

# **Ofcom review of public service television broadcasting**

Summary of Phase 2 proposals

30 September 2004

## Parliament has required us to address two main issues...

Assess the extent to which public service broadcasters, taken together, fulfil the purposes of public service television broadcasting

Recommendations on maintaining and strengthening the quality of PSB television in the future

## A three phase review...

**Phase 1:  
The Current Position**

**April**

- **Analysis**
- **PSB purposes**

**Phase 2:  
Prospects for the Future**

**Now**

- **Proposals**

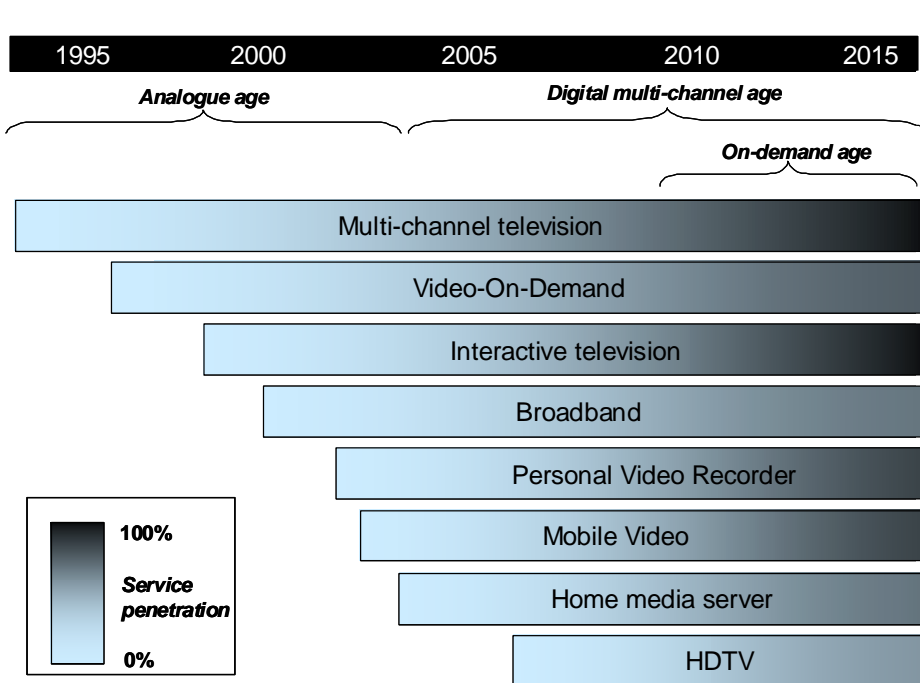
**Phase 3:  
Proposals and recommendations**

