulliad sy'n gofyn i ni fod yn bresennol. Felly, hoffwn feddwl ein bod yn gweithredu cynnwys y llythyr, er nad yw wedi cael ei gytuno yn ffurfiol.

The only thing that I would add is that the document tries to set out how Ofcom will act in relation to the Assembly and the Assembly Government. The important thing is that everything that is in this draft letter is being implemented. We meet regularly with officials and with Ministers, and we also appear, as we are doing this afternoon, before any Assembly committee that requests our attendance. Therefore, I would like to think that we are implementing the content of the letter, although it has not been formally agreed.

[26] **Alun Davies:** Byddai'n ddefnyddiol i ni weld y llythyr—a yw hynny'n bosibl?

Alun Davies: It would be useful for us to see that letter—would that be possible?

[27] **Mr Williams:** Ni chredaf fod unrhyw broblem â hynny. Credaf fod copi tebyg, gyda'r geiriau 'Yr Alban' yn hytrach na 'Cymru' arno hefyd yn eiddo cyhoeddus.

Mr Williams: I do not see any problem with that. I believe that a similar copy, with the word 'Scotland' rather than 'Wales' on it, is also in the public domain.

[28] **Alun Davies:** Diolch.

Alun Davies: Thank you.

[29] Peter Black has the next questions.

[30] **Peter Black:** I will move away from the role of Ofcom. I am interested in the public service broadcasting remit, and your view of that. There has been much discussion recently about that, and particularly about the role of ITV, and whether it can continue to sustain a public service broadcasting remit in Wales, particularly on local news. Could you outline in more detail your views on that, and on the sustainability of that public service broadcasting obligation on ITV?

[31] **Mr Hargreaves:** What we say in the report that we have just published is that we believe that public service broadcasting is approaching a crossroads. We say that having taken due account throughout the report of the fact that the BBC exists, and, in our judgment, will continue to be the cornerstone of public service broadcasting in the United Kingdom. However, if you look beyond the BBC, those public service broadcasters that have historically got most of their revenue from advertising are in a different position. The advertising market has been turned inside out by the growth of new competition in the digital world—I am sure that you do not need me to go on about that at great length.

1.50 p.m.

[32] The old commercial public service broadcasting deal—the ITV deal—which gave the broadcaster a licence and access to a hard-to-get spectrum, in return for a powerful position in raising advertising revenue from television, has been undermined by these changes and will be swept away by them as we move from an analogue broadcasting system to a digital one, which will happen in Wales over the next 18 months. So, the world is changing, and it is possible to imagine a situation wherein providing the public service element of its remit is no longer attractive to ITV, as a shareholder-owned business. It may be that it will judge at some point that it is better out of that business. We are not saying that it has made that judgment and we are not trying to guess what its judgment will be, but we are looking at the economics and seeing that they are getting increasingly difficult. That is particularly the case with regard to ITV Wales, which is one of the smaller ITV components. Therefore, we set out our thinking in the report about the ways in which you might go about underpinning the ITV end of commercial public service broadcasting, if you wanted to do that, and what role you might look to for Channel 4.

[33] We also comment on the indigenous language broadcasters in the United Kingdom, including S4C, which is clearly a very important member of that group, as is its continuing role going forward. Many of these pieces are in play in new ways because of the technological and commercial changes that are taking place. We think that there is a risk, as a result of that, to healthy competition with the BBC in public service broadcasting, especially in terms of genres such as news and current affairs and, to some extent, other genres as well. We think that there is a risk to plurality in the UK-originated content arena and, therefore, this report states what the audience thinks about that and what its concerns are, and it sets out some ideas about how you might approach continuing to protect and enhance public service broadcasting into the future, if that is indeed what politicians, primarily, conclude that they want to do.

[34] What should be very clear from this report is that Ofcom, for the most part, has very little authority to do anything about the problems that are set out here; all that it can do is advise, try to make clear through research what audiences think, and try to point out options and choices that political authorities can debate and consider. Most of the big matters that are referred to in this public service broadcasting review are matters for the UK Parliament and Government, and there are parallel or contiguous processes that are taking place involving the Government and its reflection on issues to do with financing and the future of bodies such as Channel 4. All of the issues set out here, in the end, find their point of judgment somewhere in that political system.

[35] **Peter Black:** If the Assembly Government or the UK Government took the view that it wished to retain healthy competition with the BBC on public sector broadcasting, would you say that that was purely a matter of proper subsidy correctly directed, or can a solution be achieved through regulation, through changes in the law, or, for example, through giving Ofcom greater authority to deal with the matter?

[36] **Mr Hargreaves:** Simply giving Ofcom authority would not get you very far. We point out in the report a number of ways in which you can continue to support public service broadcasters. Although the spectrum is not as pressured, as rare or as valuable as it was, it is nevertheless valuable to have spectrum for the development of high-definition broadcasting, for example. To take another example that is referred to in the report, President Sarkozy has suggested that public service broadcasting in France be funded in future from some kind of levy on internet service providers, or mobile phone operators. So, the world is not bereft of ways to think logically about mechanisms for generating funding for public service broadcasting, or even public service content on new media platforms, away from linear television. There are many opportunities here, as well as some significant challenges, and, in a way, that is the most important message of the report. We should not throw up our hands in

despair at the situation; we should coolly examine the problem and then develop a solution.

[37] **Peter Black:** So, are you saying that it is largely a financial issue as opposed to an issue of regulation?

[38] **Mr Hargreaves:** It is certainly a financial issue, but there are questions about how you regulate. On the one hand, you must regulate for competition, which is one thing that Ofcom does, but on the other, you must regulate the public service broadcasting system, and there are questions about how you distribute funding, and which agency you use to distribute it, with what kind of accountability. Those are all issues that lie ahead of us if, as the first phase of this debate unfolds, the political response to this report is, 'Yes, we want to examine ways of enhancing or developing the public service broadcasting system', rather than, for example, letting it shrink to a BBC-only version. That is one of the options that we have set out here: essentially, a BBC-only version. You could go there, and I am sure that there will be advocates of that position. We are not advocating any position at this stage; we are setting out a number of options.

[39] **Alun Davies:** We will come to those different models in a moment. I am about to bring in Paul Davies, but before I do so, I want to press you, Mr Hargreaves, on this analysis. I remember very well that you said in your first report on public service broadcasting that there was no economic case, or business case, for public service broadcasting apart from the BBC and S4C post the digital switchover. I want to ask you to explain that in more detail, because I do not understand how you can say that a business—and ITV today is a business—that, in essence, has received a public subsidy for 50 years, and has had a particular place in public life in the United Kingdom, should not be included. I do not understand why the licence has no value after all that investment over a considerable period.

[40] I also want to ask you to explain what you mean when you say that Ofcom has no authority in these matters. As I understand it, you license channel 3 to broadcast, and, by receiving a licence from you to broadcast as channel 3, I would argue that ITV receives at least two clear benefits. First, it has a place on the electronic programme guide, and secondly, on digital terrestrial television, it has access to a considerably higher proportion of the potential audience than if it had to survive as a commercial player.

2.00 p.m.

[41] Given the history, the public investment in this broadcaster, and the fact that Ofcom has an opportunity today to license, I would have thought that the channel 3 licence had intrinsic economic value. If ITV were to walk away from the licence, I presume that you could go to the market and ask, 'If ITV will not provide this service, who will?' and I am pretty convinced that you would not be short of investors.

