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The Culture, Media and Sport Committee

The Culture, Media and Sport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Culture, Media and Sport and its associated public bodies.

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Summary

Viewers and listeners in the UK have access to more public service media content than ever before. Over the past 20 years an ever wider array of audio visual content, some of which exhibits public service purposes and characteristics as defined by Ofcom, has been made available to consumers. Viewers and listeners can now access this content on a range of platforms, including terrestrial television, cable and satellite, and newer platforms such as the Internet. After the completion of digital switchover in 2012, virtually all households in the UK will be able to receive a wide range of digital channels, many of which will broadcast public service content. These changes should allow the Government and regulators to move away from heavy-handed intervention in the broadcasting market, enabling providers to compete vigorously to deliver high quality content to consumers.

Despite the substantial current provision of public service content and the opportunities afforded by digital switchover, there are concerns that the current system of supporting the provision of public service content is coming under pressure. In particular, concerns have been raised that ITV, Channel 4 and Five will reduce their provision of public service content. There has also been speculation that new forms of intervention and funding will need to be found if viewers and listeners are to retain access to specific types of public service content that they enjoy at the moment.

We, however, are confident that broadcasters will continue to provide a huge amount of content that meets public service purposes and characteristics as defined by Ofcom. Broadly speaking, we believe that the market is likely to continue to provide the content that consumers want and to provide much of the content that is considered to be socially valuable. In order to be clear about policy objectives, the Government and Ofcom should undertake a detailed, robust analysis of the amount of public service content they view to be necessary in the digital age, and assess where, if anywhere, there is likely to be a shortfall. While we are generally confident in the viability of most types of public service content, we do recognise that some content—UK-produced children’s programming and regional programming in particular—is already coming under pressure and that this is likely to increase over time.

The BBC provides a large amount of public service content and plays an important role as a quality standard-setter for the rest of the market, and we expect this to continue in future given its guaranteed income of over £3.2 billion per annum. We are concerned, however, that the BBC should not be left as the only supplier of public service content in any area of programming and we regard the maintenance of plurality as an important public policy objective. The Government has committed itself to reviewing the case for distributing public funding, including licence fee income, beyond the BBC. We believe that public funding, using licence fee income or general taxation, should be made available to all broadcasters on a contestable basis, to bring the benefits of competition to the provision of public service content that the market might not otherwise provide, such as UK-produced children’s programming or regional programming. However, we do not believe that the overall cost to the public should be allowed to increase.

Given the forecasts that Channel 4 is likely to face financial difficulties in the medium term,

and that its residual subsidy may in future be insufficient, we believe that Channel 4 should also be able to bid, on a contestable basis, for public funding in order to make specific public service programmes. However, we believe that Channel 4's remit is too loosely defined and that, if it is to benefit from public subsidy, it should be more tightly tied to the provision of content that the market would be unlikely to provide.

In relation to new media, we believe that a vast amount of content exhibiting public service purposes and characteristics as defined by Ofcom is currently available, and that there is no future threat to the production and distribution of public service content on new media platforms. There is therefore no need for further intervention to support public service content on new media and, in particular, we believe that the creation of a new public service publisher, as currently envisaged by Ofcom, is unnecessary.

Technological change and digital uptake have brought, and will bring in future, a huge amount of audio visual content, including public service content, to consumers. The Government and Ofcom now have an opportunity to scale back their level of intervention in the market, while keeping a watchful eye on how the industry develops in the digital age with respect to public service content, plurality and the ethos which has generally served UK broadcasting well in the past. At the very least, technological developments mean that the Government and Ofcom need to rethink their policy objectives and how they seek to achieve them. Both have recognised that the future of public service content needs to be considered sooner rather than later and they have rightly brought forward the timing of key reviews of the sector. We hope that, in their respective reviews, the Government and Ofcom adopt many of the measures we have recommended.

1 Introduction

1. In March 2006, the Government published its White Paper on the BBC, *A public service for all: the BBC in the digital age*, which set out the framework for the BBC's role as a public service broadcaster for the next ten years. The Government stated that the BBC will remain central to public service broadcasting in the UK, but recognised that the other public service broadcasters—ITV, Channel 4, Five, S4C and Teletext—also make important contributions. The Government noted, however, that the spread of digital television raised questions about the extent to which the current public service broadcasting system, and the way it is funded, can be sustained in the future, particularly after the completion of digital switchover in 2012. The Office of Communications (Ofcom), the UK's communications regulator, also raised concerns about the future viability of the current public service broadcasting arrangements in its first review of public service television broadcasting in 2005.

2. We therefore decided to conduct an inquiry into the future provision of public service media content, announcing its terms of reference on 26 October 2006. Evidence was invited on the following issues.

- The prospects for maintaining plurality in public service broadcasting in the digital age.
- The practicality of continuing to impose public service obligations on commercial broadcasters.
- The viability of existing funding models for ITV, Channel 4 and Five.
- The case for public funding of broadcasters in addition to the BBC.
- The future of key areas of public service media content such as news provision and children's programming.
- The value of the public service publisher concept as advanced by Ofcom.
- The case for provision of public service material on new media.

3. We received a wide range of written submissions and we also held eight oral evidence sessions between February and June 2007. In our first session we heard from Lord Burns, David Elstein, Tim Gardam and Jeremy Mayhew and from consumer interests, represented by Jocelyn Hay, Richard North, David Buckingham and Kirsty Young. Our second session covered public service content and radio, with representatives from the RadioCentre (Lisa Kerr), Tindle Radio (Kevin Stewart), GCap Media (Simon Cooper) and Classic FM (Darren Henley) and the views of the independent production sector, represented by Pact (John McVay and Mike Watts). The advertising funded public service broadcasters were the focus of our third session, where we heard from Channel 4 (Andy Duncan and Anne Bulford), ITV (Michael Grade and John Cresswell) and Five (Jane Lighting and Sue Robertson).