**End of year**

- **Decisions**
- **Firm recommendations**

## The broadcasting environment is changing rapidly...

### New technologies

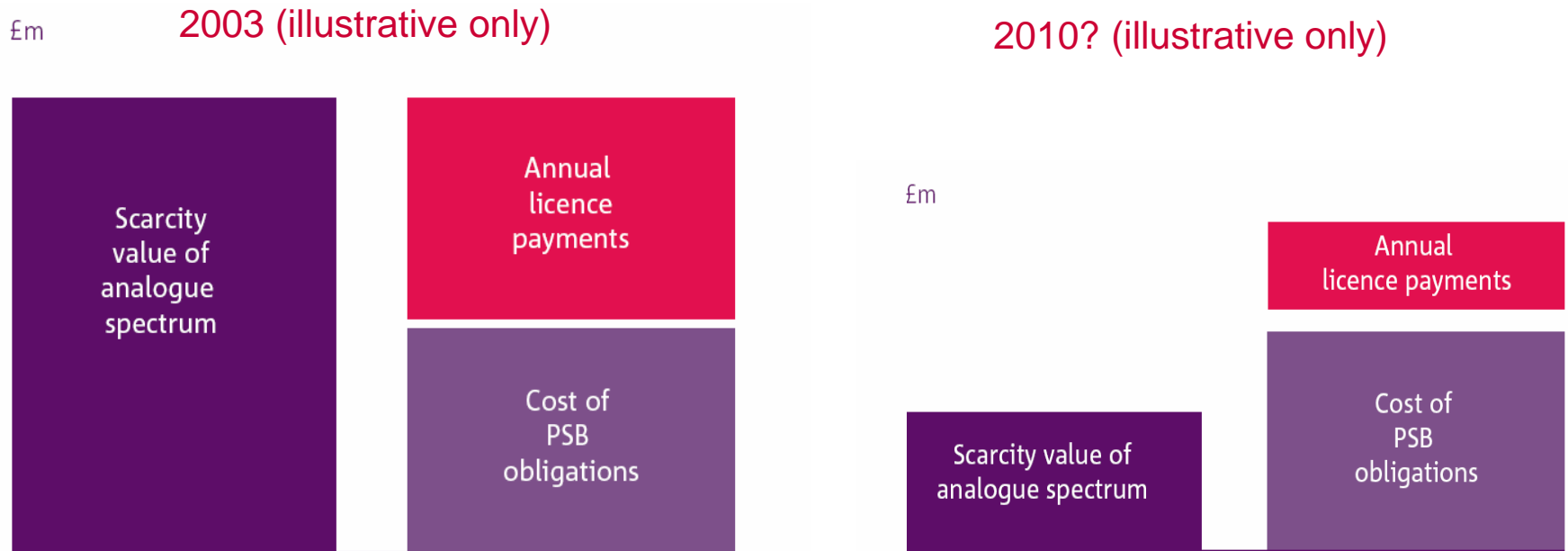


### Market and consumer change

- Audiences are fragmenting
- Business models are under threat
- Consumers want more choice, more control

# The historical PSB “compact” is eroding rapidly...

## Paying for commercial PSB

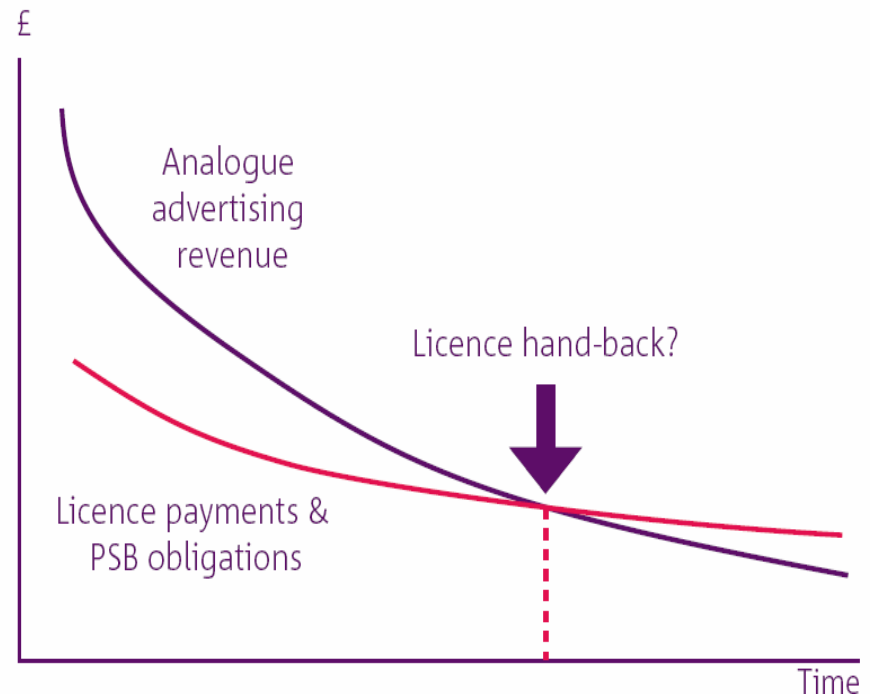


## **Our audience research indicates continued public support for PSB in television...**

- Viewers think the main terrestrial TV channels should support wider social purposes as well as providing entertainment
- In qualitative research for Phase 2, people generally prefer more PSB programming relative to less when costs are not an issue
- When costs are made explicit, there is willingness to support funding of PSB around the current level

## And so we need to act now...

- If we wait too long, the PSB model will be broken with nothing else in its place
- A new model needs to be developed before the surplus in the historic system disappears
- Digital model of PSB will require explicit and transparent funding to replace opacity and implicit subsidy



## 'Analogue age' – contribution to PSB

BBC	Cornerstone of PSB
ITV1	Important to regional, origination, news, current affairs etc.
C4	Sharper focus on public purposes
Five	Focus on news, origination
S4C	Central to PSB in Wales



## 'Digital age' - contribution of PSB

BBC	Remains strong
ITV1	Increasing focus on origination / news
C4	May need further support
Five	Market-led
S4C	Funding challenges need to be addressed