[42] **Mr Hargreaves:** That quick description was a fair summary of the history, but we need to distinguish between two things. At present, ITV is placed under several obligations, which are all set out in fine detail in the report, in return for the financial privileges that it receives. Three years ago, in our first public service broadcasting report, we said that time was starting to run out, and some people doubted that at the time. Some said that Ofcom was crying wolf or missing the point in some way. That has not been evidenced by what has happened between then and now, because, although the commercial advantages of ITV's continuing to operate as a public service broadcaster remain clear—and you can measure them and model them for the future—they do start to become more questionable. That question would only come to the point of determination should ITV decide to hand back any of its licences. In a sense, it is not for us to guess that, but it is for us to try to make a realistic assessment of the pressures on ITV and how the process might be managed.

[43] Were the licence—and, again, this is set out in the report—to be handed back, it could be competed for again, just as you say. However, we should not fool ourselves that, were that to occur, the economics would somehow be transformed by the fact that the licence was being reopened. Were ITV to decide to become a purely commercial broadcaster with the current channel 3 schedule—which is full of very popular programmes—and were that service to become available through digital terrestrial television without a public service broadcasting licence, there would be great difficulties for any of the public service broadcasters operating in Scotland and Northern Ireland, for example, where ITV plc is not the licensee, although it is here in Wales. So, the idea that you could simply take these privileges and hand them to another organisation to do the whole job is not likely, given how the world will look in the coming period.

[44] **Alun Davies:** I presume that Ofcom has done the sums, and understands and appreciates the future value of high-definition television, of the place that ITV currently holds on the electronic programme guide, and of the increased coverage available as part of digital terrestrial television. Could you share the information that you have available with the committee, perhaps by submitting a written note following this meeting?

[45] **Mr Hargreaves:** We would be very happy to do that. The outline and high-level thinking is here in the report and annexes, but we are very happy to share information of the kind that you are asking for.

[46] **Paul Davies:** I would just like to touch on the four models that you published in your report. You mentioned earlier that you are not in a position to give your preference at this stage, but I want to press you on which option you believe would work best for Wales at this stage.

[47] **Mr Hargreaves:** I understand why you want to press me, but I must ask you to understand why I cannot answer that question. The point of the process that we have set in train here is, having spent several months doing the thinking that has led to this report, for Ofcom to be quiet for a bit and to hear some other views. The models that we have put forward are all intended to be viable; they are not fanciful models or models that you could not imagine working. Some involve a greater departure from the current situation than others, but they all involve some sort of change. I imagine that judgments will vary as to which of these models is the healthiest for Wales. It will depend, for example, on how strong a view you take of whether it would be okay to rely entirely on the BBC for public service broadcasting in Wales, or whether you would rather there was competition with the BBC. That is the fundamental question that is represented differently in these four models.

[48] **Paul Davies:** So, you do not have a firm opinion at this stage.

[49] **Mr Hargreaves:** We do not. We do not expect to reach a firm opinion on this until the early part of next year. We expect to be in consultation about this and then to publish a refined and more hardened consultation in which we will probably eliminate options in the early autumn, and then there will be a further process of consultation to reach a conclusion.

[50] **Paul Davies:** I will ask you a general question, then. If funding and responsibility were devolved from London, do you believe that it would be more accountable to the people of Wales?

[51] **Mr Hargreaves:** That is a political question that you, as politicians, are better qualified to answer than I am. Ofcom is an organisation that was established by an Act of the UK Parliament, and our responsibilities are clearly set out in respect of citizens and consumers, as well as all the other criteria under the Communications Act 2003. Exactly how the political authority and accountability over the sectors that we are responsible for

regulating work is a matter for the political authorities, not the regulator.

[52] **Paul Davies:** Do you believe that the people of Wales would have a better public service broadcasting service if power over it were devolved?

[53] **Mr Hargreaves:** I find it impossible to make a judgment about that question, given that you can examine and test the effectiveness of the public service broadcasting system that we have now but it is pretty much impossible to compare a hypothetical one that has not yet been designed—perhaps not even in your mind, unless you volunteer a description of it—with what we have now.

[54] **Alun Davies:** Thank you very much for that. You have explained very clearly in your document that you see four broad options for the future of PSB. The first model is evolution, the second is the BBC only, the third is the BBC, Channel 4 and S4C plus limited competition, and the fourth is broad competitive funding. I broadly agree with that analysis as that is a reasonable view of the future.

2.10 p.m.

[55] You also say that new approaches are necessary for PSB if it is to serve the particular needs of regions, nations and localities—I was interested in the use of the words ‘nations and localities’ with regard to the United Kingdom—and I agree with you in that regard. Can you talk us through what you mean by ‘new approaches’? We understand that changes will happen and that the digital switchover will make those changes happen faster and change the nature of broadcasting, but can you talk us through what new approaches you see for PSB in the future in terms of it serving the particular needs of nations and regions?

[56] **Mr Hargreaves:** I am aware of the risk of your becoming tired of listening to me, so I might ask Rhodri and Sue to contribute on this in a moment. I will try to give you a short, general answer to that question. One of the things that is happening in the media world is clearly the compelling rise of the internet. Nearly 60 per cent of UK homes now have broadband access. We know from the research that we have carried out that younger people in particular are increasingly finding that their personal information and education needs are being met through the internet. So, when you are trying to take a long view of this, ask yourselves how you would set about trying to ensure all the things that public service broadcasting has given us over the decades, namely a strong base of impartial electronic news and UK-originated cultural and entertainment programmes that tell us about ourselves and the world. It does not seem likely that confining your inspection to the world of linear television channels only will give you as rich an answer as the answer that you might have. So, we are saying that we need to look at that.

[57] In our research, we have looked at what UK public authorities are currently spending on online media, for example. If you look at the big arts institutions and museums in our country, you find that many of them are doing more business online today than they are up the steps and between the classical pillars. One of the open questions for you at this stage is: what do we make of that in terms of a potential contribution to public service content in the future? That is only an example. We must not overstate the place of new media, but surely we would be foolish at this stage not to take them carefully into account. In the area of broadcasting channels, you can imagine all sorts of ways in which they might change, given the capacity that we have to carry large numbers of such channels on different platforms. The test is always about whether it makes commercial sense or whether you can put together a business plan that works, and even take into account subsidy or potential subsidy. Do you want to add to that, Rhodri?

[58] **Mr Williams:** I will simply underline the point about the difference in behaviour of

people of a certain age, such as—dare I say it—most of us in this room, and what our media consumption is compared to that of people under the age of 30. The differences are quite dramatic, and it is important that people do not make policy simply on the basis of their current experience and usage. We must pay attention, and that is why, as Ian outlined at the beginning, there are seven annexes of research that back up our report. That is the key to understanding the role of new media provision in this world, because, to pick up where Ian finished, in the analogue age, becoming a broadcaster was possible for a very small number of people. If you were not at the BBC, or successful in winning an ITV franchise, or part of running S4C, Channel 4 or Channel 5, there were no other outlets, whereas by now—and I suspect that you might hear more of this later from Simon Gibson on behalf of Inuk Networks—anyone can become a broadcaster. Trying to get our heads around how that shapes public policy interventions is challenging.

[59] **Mr Hargreaves:** Sue, are there any new approaches that you are particularly interested to see pursued in this debate?