4. In our fourth session we heard from the BBC (Mark Thompson and Caroline Thomson), S4C (Iona Jones), SMG (Bobby Hain) and the Institute of Local Television (Dave Rushton). Our fifth session was with Greg Dyke, BSkyB (Mike Darcey,

Graham McWilliam and Martin Le Jeune), Anthony Lilley, Stephan Shakespeare and ITN (Mark Wood). Ofcom (Ed Richards and Tim Suter) appeared in our sixth session and in our seventh session we heard from Irwin Stelzer and the Satellite and Cable Broadcasters' Group (Geoff Metzger). Our final session was with the Rt Hon Shaun Woodward MP, then Minister for Creative Industries and Tourism.

5. The Committee visited Canada and the United States in relation to this inquiry, where we gained an overview of the Canadian broadcasting policy and regulatory framework and a better understanding of the impact of new technologies on the provision of public service content. We also benefited considerably from the assistance of our Specialist Adviser on broadcasting, Ray Gallagher, and we are very grateful to him for his help and advice.

6. Digital switchover is fast approaching and the Government and Ofcom have both recognised that consideration of the future of public service content needs to be done sooner rather than later. We note that Ofcom has brought forward its second statutory review of public service television broadcasting, which has just commenced, and we also note that the Government has announced its own review of public service funding, drawing on Ofcom's conclusions.¹ This inquiry has therefore been very timely and we hope that this Report will help inform both Ofcom and the Government's policy processes.

2 Defining public service content

7. The Committee, very deliberately, made the focus of this inquiry "public service content", rather than "public service broadcasting".² Historically, however, the Government has intervened to ensure the provision of "public service broadcasting". Ofcom described two traditional reasons for this intervention. First, in a world of spectrum scarcity, which permitted only a small number of broadcasters, it was thought that the market would not effectively provide all of the programming that consumers want to watch or want to have an option to watch. Second, there was a belief that the broadcasting market, left to its own devices, might not provide or might under-provide programming that we, as a society, want to be widely available.³

8. As a result of the Government's intervention and provision of funding, the UK enjoys the benefit of a tradition in which the ethos of public service broadcasting has been dominant.⁴ Ofcom said that for over 50 years, the public service broadcasting system in the UK has provided a wide range of high quality programming for citizens and consumers.⁵ Viewers in the UK benefit from provision by five main public service broadcasters—the BBC, ITV1, Channel 4, Five and S4C. These broadcasters have also played a role in setting high standards for other broadcasters to follow. Channel 4 told us that:

¹ Secretary of State for Culture, Media and Sport, Speech to the Royal Television Society, 20 June 2007

² Throughout this inquiry we have generally taken references to "public service broadcasting" to be references to "public service content".

³ Ofcom, *Review of public service television broadcasting: Phase 1—Is television special?*, April 2004, p 8

⁴ Ev 15

⁵ Ofcom, *Review of public service television broadcasting: Phase 3—Competition for quality*, February 2005, p 6

“Historically, the success and health of public service broadcasting in the UK has been based on plurality in the universal supply of a range of diverse, high quality and innovative content across all genres. Each of the public service broadcasters performs a different role in maintaining this valuable ecology, and the system of public service broadcasters is assessed by Ofcom ‘taken together’, to ensure that the broadest possible interests of the UK public are served.”⁶

9. The Government sees a key role for public service broadcasting in the future, stating in the White Paper on BBC Charter review that “public service broadcasting remains the bedrock of our media.”⁷

10. Ofcom told us that public service broadcasting has been sustained by a “mutually reinforcing mix of institutions, funding and regulation”.⁸ However, technological developments experienced to date—and likely changes in the future—may disrupt the historic system. We now live in a world of capacity abundance, where many broadcasters and other operators provide content across a range of platforms. In addition to the BBC, the establishment of the commercial public service broadcasters—ITV in 1955, Channel 4 and S4C in 1982 and Five in 1997—brought choice for consumers on analogue television. The more recent explosion in the number of channels on digital terrestrial, cable and satellite platforms has provided consumers with access to an even wider range of programming. Given these developments, the first justification for intervention to provide public service broadcasting—that spectrum scarcity prevents the market from providing all of the content that consumers want to watch or want to have the option to watch—is clearly not relevant today. As the Government recognised in the White Paper on BBC Charter review, “the digital revolution will make it easier for people to watch what they want when they want and where they want.”⁹

11. However, the second justification—that the market may not provide a sufficient amount of content that we, as a society, want to be widely available—is still relevant. While consumers now have access to a wide range of programming, there are certain programmes that are deemed valuable to society that the market may not provide. This belief has underpinned the Government’s approach to public service broadcasting in the last two decades. As a result, the Government identified certain socially valuable genres—children’s, news, current affairs, regional, religious or arts programming, for example—and then imposed obligations on the public service broadcasters to provide these types of programming.

