

BROADCASTING COMMITTEE

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Evidence from ITV plc

Introduction

ITV has been part of the broadcasting landscape in Wales for the last 50 years. It is a commercial public service broadcaster offering a mixture of news, current affairs and other programming about Wales as an alternative to the publicly funded BBC. For the past 25 years, S4C has also been part of this landscape as a public funded Public Service Broadcasting (PSB) broadcaster in the Welsh language, and ITV provides programming for the channel (outlined in more detail on page 3).

As acknowledged by Ofcom's recently published review, the old model for PSB is breaking down. The value of the spectrum (the analogue signal) that has sustained commercial PSB for the last fifty years has declined dramatically as digital TV has grown over the past decade and will disappear completely at switchover.

Combined with the increasing competition for viewers and revenue from new and established media, this puts increasing pressure on the business models of the commercial service broadcasters, such as ITV.

Ofcom, in its PSB Review, states that, "In the absence of change to the level of ITV1's public service obligations, their cost will exceed the benefits of public service status in advance of the completion of digital switchover".

ITV agrees with Ofcom that there is a near term risk to the future of commercial PSB in the UK, and that urgent action is needed to ensure that in the medium and long term ITV's commercial interest and the public interest align in the future as they did in the past under the analogue TV settlement.

ITV Wales

ITV in Wales has been through many transformations since it started in 1958. Wales was then, and still is now, part of the ITV franchise which encompasses Wales and the West of England.

The licence was originally held by TWW, then from 1969 onwards by Harlech, which later became part of HTV. HTV was taken over by United News and Media in 1997, which subsequently became part of Carlton in 2000.

ITV Wales is now part of a merged ITV plc which owns all the Channel 3 franchises in England and Wales. In Scotland, Scottish Television and Grampian are owned by Scottish Media Group (SMG). In Northern Ireland, Ulster Television (UTV Media) owns the franchise. Channel Television owns the Channel Islands franchise.

ITV employs around 140 staff in Wales. The main studios are at Culverhouse Cross in Cardiff with mainly news bases at Colwyn Bay in North Wales, Newtown in Mid Wales and Carmarthen in the West. There is also an office at the National Assembly in Cardiff Bay.

In common with the other ITV regions, ITV Wales produces 5½ hours of news a week, as agreed with Ofcom. This includes the flagship programme, WALES TONIGHT, which is transmitted at 18:00 on weekdays. There are also news bulletins throughout the week at mid morning, lunchtime and after the News at Ten. On weekends, there are two bulletins on Saturday and two on Sunday. ITV Wales also supplies three early morning Welsh news bulletins to GMTV during the week.

A year ago, ITV invested over £2 million in ITV Wales to create a state-of-the-art digital newsroom, with editing facilities in the district offices.

There are two satellite news trucks, one based in the North and one in the South. These enable the news to include "live" reports from major stories and events throughout Wales.

The ITV Wales licence commitment with Ofcom for 2008 includes 4 hours of non-news programming. SMG and Ulster have the same commitment. In the English regions, the commitment is 1½ hours.

The four hours of non-news programming includes current affairs and political programming. THE SHARP END, the weekly political round-up is broadcast at 23:00 on Thursday nights and the investigative series, WALES THIS WEEK displaces the network current affairs programme at 20:00 on Mondays.

Other non-news programmes include documentaries, archive based series, sport, entertainment and some drama. They are transmitted in various slots across the week, primarily at 19:30 on Thursdays and 22:30, 23:00 and 23:30 on some weekday nights and a few Sunday slots.

The quality of our programming is regularly recognised through awards and most recently we won four Welsh Baftas - Best Actress for Anne-Marie Duff and Best Designer, both for the network production, "The History of Mr Polly" (which was warehoused in Wales and part-funded by the Welsh Assembly); Best Music Programme for "Unsigned", and Best Short Film for "Owl Creek Bridge", both of which were produced by independent companies for ITV Wales.

Complementing our news and programmes is the ITV Local Wales on-line service which launched in June 2007. ITV Local Wales recently won the best website category at the Celtic Media Festival, and also won the Best ITV Local Team in the ITV Awards. ITV Local Wales' popularity has continued to grow since its launch - in August 2007, 66,000 videos were watched on ITV Local Wales; the latest figures for April 2008 show that this has more than doubled to reach 132,000 videos watched in one month by 35,000 unique users.

In 2009, the non-news hours for ITV Wales will reduce to 3 hours per week, as agreed by Ofcom. This compares to half hour per week of non-news in the English regions.

ITV in Wales has historically always made Welsh language programming. Indeed, before the launch of S4C, it was part of the licence commitment. Since 1982, ITV Wales has supplied S4C with programmes. We currently produce the current affairs series, Y BYD AR BEDWAR and HACIO, the popular rural series, CEFN GWLAD, a youth drama series, and some documentaries. Last year, we also won a three-year contract to produce all the weather bulletins for S4C.

The Future

As we stated in the introduction, the twin pressures of increased competition for viewers and revenue and declining value of analogue broadcast spectrum (which was itself based on limited competition for advertising revenue) make the current business model for commercial public service broadcasting increasingly unsustainable. This is not only our own conclusion, but perhaps more importantly it is one which Ofcom has made in its PSB Review.