[60] **Ms Balsom:** At the heart of the whole issue of public service content as we go forward—and not only in terms of linear broadcasting—is the question of citizenship. We are seeing newspapers becoming broadcasters, and increased user-generated content, all of which is very interesting, but in terms of the citizen, democratic institutions and the democratic imperative, how can people get some degree of plurality of information on issues that affect their lives—such as decisions made by the Assembly, for example? One of the questions going forward is about navigation, as electronic programme guides evolve and change—and they will: how will people in Wales find content that is relevant to their lives and that deals, to some degree, with the citizenship issues? That is at the heart of the debate as we go forward.

[61] **Alun Davies:** I am interested in that, and particularly in your emphasis on new media, although it seems a bit strange to be calling them ‘new media’ all the time. You will, over the next few years, be determining the future of the spectrum that will be released from the switchover to digital. Is there perhaps a contradiction between the emphasis that you are placing this afternoon on new media and locally generated content and, presumably, the availability of the spectrum to actually broadcast that, and the assumption that you will be auctioning off the spectrum to the highest bidder?

[62] **Mr Hargreaves:** I hope that there is not a contradiction, but there is certainly a link between them. In the next month or two, we will set out our thinking on how to package the spectrum for auction. The goal is to ensure that the current public service broadcasters are able to continue providing their services, and will also have the opportunity to provide high-definition television services. However, there is still a big chunk of the spectrum left once you have reorganised, as it were, that other activity in the most efficient way. Why would you care about doing that? What is important about opening up this other part of the spectrum? It is about offering a whole range of players, some of them in private business, the chance to develop ideas for using this spectrum for services that people will want to buy. That is likely, over time, to be a very significant factor in ensuring that everyone has a reasonable broadband service.

[63] Over time, there is likely to be a mix of wireless and wired provision, so you would want to develop in that way, but you would also want to ensure that the kind of public authorities that might want to subsidise, or look after, or look to the future of some form of content, also have the opportunity to look at this and say that they might want to provide a bit of a helping hand as, for example, the Assembly Government has for community radio in recent times. In Wales, community radio gets more help than it gets elsewhere in the United Kingdom. These are the kinds of options that open themselves up.

2.20 p.m.

[64] I was delighted that you picked up on the point that when we refer to nations, regions and localities, we are making the clear point that what the vision of public service broadcasting originally entailed can now be thought about in greater detail and granularity and can be closer to the people. The question that we have to answer is: will the market of the internet and all the things that are going on deliver all of that anyway? If so, we can all relax about it, but if we think that the market will not do all that we want it to do, we need to think of well judged interventions that can be made to achieve the purposes that we set out to achieve.

[65] **Nerys Evans:** I will go back to the four proposed models in the consultation document. How do you see those having an impact on S4C and Welsh-language broadcasting, particularly with regard to the strategic partnership with the BBC?

[66] **Mr Hargreaves:** We say in the document that S4C is in a strong position, because we think that its purposes are well articulated and well understood and that the funding for it is secure and also understood. Anybody who spends any time in Wales knows the importance that is attached to S4C. So, S4C fits into pretty well any version of this set of models. You can draw it into any of them. If you wanted to start changing things around with S4C, you could look at changing the governance of its funding, if you were looking at, say, model 4 here, which is a model of competitive funding all round but, equally, you can see that you might not change it very much if you did not want to. In a way, that is rather a tribute to S4C. It has been a pretty difficult period for broadcasters in recent years, but S4C has adapted to change and its role stands clear in what we are saying in this report.

[67] **Alun Davies:** I congratulate you on the drafting of models 3 and 4 on page 10 of your consultation document. I see references to new funding, additional funding and funding agencies but nowhere do I see the words ‘television licence’. Do you have any views on how these models may be funded?

[68] **Mr Hargreaves:** We do and we set them out. They fall under several headings. One is what we call, in Ofcom-ese, ‘regulatory assets’. What we mean by that are things such as access to positioning on the electronic programme guide or access to a particular piece of spectrum. Although we think that that game has changed, we do not think that it has disappeared, so we believe that there is value in regulatory assets. We clearly note that there are direct forms of subsidy already in play in the UK public service broadcasting scene—S4C is directly funded through the UK Exchequer, and that is one way of funding a broadcaster, and it has its own independent governance. That is one way of governing a public service broadcaster. The BBC is funded through a licence fee. There is room for debate about whether or not some part of the money raised for the BBC, some of which is currently spent on purposes slightly to one side of the BBC, namely the funding of aspects of the digital switchover, could be used for other purposes. You could make a case that funding that is currently labelled ‘BBC licence fee money’ could be used for other purposes. There continue to be other ways—the Sarkozy tax is perhaps the raciest example of a potential source of funding.

[69] The point is that there are sources of funding available. We do not think that politicians should look at this situation and think that all of the water has drained out of the bottom of the barrel and that there is nothing left, because that is not true. There are ways in which you can fund public service broadcasting and other types of public service content if you want to do so.

[70] **Alun Davies:** You say that there is a debate to be had; do you wish to contribute to that debate this afternoon?

[71] **Mr Hargreaves:** On the BBC?

[72] **Alun Davies:** On the BBC licence fee.

[73] **Mr Hargreaves:** I do not want to contribute to it any further than I already have, and it is set out in these models. What is set out here can be read as entertaining the idea of some part of the BBC licence fee being used for something other than funding the BBC. That is fine—that is up for debate.

[74] **Alun Davies:** You are being very coy, Mr Hargreaves, and probably rightly so. However, you state that the principle of the licence fee being used for other things has been established—in principle, we have reached a point where the licence fee is used to mainly fund the BBC, but also to do other things in support of public service broadcasting—so, would you have any objection in principle for it to be used to support S4C, Channel 4 or even public service broadcasting on channel 3?

[75] **Mr Hargreaves:** I think that that bridge has already been crossed.

[76] **Peter Black:** To come back to the S4C question, it has been suggested on a number of occasions that the funding of S4C could be directed through the Welsh Assembly Government as opposed to the DCMS, or whatever it is now called—I lose track of the acronyms.

[77] **Mr Hargreaves:** It is still called that.

[78] **Peter Black:** What are your views on that? Is that a sustainable model? What would be the implications for the rest of public service broadcasting if that funding was to be taken out of the pot and just handed to Wales?

[79] **Mr Hargreaves:** There are many ways in which broadcasting is funded in the UK. If you look at the Gaelic media service in Scotland, it is funded in yet another way. So, there is not just one way of doing any of this. However, I return to the point that I made about S4C in response to Nerys Evans, which is that the current arrangements appear to be working well. We are not picking up concern and objection from stakeholders or the public about how it is being funded at the moment, but that may not necessarily be a sufficient case for not considering alternatives. That is precisely the type of debate that one expects to take place around the whole area of broadcasting, of which S4C is clearly a part.

[80] **Peter Black:** Okay, thank you for that. The other issues that I wanted to look at were around the availability of Welsh services, particularly television services. There are serious issues in relation to large areas of Wales in terms of receiving programmes broadcast for and about Wales, particularly in the border areas. When this has been raised in the past, we have been told that all that will be solved when we have digital switchover. Is that likely to happen? What are the issues to do with the reception of Welsh services in Wales, the availability of Freeview and Freesat and problems in certain areas—Wrexham, for instance—with no access to television services on commercial multiplexes?

2.30 p.m.