12. There has also been a change in the way people are consuming content. As we noted in our Report on *New Media and the Creative Industries*,¹⁰ consumers are increasingly accessing audio visual content through a variety of media, using a range of technologies. In this environment, with many distribution methods and ways of accessing programming, the Government and regulators should be less concerned about how consumers get

⁶ Ev 104

⁷ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 5

⁸ Ev 203

⁹ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 23

¹⁰ Culture, Media and Sport Committee, Fifth Report of Session 2006–07, *New Media and the Creative Industries*, HC 509–I

content, but more concerned about whether the content they deem to be socially valuable is actually available. David Elstein, Chairman of the Broadcasting Policy Group,¹¹ told us that content is the “nub of the issue” facing the UK.¹² Ed Richards, Chief Executive of Ofcom, said that he uses the term public service broadcasting as a “euphemism” and that Ofcom “toy[s] with the idea of calling it public service content”¹³ and Lord Burns, former adviser on BBC Charter review to the Secretary of State for Culture, Media and Sport, told us that “we should now be concentrating more upon content than broadcasting”.¹⁴

13. While the policy focus may now be “public service content”, a concrete definition of public service content and indeed, public service broadcasting, remains elusive. Irwin Stelzer, Director of Economic Policy Studies at the Hudson Institute, stated that “the hunt for definition is a feckless search” as it allows policy-makers to make the “mistake” of defining public service content as “anything you want it to be”.¹⁵ This could lead to an unnecessarily broad definition that could be used to justify Government intervention to support content that would otherwise be provided by the market. Equally, it could be extremely narrowly drawn, leading to an erosion of socially valuable programming which the UK has found desirable, not least from the BBC. An objective definition is bound, to some extent, to remain elusive as what constitutes “public service content” is ultimately a value judgment and therefore subjective.

The Communications Act 2003

14. The Communications Act 2003 provides a solid base for considering public service content. In television, the Act specifies the BBC, S4C, ITV, Channel 4, Five and Teletext as “public service broadcasters”.¹⁶ Public service broadcasters are required to meet various production and programming quotas in categories and genres deemed to have wider social value. For example, the public service broadcasters are subject to quotas for independent production (25% each), original production (70% for BBC One and BBC Two, 65% for ITV1, 60% for Channel 4 and 55% for Five) and regional production (25% for all BBC television, 33% for ITV1, 30% for Channel 4 and 10% for Five). The public service broadcasters are also subject to quotas for news, current affairs, regional news and non-news programmes (ITV only) and schools programmes (Channel 4 only). Beyond these areas, the broadcasters are not required to provide specific amounts of programming in certain genres—such as children’s, religious or arts programming—but are required to consult Ofcom and take account of its views where a significant change is proposed to a relevant service.¹⁷

15. In specifying the public service broadcasters and setting out certain types of programming that are regarded as important, the Act goes some way to helping us define

¹¹ An independent group of broadcasting experts, asked by the Conservative Party in May 2003 to analyse the issues raised by the BBC Charter review.

¹² Q 1

¹³ *The Guardian*, 21 December 2006

¹⁴ Q 1

¹⁵ Q 593

¹⁶ Communications Act 2003, section 264

¹⁷ Ev 114

public service content. This, however, does not mean that all content provided by the designated public service broadcasters is public service content, and that everything broadcast by providers that do not enjoy public service broadcaster status is not. Geoff Metzger, Managing Director of the History Channel, argued that when there was spectrum scarcity in the past “all things were public service broadcasting” but that in today’s world of spectrum abundance it is very difficult to take this approach.¹⁸ In the digital, multi-channel world therefore we need to look at public service content using a framework more refined than that set out in the Communications Act 2003.

Purposes and characteristics

16. In recent years, the public service broadcasting debate has moved on from discussion of quotas in specific categories and genres of programming. The Government and Ofcom have started to look at public service content as content that exhibits certain characteristics and fulfils certain purposes. In 2005, for example, Ofcom proposed the following purposes of public service television broadcasting:

- to inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas;
- to stimulate our interest in and knowledge of arts, science, history and other topics through content that is accessible and can encourage informal learning;
- to reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences; and
- to make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere.

17. Ofcom also proposed that public service television broadcasting had the following characteristics:

- high quality—well funded and well produced;
- original—new UK content, rather than repeats or acquisitions;
- innovative—breaking new ideas or re-inventing exciting approaches, rather than copying old ones;
- challenging—making viewers think;
- engaging—remaining accessible and enjoyed by viewers; and
- widely available—if content is publicly funded, a large majority of citizens need to be given the chance to watch it.¹⁹

¹⁸ Q 593

¹⁹ Ev 208

18. The Government also adopted a “purposes and characteristics” approach to public service content in relation to the BBC Charter review. Instead of specifying exactly what it wanted the BBC to achieve, the Government simply stated that every activity the BBC undertakes must meet one or more of the following purposes:

- sustaining citizenship and civil society;
- promoting education and learning;
- stimulating creativity and cultural excellence by using the licence fee as venture capital for creativity;
- representing the UK, its nations and regions;
- bringing the UK to the world and the world to the UK; and
- building digital Britain.²⁰

19. In 2005, Ofcom proposed a set of public purposes for radio which are similar to the BBC’s public purposes with one addition: promoting social gain.²¹

20. A “purposes and characteristics” approach for looking at public service content was supported by some witnesses. Ofcom argued that such an approach was necessary because television programming genres are becoming less distinct and can vary significantly in the degree to which they could be described as “public service broadcasting”. Ofcom also considered that a purposes and characteristics approach would remain relevant over time, even as new technologies and media emerge.²² Lord Burns, former adviser on BBC Charter review to the Secretary of State for Culture, Media and Sport, told us that due to the changing nature of the marketplace, he was “comfortable” with an approach which concentrated on the components that might be thought of as public service content.²³ The RadioCentre²⁴ agreed with Ofcom’s proposed public purposes of radio.²⁵

21. Other witnesses identified weaknesses with a purposes and characteristics approach. David Elstein, Chairman of the Broadcasting Policy Group, argued that trying to define public service content by its purposes, characteristics, categories or origin is “inevitably doomed to failure” as it would not give the Government or policy-makers any idea of how much public service content was actually needed, nor how much to pay for it.²⁶ The Satellite and Cable Broadcasters’ Group said that Ofcom’s purposes and characteristics are very broad and “difficult to measure”: it considered that they should be tightened.²⁷ Irwin Stelzer, Director of Economic Policy Studies at the Hudson Institute, cautioned that

²⁰ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 9

²¹ Ofcom, *Radio—Preparing for the future*, October 2005, p 3

²² Ev 208

²³ Q 1

²⁴ The industry body for commercial radio in the UK.