## Developing a new model for PSB

### Key features

- PSB defined by purposes and characteristics, not purely by box-ticking and genres (the Act)
- A pluralist system, with competition for quality
- Overall PSB funding should remain at a level similar to that of today
- PSB needs to make innovative use of new technologies

### With implications for...

- BBC
- Channel 3 licensees
- Nations & Regions
- Channel 4
- Five
- Teletext
- S4C
- Programme supply market

## The BBC

- An effective, strong, independent and PSB-focused BBC – fully funded by a licence fee model – should remain the cornerstone of PSB
- It should be given a 10-year Charter, with a substantive mid-point review in 2011
- Charter Review should clarify the respective roles of governance and regulation
- The BBC should strive to ensure all its programmes reflect to some degree the purposes and characteristics of PSB
- A thorough independent external validation of the BBC's commercial strategy should be undertaken before any asset or proceed allocations are made

## Channel 3

- ITV1 should continue to be universally available, free-to-air for the period of its licence (to 2014)
- And it should play to its core PSB strengths
- Its main PSB contribution is delivered through original UK programming and news (original production quota is currently at 65%; ITV1 delivers 80%)
- Before switchover, we will maintain current quotas and targets for originations, news (7 hrs per week), current affairs (1.5 hrs per week), regional news (5.5 hrs per week)
- But we propose a phased withdrawal of non-news regional programming between now and switchover
- Greater flexibility on how other statutory PSB genres (e.g. children's, religion, arts, education, documentaries) can be delivered

## Channel 3 programmes from and in the English Regions

- Comms Act requires that a suitable proportion of Channel 3 programmes are made outside London, and that regional programmes are shown on Channel 3
- The ITV network is currently required to produce 33% (by hours) and 40% (by spend) of network programming outside the M25. It currently delivers around 50% on both measures
- We propose to lock in current levels of out-of-London production through a higher regional production quota
- Regional non-news programming has relatively low audience value and high cost. We propose to reduce the quota by 1.5 hours (from 3 hours per week to 1.5 hours per week). All initial reductions must be outside peak-time, and we will consult on the phased withdrawal thereafter
- We also recommend a rebalancing of non-news English regional obligations from ITV1 to the BBC

## Programming from and in the Nations

- News and current affairs on Channel 3 in the Nations are a crucial part of PSB and should be maintained as now
- Most production outside London for ITV network comes from just two Channel 3 licence areas. We will explore options for increasing production from the Nations for the ITV network
- An economically sustainable future for Welsh and Gaelic language services – focusing on S4C in Wales, and the new Gaelic Media Service in Scotland
- Welsh and Gaelic language services will need access to sufficient digital capacity and to adequate public funding
- As in England, non-news programming for the Nations will come under increasing pressure as switchover approaches. A new approach is needed to reflect the realities of a post-devolution UK
- We want to engage in a wider debate in each Nation on this before making proposals in Phase 3

## Channel 4

- Channel 4 should remain as a primarily not-for-profit institution, in public hands, and with a sharper focus on its public purposes
- C4 should be given sufficient freedom to form alliances, joint ventures and partnerships with other organisations, and should consider developing a suite of free-to-air channels to help it meet its public purposes
- Increased operational efficiencies by C4 will also help it meet funding challenges before switchover, but these are unlikely to solve the medium-term scale issues
- This may require a need for further action, such as transfers of income-generating assets
- Channel 4 has always been an important source of innovation. Its plans for innovation in the digital age will be an important part of PSB

## Five

- Five has two principal PSB obligations: 9 hrs of news per week, and an original production quota of 51%
- We expect Five to invest more in original production before switchover, and will discuss with Five how this can best be achieved (value vs. volume)
- We are discussing with Five the best scheduling of its news to meet PSB obligations and audience needs most effectively
- At present, Five has only around 80% terrestrial coverage. So it stands to gain from the process of switchover, which will bring it near-universal coverage in the UK for the first time
- Post switchover, Five will be a free-to-air, overwhelmingly market-led public service broadcaster

## Teletext

- Prior to switchover, we will ensure that Teletext is given greater flexibility to meet its public service obligations. This may mean fewer specific page requirements
- After switchover, we will seek to ensure that the digital public teletext service will have the same capacity available as now

## S4C

- S4C faces many of the challenges identified for other PSBs in an increasingly fragmented, digital age
- So Phase 3 will include further work on the options for Welsh language broadcasting

## The independent sector

- We have approved the new codes of practice for independent producers, which need to be given time to work
- But if the market isn't working more effectively in 12 months' time, we will take further action