[81] **Mr Williams:** I will start with the general question of what we in the past have described as out-of-area or overlap viewing. The report, 'Globalisation and its Impact on Wales', which we have submitted to the committee, and also to the Welsh Affairs Committee at Westminster, gives an up-to-date account of this question of overlap viewing on pages 27 to 34. Our suspicion was that the issue had been given an airing, if I can call it that, some time ago by a predecessor select committee at Westminster, and it was our suspicion that the data

were perhaps out of date. Indeed, when we undertook market research into this, we found that, although around 40 per cent of the population in Wales would be able to receive services from England rather than from Wales, which is a high number—for instance, people living in Cardiff can turn their aerials to face transmitters in the Mendips, near Bristol, or in Wenvoe—we found that the numbers of people doing that are far less now than they have been in the past. We can only guess as to why that may be, but part of the solution is undoubtedly the advent of satellite television.

[82] One thing that the report clearly says is that most people who point their aerials at English transmitters do so not because they want to avoid Welsh programming or because they particularly want to get English programming, but because the reception is better. Therefore, when satellite is available, if people are prepared to subscribe to Sky, or to get hold of the free service that is available on purchase of a set-top box, that does away with this phenomenon. Therefore, the good news is that it is far less of an issue than we had thought it was in the past, and that, as transmission improves, more people will be prepared to change their viewing habits to ensure that they get the Welsh services.

[83] I will park the Wrexham question, and come back to that later, when I have dealt with the question of what happens after switchover. Generally speaking, what happens after switchover in one sense does not radically alter television availability in Wales. Currently, 96.7 per cent of people in Wales can get analogue terrestrial television. After switchover, that will increase modestly to 97.8 per cent, so there is a slight increase, but it will not go all the way—there will always be some people, for whatever reason, who will not be able to pick up a terrestrial signal. However, since the advent of satellite television—and Freesat is due to be launched later this year—that will increase people's choice of getting those services by other means.

[84] The other aspect of this that you touched on in your question is what exactly will be available in various parts of the country. At present—and this is prior to the switchover process—57 per cent of people in Wales have access to digital terrestrial television. That is the whole line-up of everything that is available through Freeview. There are six multiplexes, that is, the aggregators of channels that make those services available. The figure will increase, after switchover, to 73 per cent; so 73 per cent of the population in Wales will have access to all six multiplexes and all the services that are freely available on Freeview. However, there is obviously a gap between the 73 per cent who will receive the whole panoply of services that will be available and the 97.8 per cent. So, 73 per cent of the population will receive the whole Freeview package, but 97.8 per cent will only have access to the public service multiplexes, which will include the BBC channels, ITV, Channel 4, Channel 5, and S4C in Wales.

[85] The extent of the reach of the commercial multiplexes, as we call them, is not a matter for Ofcom; it is a matter for the operators of the multiplexes, in conjunction with the commercial broadcasters themselves. So, it is a matter for them as to whether they want to spend serious amounts of money to extend beyond the 10 transmitters that will carry all six multiplexes, which would leave another 200 transmitters that would need to be upgraded. We should not underestimate the cost and complexity of that if we want that to happen.

[86] To come back to the Wrexham question, in some areas of Wales, people will be faced with a choice. Most people in Wrexham receive their terrestrial television services from the Wrexham-Rhos relay transmitter, which is currently an analogue transmitter. When switchover occurs, the Wrexham-Rhos transmitter will become a digital transmitter but, as a relay transmitter, it will only carry three multiplexes. So, some people in Wrexham will be faced with the choice of either receiving three services from Wales or pointing their aerials towards the Winter Hill transmitter, I believe, in England and picking up six multiplexes, which would include the commercial multiplexes. In such areas, concern about this has been

brought to our attention in the past, and it is possible to imagine that perhaps the multiplex operators and the commercial channels would see the commercial case for investing there because, clearly, Wrexham is a densely populated area, so the cost of setting up one relay transmitter to transmit to many people might possibly be worthwhile. However, if we consider the other 200 relay stations in Wales, the likelihood of people making a commercial case for putting all commercial services on those is very small. We have published free factsheets on all these data, and if those are not already in the committee's possession, we can ensure that they are.

[87] **Peter Black:** If I have understood you correctly, after switchover, there will still be a substantial proportion of the population that will not have access to Freeview or Freesat.

[88] **Mr Williams:** They will have access to Freeview, but they will only have access to the public service channels on that. We do not know yet what the line-up of channels will be on Freesat; one would guess that that would have more capacity and would be able to carry more services.

[89] **Peter Black:** Do you think that it is acceptable that some parts of Wales will be able to get the full range of programmes through Freeview or Freesat while other parts of Wales will perhaps have to buy in that service?

[90] **Mr Williams:** The important point to note is that, compared to what is available now, everyone will be able to get more; there will be at least 18 television channels, in addition to the radio services that come as part of the Freeview package, that will be available throughout Wales. So, no-one will be worse off as a result of this process—to the contrary, they will be considerably better off. One of the things that we see in a market-based environment is that if people want more than what is available at the lowest level, they must make a choice as to whether or not they are willing to pay for that, as many people who subscribe to Sky services, or, in some parts of Wales, to Virgin Media services, already do. That is a fact of life, but the important point is that everyone will be better off—everyone will have access to considerably more services than at present.

2.40 p.m.

[91] **Alun Davies:** Nerys Evans will ask the next question, and then Paul Davies.

[92] **Nerys Evans:** I would like to ask about the current quota system for production outside of London. What are the benefits and limitations of the system as it stands? Are some nations or regions benefiting more than others? How do you monitor expenditure?

[93] **Mr Hargreaves:** Let me say something briefly, and then Rhodri or Sue may want to give a bit more detail. The way that the system works is that it is an out-of-London system, designed to avoid too much production being sucked into London. However, the quota system does not differentiate between different places outside London. It is clearly the case, and was well understood when this system was put in place, that ITV has historically had its main production centre in the north-west, so it is no surprise that that history, and that present reality, continues to have a big impact on the numbers. It is certainly the case, however, that when we conducted our first public service broadcasting review three years ago, we hoped that the situation with regard to production in the nations might show some improvement. Various steps were taken in the context of that review, and it is pretty clear, although we do not yet have the final data for 2007, that the outcome has been disappointing in terms of the amount of network commissioning going into Scotland, Wales and Northern Ireland.

[94] The situation with regard to the BBC has been more variable. Wales has had a rather good period in the BBC context and, going about doing my job, I quite often find that I am

challenged by how well Wales appears to be doing in comparison with other places. That said, it is pretty clear that the current quota system is not dispersing production to the extent that some imagined that it would, and that Ofcom considered that it might. We will have to come up with some proposals in response to that. It is, however, worth adding that there are no easy solutions here. If you have too rigid a set of quotas you will not have an effective production system, so you have to balance that. Equally, one of the things that comes across clearly in our report is that we will have to make choices about our priorities in terms of where we want to spend the public service broadcasting pound. We can use it to buy news, or factual programmes that the market would not automatically support, or we could subsidise network production. Those choices are there to be made at the end of all of this, but there is no doubt that that debate has opened up again in the consultation document that we put forward.

[95] I have probably said more than I should. Do you want to add anything, Rhodri?

[96] **Mr Williams:** I would like to add just a little to underline the progress that has been made in BBC Wales in recent years, with the likes of *Doctor Who* and *Torchwood*. The total spend in 2006-07 on programmes for Wales was £24.6 million, but the value of programmes made for the BBC network was £49 million in the same period. The BBC has made huge efforts and has been successful in doing so. It is not based on a quota, although I think that it is worth saying that Sir Michael Lyons, the chairman of the BBC Trust, has said that he aims to put a policy in place that would ensure that, I think, 17 per cent of BBC network productions in the relevant genres, because it does not include all genres, would come from the nations, roughly according to the percentage of population. However, as Ian pointed out, the situation is starkly different in ITV. During the course of 2007, it only managed one production for the network, a film called *The History of Mr Polly*, which was a co-production between ITV Wales and ITV Productions. Incidentally, it was in receipt of funding from the Welsh Assembly Government's Wales Creative IP Fund, so it needed a degree of public intervention to even get that to happen. I think that the important point is that what is achievable in some sectors is not necessarily replicable in others.