Ofcom has also recognised the urgency of this problem facing commercial PSBs. Regarding Wales specifically, it says that in 2009 the cost of holding the PSB licence will exceed the benefit. And across all the ITV plc Channel 3 licences in England and Wales there will be a net deficit before 2012.

In Ofcom's own words, "ITV plc owns a number of regional licences. There is currently a net benefit from public service broadcaster status across the portfolio of regional licences owned by ITV plc. This will become a net deficit before 2012. If the regulatory obligations on ITV1 remain at their current level there will come a point ahead of the completion of digital switchover when ITV plc will have economic incentives to surrender its regional PSB licences."

As Ian Hargreaves (Senior Partner, Legal, International, Nations, Regions and Secretariat and Executive Director, Ofcom Board) put it when he gave evidence to the Welsh Broadcasting Committee on 14th April, 2008, "The old commercial public service broadcasting deal - the ITV deal - which gave the broadcaster a licence and access to 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 the 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."

Under this analysis it is clear that a new regulatory settlement is needed for ITV1, which runs alongside ITV's own ambitious plans to turn the company around.

ITV's 5-Year Turnaround Plan, which was announced last autumn, is one of the keys to achieving an alignment of shareholder and public interest in the long-term. It is a content-led strategy based on high levels of investment in original UK programming and news.

Sustaining that investment in UK production requires savings to be made elsewhere.

Regional news and programmes are by far ITV's biggest PSB commitment. As part of the Turnaround Plan, ITV needs to save £40 million from the regional news and programmes by 2009 and we have consulted on and announced proposals to rationalise the ITV regional news map, which could guarantee the future of regional news until 2012 and beyond.

In a letter to Welsh Members of Parliament and Assembly Members, Michael Grade outlined the plans for news in the nations and regions:

"One of the key components of our strategy that I particularly wanted to keep you informed about is a proposed new approach to news in the Nations and Regions. I absolutely recognise and value the special relationship that regional news gives ITV with our viewers. ITV is the only broadcaster outside the BBC to provide any regional news programming, and we are committed to continuing to perform that role up to and hopefully beyond digital switchover. However, if we are also to continue our commitment to invest in original UK content on the scale we do we need to think again about the best and most sustainable way of delivering regional news."

"ITV currently spends around £120 million a year on regional services, the vast majority on regional news, providing 17 different flagship programmes across 10 licence regions, four more than the BBC. The pattern of regional services owes much to the accident of transmitter patterns and does not best reflect communities on the ground or the structure of other National and Regional bodies, such as the National Assembly, Government and Regional Development Agencies. Moreover, the current arrangements result in very significant differences in regional cost per viewer with just 4 out of the current 17 programmes serving around 50% of the population but with little correlation between the size of the area served by the programme and viewing figures or critical success. In essence, the regional news map is an analogue hangover in a digital world."

"Rather than confront the challenges of sustaining regional news by simply giving up on it - as some commentators and other operators have predicted is the inevitable course of action - we are seeking to find a model to ensure that a well-resourced and effective regional news service remains at the heart of the ITV1 schedule up to and hopefully beyond digital switchover in 2012, providing effective local competition to the BBC.

The commercial realities mean that the status quo is not an option, but I believe that what we are proposing is a solution that will secure the future of a comprehensive, relevant and high quality regional news service on ITV1 in the years to come."

ITV proposed to restructure the number of individual news services from 17 to 9, whilst sustaining sub-regional provision for a period in some areas. The biggest effect would be on the English regions. ITV Wales would retain a national news services as at present.

After a period of consultation with politicians, other stakeholders and staff, ITV has introduced a revised plan which will include 18 sub-regional services with 9 regions. Again Wales will retain a stand-alone service.

These plans have now been submitted to Ofcom and will be considered as part of the PSB Review process.

As Michael Grade said in his letter, "For viewers to ITV Wales there will be no substantive change to the pattern of the news service with Wales Tonight continuing to provide unrivalled coverage of the nation. ITV will - as always - ensure that the ITV Wales news service is properly resourced with the necessary journalists, crews and the latest technology to cover issues of interest to viewers in Wales, including about Westminster and the Welsh Assembly."

ITV will continue its on-going discussions with Ofcom regarding the delivery of the regional and national news services in the future, as well as on the wider issues raised by Ofcom's PSB Review, which outlined 4 possible long term funding options, namely:

Direct public funding (e.g. direct taxation; hypothecated proceeds from spectrum auctions)

The licence fee (e.g. retaining excess licence fee funding currently ring-fenced for the Digital Switchover Help Scheme and Digital UK's marketing costs; opening up core licence fee funding to other providers)

Regulatory assets (e.g. access to spectrum at below-market prices; revised advertising minutage rules)

Industry funding - a wide range of industry levies could be considered, similar to the proposals current under consideration in France.

Digital Switchover

Digital switchover is one of the main driving forces in the need for change to the present PSB commitment. In Wales, digital switchover will commence in the autumn of 2009 and will be completed by the spring of 2010. Already over 90% of homes in Wales are multi-channel.

ITV is fully committed to the digital switchover process and is working closely with Digital UK. We are already informing the viewers in Wales of the digital review process through news items and programmes and this will continue as we approach 2009.

1 Ofcom's Second Public Service Broadcasting Review, Phase One, The Digital Opportunity 5:42

2 Ofcom's Second Public Service Broadcasting Review, Phase One, The Digital Opportunity, 5.45