²⁵ Ev 37

²⁶ Ev 1

²⁷ Ev 236

a definition that includes concepts such as “informing ourselves and increasing our understanding of the world” was not useful as it is too broad around which to build a sensible policy.²⁸

22. While some witnesses accepted a purposes and characteristics framework, they also noted that the wider broadcasting market provides a large amount of content that meets Ofcom’s criteria. Ed Richards, Chief Executive of Ofcom, accepted that some programmes and channels provided by the market do to some degree meet its public service purposes and characteristics; he gave Sky News as an example.²⁹ BSkyB itself told us that “if one accepts the broad definition of the purposes and characteristics of public service broadcasting content put forward by Ofcom, it is clear that there is a huge and increasing amount of public service content available via the large number of channels available on satellite, cable and other digital distribution platforms”.³⁰ We discuss the digital multi-channel sector’s contribution to the provision of public service content in Chapter 3.

23. The purposes and characteristics approach put forward by Ofcom, though hard to measure and assess, is a useful starting point for examining public service content. We agree that a huge amount of currently available content meets these purposes and characteristics, and that this content is available from the designated public service broadcasters and from other providers including commercial broadcasters who are not bound by public service obligations. Given this, we believe that the fact that content exhibits public service purposes and characteristics as defined by Ofcom is not, in itself, a sufficient condition for the Government to considering intervening to provide this content. We discuss where it might be appropriate for the Government to consider intervening to enable the provision of this type of content in Chapter 6.

3 Current delivery

24. The Committee received a large amount of evidence on the amount of public service content currently available. This chapter outlines the current provision of content displaying public service purposes and characteristics, as defined by Ofcom, by the designated public service broadcasters and by the wider commercial market.

Designated public service broadcasters

25. ITV told us that it makes a substantial contribution to public service broadcasting by providing a mixed genre schedule on ITV1 that includes a number of specific public service commitments. For example, ITV said that it broadcasts over 365 hours of national news and over 78 hours of current affairs programming each year as well as a range of public service programmes in genres which are not subject to licence quotas including arts coverage, religious programming and children’s programming (on ITV1 alongside a dedicated and free-to-air children’s channel, CITV). ITV also provides a portfolio of digital channels comprising ITV2, ITV2+1, ITV3 and ITV4. ITV noted that it spends over 90% of

²⁸ Q 593

²⁹ Q 521 ff.

³⁰ Ev 179

its total programming investment of nearly £1 billion on UK-originated material.³¹ ITV stated that it invests over £100 million to provide over 5,000 hours of regional programming each year, including regional news services and around 3,000 regional non-news programmes.³² In 2006, ITV met all of its quantitative public service obligations with the exception of programming made for viewers in the nations and regions, where a small shortfall was evident.³³ Recently, ITV has set out plans to reduce the number of individual regional news services it carries while reiterating its commitment to regional news,³⁴ although this is still subject to Ofcom's consideration.

26. Channel 4 said that its remit, which has a focus on innovation and risk-taking, enables it to provide a “broad range of high-quality and innovative programmes, many of which would not be made by other broadcasters, but which will often engage a significant audience and have considerable public impact”.³⁵ Channel 4 also said that it regards fulfilment of its obligations to provide public service content as a top priority.³⁶ In 2006, for example, it provided 14 hours of education programming per week, six hours of news programming, four hours of current affairs and one hour of religious programming.³⁷ Channel 4 also provides a portfolio of digital channels including Channel 4+1, E4, E4+1, More4 and Film4. In 2006, Channel 4 met all of its quantitative public service obligations.³⁸

27. In 1997, Five became the last analogue terrestrial broadcaster to launch. It told us that it has made a substantial contribution to the provision of public service content in the UK. For example, it provides news (Five News), arts programming, and children's programming (including the Milkshake zone for pre-school children). Five argued that it has developed a reputation for high quality science, history and current affairs documentaries, and that it makes a range of sports available free-to-air to consumers including highlights of home cricket internationals and UEFA Cup football matches. It also invests in UK production, spending over £850 million since 1997.³⁹ In autumn 2006, Five launched two digital channels—Five Life and Five US—in addition to its public service channel. In 2006, Five met all of its quantitative public service obligations.⁴⁰

28. The BBC has the most extensive set of public service obligations of the public service broadcasters. In 2006, the BBC provided over 7,000 hours of regional programming on BBC One and BBC Two, over 1,500 hours of news on BBC One and nearly 500 hours of current affairs on BBC One and BBC Two.⁴¹ Including originations, repeats and acquisitions, in 2006–07, BBC One broadcast over 80 hours of arts and music programming, over 930 hours of new factual programmes and 116 hours of religious

³¹ Ev 109

³² Ev 110

³³ Ofcom, *Communications Market 2007*, August 2007, p 145

³⁴ ITV, *The next five years: content-led recovery*, 12 September 2007, <http://www.itvplc.com>

³⁵ Channel 4, *Channel 4's unique contribution to public service broadcasting*, April 2007, p 7

³⁶ Channel 4, *Channel 4's unique contribution to public service broadcasting*, April 2007, p 14