[97] **Ms Balsom:** I will just add that in the past four or five years, since the advent of Ofcom, these issues have been of great concern to the content board, as you might imagine given the representation and so on, as has the whole issue of quotas, particularly in the nations and regions. Under the Communications Act 2003, it is sometimes very challenging in terms of Ofcom's legal position to actually effect the sort of outcomes that some people might prefer. That goes back to the Act itself: for tier 2, there are more precise definitions of the production quotas out of London, but when you get to tier 3, when you are looking at things like children's programmes and those on arts and religion and so on, Ofcom's powers are somewhat more circumspect. So, it is something that is at the heart of Ofcom, but it is not always something that we can effect in the way that I might prefer.

[98] **Paul Davies:** As an organisation, are you satisfied that people are fully aware of digital switchover?

[99] **Mr Hargreaves:** We work very closely with Digital UK, which is responsible for delivering digital switchover in Wales as elsewhere. I certainly follow the data on all of this quite closely. You will be aware that switchover has already occurred in a part of Cumbria. Tracking into that was very interesting, watching the curves of knowledge and depth of knowledge about what was going to happen and then, retrospectively, looking at how it all went and so on. The broad experience of switching off Copeland and Whitehaven is that it is possible to get the message out successfully and for people to have sufficient information, but people tend to only pay close attention to these kinds of issues when they directly affect them and when they have to take some action. A strategy based on creating a UK-wide context of understanding and then focusing on the areas that are going to switch off, in the run-up

period, looks like the right approach. I can promise you that, when it gets closer in Wales, people will know about it. The fact is that switchover is occurring on a voluntary basis at a very rapid rate. There are all sorts of challenges to come, with something as complicated as switchover, but public awareness is not a problem that we cannot satisfactorily address.

2.50 p.m.

[100] **Paul Davies:** What type of work will you be doing in the run-up to switchover?

[101] **Mr Hargreaves:** There will be a huge amount of marketing activity. Characters such as Digit Al will appear all over the place, and if you are making a change of consumer technology on television, you have a significant advantage in that you can talk to people through television. So, at a certain point before switchover occurs, people will begin to see messages on the bottom of their television screen, which is an effective way of drawing their attention to the fact that they may need to take action if they are not to lose service at the switchover point. Having said that, some people will still arrive at the point of switchover with not enough information—there are people who find new equipment and that type of change more difficult to handle than others, and there is a substantial help scheme that is directly designed to communicate and work with them. The Digital UK machine is an impressive machine; it is yet to be tested on a big scale, but it came through the pilot scheme in Cumbria well.

[102] **Alun Davies:** Thank you for that, and thank you for your time this afternoon. We need to draw this session to a close. I thank the three of you for the time that you have taken to answer questions and for the information that you have given us—you have given us an excellent first session for this inquiry, and we have covered all of the major areas that we will look at over the next few months. We are grateful for your candour and also for the further written information that you will give to the clerk in due course. We will undoubtedly come back to you as this review continues; as I said at the beginning of the meeting, we must report back to the National Assembly by 18 July, and we would welcome informal or formal discussions with you prior to that, to pick up any issues that are raised with us as the inquiry continues. On behalf of the committee, thank you for the time that you have taken this afternoon.

[103] **Mr Hargreaves:** Thank you; we are at your disposal for any further information or exchanges that you may find useful.

[104] **Alun Davies:** You may come to regret that. [*Laughter.*]

[105] Our next witness is Simon Gibson, chief executive of the Wesley Clover Corporation. I welcome you to the committee—this is the second time in a week that you have given evidence.

[106] **Mr Gibson:** I half-expected to be lynched on the way in, but I survived. [*Laughter.*]

[107] **Alun Davies:** We are grateful for the time that you have taken to give evidence to us this afternoon. You will have heard our previous session, and I am sure that you will be aware of the reasons for the inquiry and its remit, and what we hope to achieve. We will start by asking you to introduce yourself for the record, and I understand that you have a short presentation as a means of starting this session.

[108] **Mr Gibson:** I am Simon Gibson, and as has already been said, I am chief executive of the Wesley Clover Corporation, which is a technology investment fund; it also owns a couple of large hotels involved in the Ryder Cup, which is information that I will throw in for good measure. I am also the chairman of Inuk Networks, which I think is the UK's largest

supplier of internet protocol television in the linear form, which is slightly different from what a lot of people are doing, namely web television-type applications, where you view a back catalogue and download from it, using some kind of peer-to-peer technology. We have been in this business for three years, and we are starting to export.

[109] I must apologise for Marcus Liassides's absence, but he had to jump on a plane yesterday to fly to America, because the series of discussions on launching the service over there is coming to a head. So, he sends his apologies.

[110] I also sit on the consumer panel of Ofcom, which is not part of Ofcom as you know it; it is best described as a critical friend. You are a friend when you do not say anything bad about Ofcom; if you say something bad, you are not such a friend. [*Laughter.*] I have been involved in that panel since its formation.

[111] I have brought some slides with me, not really to give you a presentation, but just to help me to make some observations. I have entitled page 2, 'The new face of broadcasting', and a lot of these things have been covered, but what is happening is that broadcasting is moving away from spectrum and its reliance on spectrum, and is becoming much more ubiquitous, particularly as applied to IP technologies—and by that I do not mean intellectual property, but internet protocol. So, it is becoming multiplatform.

[112] Since its inception, television has been an information diode. In other words, information was sent to the television, which presented it to the viewer, and that was it. There was a little bit of play with interactivity with the red button. By the way, it might be worth the committee visiting Inuk, because it is so local, at Abercynon, to see this new technology in action. It is a great piece of technology, because it is what it is, so, when you look at it, you can understand it. However, because it is IP-based, we are starting to merge television with telephone. I am not talking about transmitting it on to a device to watch it; I am talking about fusing the ability to interact with the phone and the television in real time. For instance, if you are watching content that affects you, you have the option to press the green button on your remote control, and, when you do that, your phone will ring in real time and you will be connected to the broadcast. That also has some exciting implications for advertising, because you are generating leads and not just building a brand.

[113] So, lots of different things are happening with regard to how television is being presented technically, and the effect that it has on the user and on the business model. In these situations, it is easy for people to get very juiced and excited about the changes in the technology, but to forget the business model. I find it interesting that something as vast as this is not really being looked at by a lot of the main business schools in the world, and yet it represents one of the world's biggest industries. How this new technology will impact on how television broadcasters are financed has yet to be discovered.

[114] Content is becoming much more personalised, and the cost barriers to entry are much reduced. I will not disclose how much Inuk has spent, because it is private information, but it is in the millions. It is now providing a service of 60 channels, all linear. It is a television experience, not an internet experience. We have virtualised the set-top box into software, so that, when you use Inuk's Freewire package, it is as though you are watching television. There is an electronic programme guide, and it behaves as though you are watching it from a set-top box, but there is no set-top box. You can also transmit in high definition, which is still a struggle on the radio spectrum.

[115] Turning to page 3, you can see that one obvious thing that people often miss is that moving from spectrum into the IP world creates infinite channel capacity. I remember that, when I first showed this to Ofcom, one of the first questions asked was, 'How many channels can you have?'. My answer was, 'That is akin to asking me how many websites you can have

on the internet’.