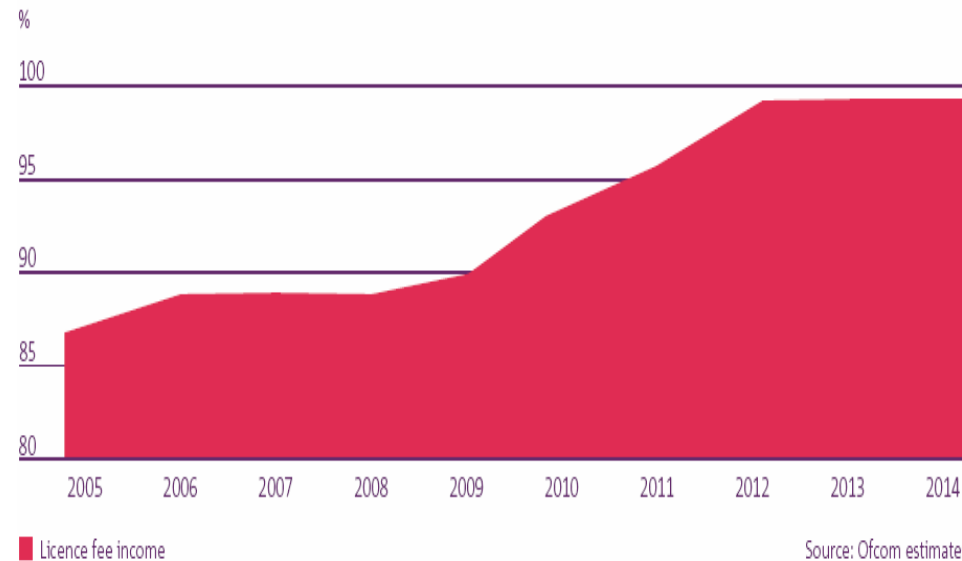
# By switchover, funding for commercial PSB could be close to zero

## Cost of the PSB intervention

Policy intervention	Cost (£ million)
<b>Direct expenditure</b>	
BBC TV expenditure (2003-04)	2,320
<b>Indirect expenditure</b>	
Cost of free spectrum for the BBC	180
Obligations on ITV (2002)	260
Obligations on Five (2002)	10
Obligations on Channel 4 (2003)	160
<b>Total</b>	<b>2,930</b>

Source: Ofcom calculations

## Prospective BBC share of PSB funding



## 'Analogue age' – contribution to PSB

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There will need to be a transition from our initial proposals to the fully digital world

## **The case for plurality and innovation**

## The provision of plurality and innovation

- An outline proposal for a new provider of PSB content, designed to inject plurality and competition
- It would be a digital PSB, using broadband and on demand as much as broadcasting and scheduled services
- The Licence to run this entity could be awarded after a competitive process for an initial period of 10 years
- Existing broadcasters (except the BBC) would be able to bid, and so could a wide range of other creative organisations
- New funding for this entity would be needed, and could build up over time. There is a range of possible funding sources – including tax revenues, an enhanced licence fee, and a turnover tax

## **A Public Service Publisher (PSP)**

## More about a PSP

- A PSP is not intended to be a conventional TV channel – it could be a content hub, perhaps with c. 3 hours worth of new high quality programming / content each day
- Content could be provided on a server, or transmitted on a continuous loop
- A £300m budget might deliver around £200,000 per hour average programme spend
- A winning bid could come from any current broadcaster, any media company, an independent, an infrastructure operator – or a consortium or others...

## How might a PSP be funded?

1. **Tax revenues:** the principle has already been established for the BBC (over 75s and World Service), and S4C via DCMS. Funding could come from general taxation or hypothecated proceeds from spectrum charging
2. **An enhanced licence fee** – setting the fee at a higher level, to ensure the BBC is properly funded before any revenue is directed elsewhere.
3. **A tax on the turnover of every UK licensed broadcaster.** A model used in some other countries to fund PSB. But might raise barriers to entry

**The choice is a matter for Government and Parliament**

## What happens next?

- Today's Phase 2 report makes proposals. We'll consult on these until 24 November
- We will set out decisions and firm recommendations to Parliament in Phase 3 (end of year)
- Phase 3 decisions will be reflected in the licences of ITV1, Channel 4, Five and Teletext
- Findings will also inform the Government's decisions on digital switchover
- And our work will contribute to the Government's and Parliament's consideration of BBC Charter review