³⁷ Ev 87

³⁸ Ofcom, *Communications Market 2007*, August 2007

³⁹ Ev 128

⁴⁰ Ofcom, *Communications Market 2007*, August 2007

⁴¹ BBC, *Part Two: BBC Annual Report and Accounts 2006–07*, July 2007, p 75

programmes.⁴² In children’s programming, again including originations, repeats and acquisitions, the BBC provided nearly 4,700 hours of programming on CBeebies, and over 1,300 hours of factual and schools programming, 955 hours of children’s drama and 86 hours of news on CBBC. In 2006–07, the BBC met all of its quantitative public service obligations.⁴³

29. S4C said that it provided a broad range of high quality and diverse Welsh programming. S4C broadcasts at least 37 hours of Welsh-language programming per week on its analogue service and up to 80 hours of Welsh-language programming on its digital service. It also provides a large amount of children’s programming, broadcasting 1,100 hours in 2006.⁴⁴ S4C’s portfolio of services includes its digital channel, S4C digidol; two broadband services; Internet protocol television service Freewire; and S4C2, which broadcasts coverage of the Welsh Assembly. In 2006, S4C met all of its quantitative public service obligations.⁴⁵

Radio

30. The radio sector also provides a wide range of public service content. The Voice of the Listener and Viewer confirmed the contribution of radio, specifically BBC Radio, to broadcasting new drama, music and original comedy.⁴⁶ In addition to the BBC—whose radio portfolio includes 10 national radio stations, English local radio and radio stations in the devolved nations—commercial radio provides a large amount of content that meets radio’s public purposes as defined by Ofcom. The RadioCentre pointed out that almost 300 commercial radio stations have individual public service obligations written into their licences and argued that many stations go well beyond the minimum criteria required.⁴⁷

31. For example, the RadioCentre commissioned a study that analysed and categorised the speech output of commercial stations Lincs FM and Liverpool’s Radio City. The study concluded that 51% of Lincs FM’s weekday output met Ofcom’s public purposes of radio, as did 36% of Radio City’s. In comparison, 59% of Radio 2 and 29% of Radio 1’s speech output met Ofcom’s public purposes.⁴⁸ In addition, GCap Media⁴⁹ also argued that commercial radio provides a significant amount of public service output because of its understanding of community needs and its sense of corporate responsibility⁵⁰ and the RadioCentre told us that commercial radio had increased its provision of public service content in key areas such as news (an increase of around 85% between 2000 and 2004) and children’s radio.⁵¹

⁴² BBC, *Part Two: BBC Annual Report and Accounts 2006–07*, July 2007, p 55

⁴³ BBC, *Part Two: BBC Annual Report and Accounts 2006–07*, July 2007, p 75

⁴⁴ Ev 152

⁴⁵ Ofcom, *Communications Market 2007*, August 2007

⁴⁶ Ev 18

⁴⁷ Ev 37

⁴⁸ Ev 38

⁴⁹ The UK’s largest commercial radio company, which owns 55 analogue and 99 digital radio stations.

⁵⁰ Ev 28

⁵¹ Ev 42

Digital multi-channels

32. As noted earlier, a considerable amount of content available in the digital multi-channel sector meets public service purposes and characteristics as defined by Ofcom. This view was supported by evidence from BSkyB, which noted that it offers a cultural channel (Sky Arts), covers over 100 different sports, and carries a range of channels on its platform that met public service purposes and characteristics as defined by Ofcom, including Discovery, the History Channel and National Geographic. BSkyB also pointed out that there are 50 international channels, 11 religious channels and 26 children's channels available on its platform.⁵²

33. The Satellite and Cable Broadcasters' Group argued that commercial digital multi-channels are the "dominant providers of large swathes of public service broadcasting programming, offering significant amounts of content that meets public service broadcasting objectives and characteristics as defined by Ofcom".⁵³ It commissioned research from David Graham Associates which concluded that, for the majority of genres, commercial digital channels provide more public service programming than either the BBC (including its digital services) or the advertiser funded terrestrial channels. According to this research, in October 2006 commercial digital channels broadcast: 843 hours (92%) of arts programming; 6,459 hours (79%) of children's programming; 9,419 hours (92%) of documentary or factual entertainment; 751 hours (43%) of news and weather; and 311 hours (25%) of current affairs programming.⁵⁴

34. However, some witnesses argued that this provision could not adequately substitute for content produced by the designated public service broadcasters as digital multi-channels did not have an in-built, institutional public service ethos and mission. For example, the Voice of the Listener and Viewer said that quality will be lost when a public service ethos is lost to a more market-led approach.⁵⁵ Ofcom argued that public service broadcasting implies an obligation on the broadcaster and the institution to provide certain types of programmes that it otherwise might not wish to and that public purposes therefore become the commitment of the channel, regardless of its commercial interests.⁵⁶ On the other hand, the RadioCentre told the Committee that "making money for shareholders is entirely compatible with fostering community spirit and public value" and that it was in broadcasters' commercial interests to provide public service content.⁵⁷

35. There were particular concerns about the digital multi-channel sector's level of investment in UK-produced content. Pact⁵⁸ considered that the provision of UK-produced content, as opposed to imported programming, is "one of the cornerstones of public service broadcasting".⁵⁹ We noted in Canada that the underlying objective of intervention

⁵² Ev 180

⁵³ Ev 236

⁵⁴ Ev 237

⁵⁵ Ev 15

⁵⁶ Q 521

⁵⁷ Ev 38

⁵⁸ The trade association representing the commercial interests of the independent production sector.