3.00 p.m.

[116] We use a technology called multicast, which means that you do not have to flood the network with capacity, and that is an emerging issue for some of these players. We can have 5 million people watching the FA Cup final, but it is actually one video stream leaving the BBC. As it goes through the network, it propagates itself appropriately. A point to note, however, is that, right now, BT does not support multicast. Cable and Wireless does, but BT does not, and it will not until its 21CN is put in place, from my understanding.

[117] You can start to broadcast to disenfranchised areas, which you were speaking about before I stepped in. You can obviously broadcast in high definition, and you are seeing recognition of how you use the spectrum in the future—and Ofcom has done this. You separate spectrum application from content. In other words, rather than specify that a certain piece of spectrum be used for a specific channel with specific content, you can take the whole spectrum and say, ‘Use it for transport’, and then what flows over the top of the transport can be completely flexible. That is a slight departure from the past.

[118] Looking at slide 4, we see that possibly the biggest change in broadcasting has happened in the past 24 months with what some describe as the ‘democratisation of content’. We have moved from a model in which few broadcast to many to one in which more are now broadcasting to many. In fact, consumers are becoming broadcasters, which we have not seen before. We are seeing an increase on our network, with people coming at it with much more verticalised content—that is, content that is specific to certain interest groups.

[119] Higher education is very interesting because, in this country, universities do not typically have television channels, and yet many of them have enormous amounts of rights that they could exploit if they did. I sit on a board with the chairman of the University of Notre Dame, home of the Fighting Irish football team in the US. The chairman told me that 70 per cent of the university’s revenue—and it is in the Ivy League—comes from its sports programme. Of that revenue, 90 per cent comes from the Fighting Irish franchise. That demonstrates that there is a lot of pent-up value in our HE institutions that has never been released, because they have never had the opportunity to exploit their rights. We are starting to see a lot more interest in that regard, and it is not just in sport; it is also in the arts and with back catalogues of films. In Wales, we are particularly well equipped for that. The Atrium has just been built for the University of Glamorgan, we have a 5* film school in Newport, and we have the Cardiff School of Journalism and so on. So, there is a lot of ability to create rights and, perhaps, channels in the future. The universities are getting together right now to establish a new channel called Unibox TV, which is an aggregated higher education channel. However, we can see that Unibox is just a stepping stone to the future, because many of the universities are saying, ‘We will contribute to Unibox, but, in time, our ambition is to have a channel for our university’.

[120] There is a lot of interest in what people already have, in back catalogues. People are starting to look at bespoke-view platforms of all types. However, one point that has to be made is that there is absolutely no substitute for quality. YouTube.com is a demonstration of the garbage that is on the internet, and the average viewing time for YouTube, by the way, is three and a half minutes. That says it all, really.

[121] I will just show you slide 5, and then I will throw it open to questions. There are a couple of points left, but I think that it is worth going through them. You have covered the issue that 98.5 per cent of homes are projected to have coverage through digital terrestrial television. Of that figure, 73 per cent are projected to get Freeview in Wales. When I was up in Cumbria, at a consumer panel meeting, that kind of slipped out when someone started

referring to DTT and Freeview. It made me sit back and think, because my definition of Freeview is that you get the 40 channels, or you get the full multiplex. That is what I thought that Freeview was. Then I was told, 'Well, some people get Freeview; other people get DTT. Some people get access only to the public service multiplex, others to the commercial multiplex'. From a consumer's perspective, I looked at that and thought, 'I am one of those people who lives in a disenfranchised area, and I am rather disappointed, as a consumer, to be in that situation, particularly when I am expected to pay the same licence fee as someone who gets all the channels'. Politically speaking, that has ramifications as we go forward.

[122] So, whatever happens, a level playing field needs to be established. Perhaps these new technologies bridge the gap, because the proliferation of broadband is ahead of the proliferation of coverage for digital television. So, if you can deliver linear television—the Freeview experience—via ADSL or broadband technologies, perhaps there is an answer.

[123] On slide 6, whatever happens going forward, I would hope that the one thing that the public broadcasting review does is consider the word 'flexible'. No-one can predict quite what will happen, and anything that is written in stone will be dangerous. Producers will, and can, become broadcasters, so you could see an aggregation of independent content producers becoming broadcasters. I also think that a broadcaster may never produce content in the future, and Inuk is an example of that. It is not in the content business, and never will be. However, it will become a significant broadcaster.

[124] It is a great opportunity to export the Welsh language. There is a market for the Welsh language in the diaspora, in the Commonwealth countries, and there is a chance to do that using these new technologies, so you can extend the reach. I was in Scotland recently, where I heard a discussion about the Gaelic language. A demand was made to the effect that the Scottish people had the right to a Gaelic-language channel equivalent to S4C. It was a boisterous discussion, as you can imagine, and, at the end, a little lady put her hand up and said, 'I should just remind you that more people in Scotland speak Gujarati than Gaelic'. We often overlook that. This new type of platform and technology delivery makes it possible for people who speak minority languages to receive content in their native tongue. As we have already said, there are great opportunities in higher education with this broadcasting technology.

[125] However, to some extent, we are operating blindly, and slide 7 shows my reference for that. All the time I have been in Ofcom, I have asked to see a spatial map of the not spots, and no-one has been able to produce one. They have not been able to produce one for mobile phones either. We just mapped the A470 for mobile phone coverage, and it was pitiful; you have only to live here to know the problem. I was at a recent meeting at Ofcom, and I had two phones with me. I pulled out my second mobile phone, and I said, 'This is my UK phone, and this is my Pakistani phone'. No kidding; it is a Pakistani phone, with a Pakistani SIM card, from a carrier called Warid, based in Lahore. I should have brought it with me today. If I travel in Wales, which one should I take with me? The answer is the Pakistani phone, because it roams. So, if I drive from Monmouth to Aberystwyth, I am safer using my Pakistani phone than my UK phone, because my UK phone does not get a signal for about 60 per cent of the journey, but my Pakistani phone does. If I break down, I am better off with my Lahore phone, than I am with my Cardiff phone. That is an issue. However, that is just mobile phones.

[126] We need a spatial mapping exercise that shows us who gets DAB digital radio, who gets DTT, who gets Freeview, who gets 3G technology—and 4G when that is rolled out—who will get WiMAX, who will get broadband, who gets ADSL 1, and who gets ADSL 2. I would not have thought that that was a difficult thing to do, but it does not exist. Until that spatial map is in place, we are blind about the delivery of these options and any interventions that might be sensible to make them happen.

[127] Those are my comments, chairman. I throw myself at your feet.

[128] **Alun Davies:** Thank you, Mr Gibson. I could see Members making notes as you were speaking about the use of Pakistani technology, which would enable us to speak to the rest of the world when travelling through Radnorshire—a problem that I had earlier today.

[129] Many of us recognise the picture that you are painting. We find it difficult sometimes to differentiate between how technologies are changing, and how content will be provided, and then to think in completely different ways. Perhaps my daughter should be sitting here instead of me. If we talk about the digital switchover as an example, you have made the important point that 98.5 per cent of people—

3.10 p.m.

[130] **Mr Gibson:** There is a picture of a chimpanzee on that slide because 98.5 per cent of our DNA is the same as a chimpanzee's, so I think that the 1.5 per cent does matter. *[Laughter.]*

[131] **Alun Davies:** Again, your point is well made. The figure of 98.5 per cent is significant and is certainly higher than the number of people who can access analogue today. However, I sense that the figure of 73 per cent is more significant because that is the reach of the terrestrial or digital broadcasting that is being advertised to people and, therefore, that is what people would expect to be able to receive. Certainly, if I walk through a shop selling electric goods, there is no sense of that. People who live in many parts of the mid and west Wales region, which I represent—and many of us here represent similar and more rural parts of Wales—will recognise what you are saying when you talk about 'not spots' and the lack of network coverage for mobile phones.

[132] There is now an entirely new divide between those who live in the well served cities, such as Cardiff, where I live, where I have access to satellite, cable and freeview, and, for example, Aberystwyth, where I also have a home. I suppose that I am quite lucky because I now have access to freeview, but it has taken some time. Do you foresee any way in which public policy can help the 27 per cent of people who currently will not have access to the full freeview service, but who will be subjected to the same advertising as others?

[133] **Mr Gibson:** Using current technologies, there are two options beyond DTT, namely broadband—ADSL—and satellite. That is how you will get the content to the other people—unless the intervention is made to upgrade all the transmitters. It is probably much cheaper to deal with the exchanges. However, since I have been on the consumer panel, I see these things in broader terms, and it is pretty unusual for a venture capitalist to sit on a consumer panel; I am an unusual beast in that regard. In the last five years, I have put myself in the position of a consumer; I am a consumer and I have a family who consume.

[134] This transition is confusing to the public; people are buying equipment with false hopes. People buy Freeview because they think that they will get that; people buy high-definition plasma and LCD screens because they think that they will get high-definition television. You see the stickers on these products in the shops, and the public will tell you that they are buying them because they are going to get digital television or because they want high-definition television, but when they get the equipment home they realise that they have to pay Mr Murdoch to get high definition or that they will get it only when they watch a DVD. Such information is not always made clear to them when they make the purchase. So, there is some work to do in terms of media literacy and consumer literacy in this whole field.

[135] **Peter Black:** I was fascinated by the idea of having a spatial plan. I think that that is essential because, when the Ofcom evidence mentioned the 200 transmitters, my immediate

reaction was, ‘Where are these 200 transmitters?’. Do you think that they are afraid to produce that plan because of the impact that that will have on public perception?

[136] **Mr Gibson:** The blunt answer is ‘yes’, but I do not think that it is Ofcom that is afraid of such a plan. If it is used to take further steps, it is a wonderful tool for development, but I could see it becoming political dynamite. For example, if you extended the spatial map to include infrastructure such as roads and rail, but also crime, educational attainment, access to GPs, dentists and healthcare and you started to build up this spatial map, it would be a phenomenal thing for the public to look at when deciding where to live, but politically, it would be absolute dynamite.

[137] So, there are some fears. However, I cannot see, in terms of just this process, how it can be drawn to a conclusion without this information being forthcoming. I know that England is just about to embark on the process of spatial mapping. I have already referred those guys to the National Assembly for Wales, because it would make a lot of sense if it was done as one process.

[138] **Peter Black:** If that map was produced, do you think that it would also incentivise people in the commercial market to say, ‘There is a gap in the market here.’? Would it help in that way, or do you think that it would fall to the public sector to fill that gap?

[139] **Mr Gibson:** It would help, Peter. I will give you an example. If, for example, Cable and Wireless or an internet service provider goes to the Valleys and thinks about unbundling the exchange in order to create competition and then talks to consumers there and tries to sell them internet services, half of them would say that they did not want that as it would not change their lives. If you go there and offer to deliver television and multi-channel entertainment over broadband—which you cannot get now, because the area is blacked out—that would be a trigger for many people to say, ‘Where do I sign?’, if the pricing was right. So, yes, I think that that information is critical and unleashes many competitive forces and a large customer base.

[140] **Nerys Evans:** From your experience with Ofcom, do you think that the current structure serves Wales well?

[141] **Mr Gibson:** I knew that you were going to ask me this. I heard Ian’s response, but I do not think that it serves Wales as well as it could. I do not understand why there is a national representative on the consumer panel and on the content panel, but there is no national representative on the main board. Although it might not be the case in Wales, in other areas—particularly Scotland—if that was not redressed, I could see them calling for their own broadcast authority.

[142] **Alun Davies:** As you can imagine, there were several amendments to the legislation in Westminster. The advisory committee for Wales and so on were the subject of amendments late in the process when the legislation was before the House of Lords. The Government’s response was that, if Ofcom was to be an effective regulator in a fast-moving environment, its executive board needed to be of sufficient size to enable it to take reasonably quick and informed decisions rather than being a more deliberative body, which the Government believed would have been the case had there been representatives from Wales, Scotland, Northern Ireland, England, or wherever, on that board. I take it that you would not accept that argument.

[143] **Mr Gibson:** No, I think that that is slightly arrogant in that it assumes that you have to be based in the home counties to make a contribution. I think that you can have the advantages of both.

[144] **Alun Davies:** You have been a member of the content board for four or five years—

[145] **Mr Gibson:** No, I am a member of the consumer panel.

[146] **Alun Davies:** I am sorry, the consumer panel. So, from your experience of that, you think that Wales would be better served with a member on the main executive board?

[147] **Mr Gibson:** I have seen instances where, perhaps, you get a sense that the nations and regions have not been at the forefront of thinking. There is a metropolitan approach to everything. I am not sure that it is the nations and regions; you could argue that it is rural and urban. Nonetheless, I do not think that there has always been that balance.

[148] **Alun Davies:** Could you give us examples of that?

[149] **Mr Gibson:** The digital dividend review; and the awarding of certain radio licences, where it is not necessarily done for the good of a nation, but awarded to the best bid. Radio news in Wales was one of those instances. Certainly, in the DDR, there is a dogmatic driving forward of an agenda that does not necessarily serve the spectrum in which it will be best used in the nations and regions. It has pulled back from that since the first document was produced, because there was a massive furore, which led to a bit of a rethink.

[150] **Paul Davies:** So, in your view, not having someone from Wales on the UK board has a detrimental effect.

3.20 p.m.

[151] **Mr Gibson:** It could be better rounded out as a board.

[152] **Paul Davies:** You mentioned that you feel that there is no infrastructure here in Wales to create new content and services at the moment. How do we change that?

[153] **Mr Gibson:** I look at the options in this consultation document and I am surprised that the first option is even included. To leave things as they are is a non-starter. My preference would be as follows: we must preserve S4C, and we must preserve some elements of what is being done by the BBC—probably through the BBC. In a way, S4C is already doing what is being suggested, in as much as it is outsourcing an enormous amount of its work. We have a vibrant industry here as a result of that, but if S4C was producing all of the content, that industry would disappear. You can see that S4C is becoming almost an aggregator and buying in the content and, in a way, becoming something like a funding body.

[154] So I assume that the BBC and S4C will stay, although the BBC might change its nature somewhat. However, why should the money be available only to those entities? Others should be given the opportunity, particularly as you see media moving into new transport mechanisms, creating opportunities for creative work to go on in those sectors. I cannot see why other people could not bid.

[155] **Paul Davies:** Which option would you prefer?

[156] **Mr Gibson:** I am an option-3 or option-4 man. I have only had the consultation document since Thursday so I am still thinking about it. I am somewhere between options 3 and 4.

[157] **Alun Davies:** Your view is that the BBC licence fee could be used to fund public service broadcasting from other broadcasters—and I accept the new definition of broadcasters—rather than simply being used to fund the BBC. Is that correct?