⁵⁹ Ev 57

in the broadcasting market is to ensure the provision of Canadian content, and licensed broadcasters are required to meet Canadian content quotas. In a UK context, Tim Gardam, previously Director of Television and Director of Programmes at Channel 4, told us that multi-channels do not have the incentive to invest in original content as it does not guarantee similar returns on investment as other content they can provide. By way of example, Mr Gardam said that over £2 billion of original content is provided by the designated public service broadcasters while only £100 million of original content is provided by other channels.⁶⁰ Pact told us that the digital multi-channels often rely on repeats of programming commissioned by the terrestrial channels.⁶¹

36. The digital multi-channels were more positive about their contribution to the commissioning of UK-originated content. BSkyB told us that they spend around £250 million a year on production and original programming and that it has the ambition to do more.⁶² The Satellite and Cable Broadcasters' Group said that its members spend around £150 million per year in the British production industry, but recognised that this is relatively small in comparison with the £3.5 billion that is spent on the BBC.⁶³

37. Not all digital multi-channels are commercially funded. Channels such as Teachers TV and the Community Channel provide public service content in return for direct funding from the Government. In 2005–06 Teachers TV had an annual budget from the then Department for Education and Skills of around £16 million. It provides a range of programming covering National Curriculum subjects, as well as specialist programmes for head teachers, managers, newly qualified teachers and governors. Teachers TV also provides more general public service content, including a weekly half-hour news programme and documentaries on educational issues and current affairs.⁶⁴ The Community Channel is funded by the Cabinet Office and has a remit focusing on giving a voice to the voluntary and community sector by providing news, current affairs, documentaries and lifestyle programming. The Satellite and Cable Broadcasters' Group said that these channels demonstrate that public service can be as efficiently delivered by small specialist channels with dedicated remits as it can by large organisations and dominant brands.⁶⁵ The Broadcasting Policy Group told us that Teachers TV is a prime instance of targeted, transparent, accountable, contestable public service content funding, with a clear value for money assessment available.⁶⁶ We also learnt of specialist Canadian channels which provide public service content. For example, Knowledge Network provides educational programming in the British Columbia Province, receiving direct funding from the provincial government as well as donations from viewers.

38. There is currently an abundant supply of content that exhibits public service purposes and characteristics as defined by Ofcom. There are more providers and hours of this type of content available to consumers than ever before, including a substantial

⁶⁰ Q 3

⁶¹ Ev 61

⁶² Q 478

⁶³ Qq 600–601

⁶⁴ Ev 384

⁶⁵ Ev 238

⁶⁶ Ev 2

provision from the radio and digital multi-channel sectors. We note, however, the criticism that the digital multi-channel sector is not sufficiently investing in UK-produced content. We welcome the declared intention of these broadcasters to increase their investment in this area and believe that Ofcom should conduct and publish a detailed analysis of the multi-channel sector’s level of investment in UK-produced content.

Plurality

39. Ofcom suggested that plurality—in other words, having many providers—is important at three levels of the broadcasting production and distribution chain:⁶⁷

- plurality of outlets: so that viewers do not have to rely on a single provider in order to receive content;
- plurality of commissioning: so that a range of commissioners working for different organisations can bring their different perspectives to bear on the system; and
- plurality of production: so there are different creative organisations competing for commissions.

40. The situation outlined in this chapter arguably fulfils the objective of plurality in public service content provision. The Government is committed to plurality in public service broadcasting as it believes that a “sustained plurality of public service broadcasting providers [...] is the best way of ensuring that the quality and diversity of public service broadcasting is maintained”.⁶⁸ Ofcom pointed out that plurality creates a number of benefits, including the provision of complementary services to different audiences, a range of perspectives, particularly in news and current affairs, and competition to spur innovation and investment.⁶⁹ The Satellite and Cable Broadcasters’ Group told us that consumers benefit from strong, fair competition between providers of quality content⁷⁰ and Geoff Metzger, Managing Director of the History Channel, noted that competition is good as it creates the incentives for broadcasters to innovate and provide value for money.⁷¹ BSkyB pointed out that competition is beneficial as it helps prevent the inefficiencies that ensue when organisations are insulated from market disciplines.⁷² Andy Duncan, Chief Executive of Channel 4, agreed that plurality ensured competition, stating that “the most worrying thing is if there is not proper competition and plurality over time, the BBC potentially becomes fatter, lazier, more bureaucratic and, ultimately, less sharp”.⁷³

⁶⁷ Ev 204

⁶⁸ Ev 259

⁶⁹ Ev 204

⁷⁰ Ev 234

⁷¹ Q 614

⁷² Ev 179

⁷³ Q 199

41. The concept of plurality in the provision of public service content was largely supported in the evidence we received. For example, Jocelyn Hay, Chairman of the Voice of the Listener and Viewer, stated that “in the name of democracy it is absolutely essential to have information and news from a plurality of sources in addition to a wide range of programmes”.⁷⁴ Andy Duncan told us that “there seems to be a strong consensus that you do not only want the BBC” and that alternative broadcasters, providing “some proper competition and some proper plurality” were necessary.⁷⁵ In relation to news provision, Mark Thompson, Director-General of the BBC, told us that plurality is important as it is “good for the British public and for the national debate” if there is a range of different public service providers.⁷⁶ Jeremy Mayhew, a Partner at Spectrum Strategy Consultants, agreed that plurality is important and stated that it “would be bad for the BBC and bad for British citizens” if the BBC gained a monopoly in public service provision as this could lead to less innovation and lower quality output.⁷⁷ Mark Thompson, however, told us that the Government needed to “become very clear about precisely what is the extent of the public service plurality you want to secure, what are the programme types [and] what are the areas that you want to ensure you have secured”.⁷⁸

42. Plurality in the provision of content is important, as it brings the benefits of competition, different services and a diversity of viewpoints to consumers. We consider that there is currently a plurality among providers, commissioners and producers of public service content and we note and welcome the Government’s commitment to plurality. Despite this commitment, it is the case that a large proportion of the Government’s support for public service content has been concentrated on one provider, the BBC. We believe that the Government and Ofcom should set out what they consider to be a sufficient level of plurality, and the investment necessary to achieve that, in order to assess whether this is likely to be threatened in future.

4 General prospects for future delivery

43. While there is currently an abundant supply of public service content and a plurality of providers of this type of content, there are concerns that this situation is threatened by digital switchover. This chapter assesses the prospects for the general provision of public service content and for provision in specific areas including children’s programming; news and current affairs programming; and regional and local content. We also discuss the likely future provision of public service content on new media.

44. Until comparatively recently, public service content has been provided by a small number of large-scale institutions, such as the BBC, ITV or Channel 4. One approach to considering the likely future provision of public service content, therefore, would be to look at inputs—that is, the existing public service broadcasting institutions, and the overall amount of public subsidy they receive. Jeremy Mayhew, a Partner at Spectrum Strategy

⁷⁴ Q 51

⁷⁵ Q 196

⁷⁶ Q 331

⁷⁷ Q 7

⁷⁸ Q 332

Consultants, told us that an approach that focuses on institutions is appropriate as the key features of public service broadcasting are quality, innovation, experimentation and “pushing the boundaries” and that, as these things are “inherently subjective” and “nebulous” they cannot be specified precisely and delivered in a contractual relationship. He believed that we needed to consider the importance of institutions in the delivery of public service content because an “ethos inside institutions which have distinctive purposes and remits is not some sideshow to the delivery of the proposition, it is absolutely fundamental to the characteristic of the proposition”.⁷⁹

45. Other stakeholders argued that we could best assess the prospects for the future of public service content by looking at the likely provision of outputs—that is, the amount of different types of programming available to consumers. Lord Burns, former adviser on BBC Charter review to the Secretary of State for Culture, Media and Sport, told the Committee that “although it is attractive to think of this in terms of institutions, that is not the way the world is going”.⁸⁰ The Broadcasting Policy Group argued that until “all participants in the debate recognise [...] that there are market and non-market products and that institutional delivery should not determine either how we define nor fund public service content, we will all remain stuck firmly on first base, contemplating a progressively worsening situation”.⁸¹ The RadioCentre told us that “any new public service broadcasting strategy will fail if it is fashioned with the tools of a bygone era”.⁸² BSkyB said that Ofcom has tended to focus on inputs and this “leads them to fret that the amount of public subsidy is in decline and to contrive solutions [...] to problems that do not exist”.⁸³ BSkyB added that Ofcom gives “little or no space or analysis to the increasing output of content which meets public service broadcasting criteria but which has no direct or indirect state support”.⁸⁴

46. Some stakeholders considered that both inputs and outputs needed to be taken into account. For example, Ofcom argued that it is “really rather dangerous simply to look at output” and that “you must also look at the input side of something as complicated and subtle and nuanced as broadcasting”.⁸⁵ The Rt Hon Shaun Woodward MP, then Minister for Creative Industries and Tourism, agreed that output indicators are “useful and they provide part of the picture, but the picture also needs to look at the institutions as well and I think those institutions are in good shape”.⁸⁶

47. We believe that the primary and most important factor for policy-makers and regulators to assess when looking at the provision of public service content is the amount of content exhibiting public service purposes and characteristics, as defined by Ofcom, available to consumers. However, we recognise that an assessment of the

⁷⁹ Q 1

⁸⁰ Q 2

⁸¹ Ev 1

⁸² Ev 37

⁸³ Q 448

⁸⁴ Ev 179

⁸⁵ Q 528

⁸⁶ Q 659

number of public service content providers and their levels of public subsidy can be a useful, but firmly secondary, way of looking at the issue.

Designated public service broadcasters

ITV, Channel 4 and Five

48. The commercially funded broadcasters—ITV, Channel 4, Five—rely on advertising revenue as their main source of income. Under a system termed the “PSB compact” by Ofcom, ITV and Five receive access to a strictly limited number of analogue terrestrial television broadcast licences (together with the associated scarce spectrum to allow terrestrial broadcast delivery) in return for accepting obligations to provide public service content.⁸⁷ Channel 4 was also given a licence and the spectrum necessary to allow the terrestrial broadcast delivery of its analogue television services, in return for accepting a more substantial set of public service content obligations. ITV and Five pay for their licences; Channel 4 does not. In addition, ITV, Channel 4 and Five enjoy further indirect subsidies including: appropriate prominence on the electronic programme guide;⁸⁸ reserved capacity on the digital terrestrial television platform; and must-carry status on the cable platform.⁸⁹

49. Ofcom said that the “PSB compact” will erode as the UK approaches digital switchover. As audiences fragment as the result of gaining access to more digital multi-channels, the value of the public service broadcasters’ exclusive access to analogue spectrum falls. In addition, commercial broadcasters now have alternative routes to audiences—such as digital terrestrial television, cable or satellite—which means it is possible for them to withdraw from the “PSB compact”. Forecast falls in television advertising revenue will put commercially funded broadcasters under further pressure. Ofcom told the Committee that “the PSB compact as presently configured will not be sustained in the digital age” and that “while there remains scope in the run-up to digital switchover to hold commercial broadcasters [...] to a number of existing obligations, this will not continue once digital switchover is complete”.⁹⁰ In 2004, Ofcom estimated that the total value of the indirect subsidies for ITV, Channel 4 and Five was around £430 million per year and forecast that this would fall to around £25 million per year after digital switchover.⁹¹

50. Some stakeholders agreed that the commercial broadcasters will come under pressure as the UK approaches digital switchover and that their provision of public service content would wane as a consequence. For example, Channel 4 argued that it will not be enough to will the “ends” of public service content without putting in place new “means” to support its delivery.⁹² Tim Gardam, previously Director of Television and Director of Programmes at Channel 4, said that “the migration of advertising from television towards the Internet is

⁸⁷ Ev 203

⁸⁸ An on-screen guide to scheduled television programmes.