[158] **Mr Gibson:** Yes. However, it is important that S4C and that the Welsh language option are preserved.

[159] **Alun Davies:** I was fascinated by the point you made in your opening statement about the higher education establishment and its ability to generate revenue by broadcasting its own content. Can you talk us through that and how you see the potential of that? It seems that further and higher education institutions would have an opportunity to generate their own content through their own resources and then almost create their own channel. Is that the sort of example that you had in mind?

[160] **Mr Gibson:** Yes. Just look at the wealth that that has brought to the University of Notre Dame—90 per cent of its revenue comes from the football team and 70 per cent of the entire revenue for the school comes from sport. It is phenomenal flow of funds into that institution, which is obviously valuable. Looking at sport in higher education institutions in the UK, I think that only two events—the Oxford and Cambridge boat race and the varsity rugby match—are televised. Yet, I have looked at the situation in America, and several of its universities broadcast to millions of people. Some of them broadcast in more than one language too, so they broadcast in English and Spanish, and one is broadcasting in Portuguese for the South American market. There is a big opportunity and a great deal of talent there. I do not know whether any of you have visited the ATRiuM, but, if not, you should go. It is next to the prison and the old BT building. I toured there with some American academics who were interested in looking at it. It could become a new station.

[161] **Alun Davies:** So you are suggesting—and it is a fascinating new scenario—that higher or further education institutions would be able to broadcast their own content. I assume that we are talking about education because it came up as an example, but that it is not limited to education. It could equally apply to other areas, and not simply in terms of rugby, football or whatever. In my constituency, Coleg Sir Gâr could be broadcasting information, courses and lectures to people sat in their own homes, for example.

[162] **Mr Gibson:** Yes. You could have a farming channel; there are lots of things that could be done in that regard. The University of Wales, Newport is building a new campus on the waterside, as you probably know. That will contain an institute for advanced broadcasting. If it is doing that, it should be at the forefront of what is going on. If it was not becoming a broadcaster, one would doubt whether it was doing the right thing. You could envisage local authorities, the National Assembly, and anyone who has anything to say, doing this, as long as the quality can be preserved. What we are seeing with the university, and the Uni-Box example, is an interim provision—people donate content and the channel gets compiled. To walk into a university and say, ‘Have a channel operating 24/7.’, is to make a scary proposition. However, if you say to a university that it must provide six hours of content a week, then that is probably doable. If the universities aggregate the quality together, a good level of programming will be maintained, with a lot of plurality and diversity in the programming.

[163] **Nerys Evans:** How widespread is this concept in higher education institutions in America?

[164] **Mr Gibson:** It is pretty widespread. In this country, we have schools of broadcasting, as you know, and a lot of universities have channels. Loughborough has a fantastic facility; prior to Inuk’s technology being deployed, it broadcast to two screens in the student union building.

[165] **Peter Black:** Is this done in America because there is a wider audience available in terms of scale? Is this more successful there because the institutions have that scale, and

because the culture is different in terms of broadcasters having led them down this route? If that is the case, does that make it less easy to replicate in Wales?

[166] **Mr Gibson:** I would think that we could easily match them on quality. Obviously, there are some big institutions. Some of the American universities are very large, but so is Cardiff, Swansea and so on. I do not think that that is necessarily the issue; it is whether you can produce the quality of programming that would attract a wider audience. You are producing for the students, but if you are going to do a news channel, for instance, you might want to ensure that it was of interest to the wider population.

[167] **Alun Davies:** You have spoken about different means of access and delivery platforms. I am assuming that you see a real distinction between web-based television and internet television in terms of the quality that is available, and therefore the take-up and usability of that way of delivering programming. Will you talk to us about the impact of those distinctions on public policy?

[168] **Mr Gibson:** A lot of people, when they see the term ‘internet protocol television’, think of a webpage with a video window with something of questionable quality playing. The iPlayer has gone a long way to show that it does not have to be like that, but, nonetheless, it is not live, it is not high quality, it does not have an electronic programming guide as you would expect in a normal television experience, and it rarely delivers in high definition. Let me step back and tell you an anecdote from a few years ago. How many people do you think came to me and pitched IP or web television? It was hundreds of people. They would come in and say that they had a fantastic new video experience and then show me something that was so small that it was ridiculous. As an investor, I always said, ‘I need a Coke and Pepsi challenge; I need an experience where I do not know which technology is which.’ I do not care about the technologies; I care about the viewing experience. You have two big plasma screens on the wall in this room. If one is using IPTV technology and the other is broadcasting digital terrestrial television, and I can tell which one is which, then I am not particularly interested. That should not be the end point in the technology; it should be the start line. One reason why we did what we did with Inuk is that it has produced technology where the start point is that I cannot tell the difference between the two—I just know that one uses ADSL and the other is digital terrestrial television. However, using IPTV technology, I can build in widgets to integrate it into all sorts of other interesting environments—it can interact with the telephone and can be put on to a mobile device because of the ubiquitous nature of the IP network around the world.

3.30 p.m.

[169] **Alun Davies:** A number of internet service providers said last week that the iPlayer that the BBC launched a few months ago is almost causing the network to break down, because the infrastructure is struggling to cope with its popularity. We have discussed the infrastructure that is available in Wales, and we began this discussion by talking about not spots and our ability to access what is almost old-fashioned technology these days. While I find the vision that you have outlined today very exciting and compelling, and I think that it will eventually begin to replace other means of delivery—I know that Sky is very worried about it replacing satellite television in many places—I assume that we do not have the infrastructure in Wales at the moment to enable the growth of this sort of platform and the delivery of this sort of programming.

[170] **Mr Gibson:** No, we do not.

[171] **Alun Davies:** How do we get there?

[172] **Mr Gibson:** We get there by upgrading the network. There are parts of Wales where

it can be done, but it depends upon what technology you are going to use. Peer-to-peer technology is where you borrow each other's processing systems and bandwidths, but it tends to create congestion. Some ISPs are complaining that 50 per cent of their overheads now, in terms of delivery, are taken up by iPlayer, which is why they are beginning to cry foul and ask for some kind of subsidy from the BBC.

[173] We believe that the optimum delivery mechanism is the multicast technology, because it does not do that. As I said, 5 million people are viewing iPlayer, but only one stream is coming out of the BBC. I cannot see, on a massive basis, how you can deploy a technology other than by using that type of multicast approach, particularly if you want to do live television.

[174] **Alun Davies:** There are no more questions. Thank you, Mr Gibson, for the time that you have taken again this week to come here to allow us to benefit from your expertise and knowledge. A transcript of the meeting will be made available to you. Thank you for giving us a great deal to think about as we take this inquiry forward. With your permission, we may contact you again over the next few months to clarify some issues and to perhaps continue the conversation with you when we come to draw up our conclusions.

[175] **Mr Gibson:** I repeat my invitation for you to come to see the technology. I think that, as a committee, it would be well worth your time to look at it and digest it. I guarantee that if you spend an hour looking at the technology, you will come back much better equipped to comment on some of these issues, because you will have an understanding of what the future might look like.

[176] **Alun Davies:** I think that we would like to accept that invitation, and we will, hopefully, make those arrangements in due course.

[177] I thank Members for their attendance this afternoon. The next meeting of this committee will be held on the afternoon of Monday 21 April, when we will have presentations from Tinopolis, the Producers Alliance for Cinema and Television and Teledwyr Annibynnol Cymru.

*Daeth y cyfarfod i ben am 3.34 p.m.
The meeting ended at 3.34 p.m.*