⁸⁹ Ofcom, *Review of public service television broadcasting: Phase 2—Meeting the digital challenge*, September 2004, p 21

⁹⁰ Ev 206

⁹¹ Ofcom, *Review of public service television broadcasting: Phase 2—Meeting the digital challenge*, September 2004, pp 24, 34

⁹² Ev 88

going to put considerable pressure on traditional commercial broadcasters” and added that he was also pessimistic about “the ease with which public service material will be provided by shareholder maximising, profit maximising companies”.⁹³ Pact agreed that the terrestrial broadcasters may come under pressure but said that these concerns may have been exaggerated by the broadcasters in order to create the appearance that they are no longer the dominant party in their relationships with independent producers.⁹⁴ SMG, owner of the two Channel 3 licences for central and north Scotland, argued that the prospects for maintaining public service content in the digital age are “extremely challenging” and added that intervention and funding will be “required if the BBC is not to become a sole provider of key public service broadcasting genres”.⁹⁵

51. ITV and Five were more optimistic than Channel 4 and SMG about the commercial public service broadcasters’ ability to provide public service content. ITV considered that “core network public service broadcasting genres may be sustainable” in future.⁹⁶ Five stated that after digital switchover “the market will provide a lot of the programming currently recognised as public service broadcasting” because “the growth of digital will create further opportunities for channel and programme offerings that would traditionally be defined as public service broadcasting”.⁹⁷ Lord Burns, former adviser on BBC Charter review to the Secretary of State for Culture, Media and Sport, expressed doubts that commercial broadcasters would withdraw completely from providing public service content as he believed that it was good for their branding and image, and could be a money-making proposition.⁹⁸ Scottish Screen was also more positive about the prospects for commercially funded public service broadcasters, stating that the “comparative resilience of public service broadcasting [...] and the established power of public service broadcasting brands should not be underestimated”. It added that the “continuing unique selling point of the commercial public service broadcasters [...] to provide advertisers with the ability to reach mass audiences quickly and effectively” should not be undervalued.⁹⁹ David Elstein, Chairman of the Broadcasting Policy Group, told us that even after digital switchover, ITV, Channel 4, and Five will have total revenues “north of £2 billion a year and by far the biggest item of expenditure for them will be new, original UK-commissioned content because that is what works for them commercially”.¹⁰⁰

52. In any case, ITV, Channel 4 and Five will still receive indirect subsidies after digital switchover, which Ofcom forecast to be worth around £25 million per annum. The International Broadcasting Trust¹⁰¹ argued that there should be an obligation on

⁹³ Q 7

⁹⁴ Ev 67

⁹⁵ Ev 387

⁹⁶ Ev 113

⁹⁷ Ev 128

⁹⁸ Q 6

⁹⁹ Ev 289

¹⁰⁰ Q 5

¹⁰¹ An educational charity which seeks to promote high quality television and new media coverage of matters of international significance.

commercial broadcasters to provide public service content—domestic and international news in peak time in particular—in return for the value of this, albeit reduced, subsidy.¹⁰²

53. We recognise that the value of the indirect subsidy of analogue spectrum for ITV, Channel 4 and Five, which granted exclusive access to mass audiences, will diminish as the UK approaches digital switchover and we note the concerns that ITV, Channel 4 and Five might therefore reduce their current provision of public service content. On the other hand, we note that there will still be an (albeit smaller) subsidy for the commercial public service broadcasters after digital switchover and we believe that this, and broadcasters’ commercial interests, will sustain public service content. We do, however, believe that it will be increasingly difficult to continue to impose public service obligations on commercial broadcasters beyond the value of this ongoing subsidy. The question, increasingly, will be what level of obligation is sustainable.

The role of the BBC

54. UK consumers have guaranteed provision of public service content, free from commercial pressures, from at least one public service broadcaster: the BBC. In 2007, the BBC received a new Royal Charter, which guaranteed its existence for the next ten years.¹⁰³ The Government also stated that the television licence fee—currently reserved exclusively for the BBC—will remain in place for the same period,¹⁰⁴ and set the level of the licence fee for the next six years giving the BBC certainty over its income.¹⁰⁵

55. The BBC’s remit is set out in its Royal Charter and Agreement. The BBC has to fulfil certain public purposes and each of the BBC’s UK public services is expected to comply with a published service licence, issued by the BBC’s new governing body, the BBC Trust. Each licence sets out the service’s remit, scope and distribution, aims and objectives, and budget. These service licences will cover the BBC’s media portfolio on all platforms, including eight television channels, ten national radio services, a large number of local radio stations and an online service.

56. The BBC also plays an important role in setting high standards for the rest of the broadcasting market to follow. DCMS, for example, said that the BBC is “unique, adds value in its own right and has undoubtedly helped to set the high standards of quality for which UK broadcasting is rightly renowned.”¹⁰⁶ Ed Richards, Chief Executive of Ofcom, told us that “the BBC in a sense sets the standard, and that is a good thing” and recognised that it does so “because it has a unique position with the greatest privileges”. He added that the BBC, together with the commercial public service broadcasters, set a standard which other providers without public service broadcaster status have to match and occasionally exceed.¹⁰⁷ Michael Grade, Executive Chairman of ITV, said that “a successful BBC is good

¹⁰² Ev 320

¹⁰³ DCMS, *Copy of Royal Charter for the continuance of the British Broadcasting Corporation*, Cm 6924, October 2006

¹⁰⁴ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 8

¹⁰⁵ HC Deb, 18 January 2007, col 933

¹⁰⁶ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 34

¹⁰⁷ Q 527

news for viewers and good news for advertisers in the end because it keeps our standards up and stops us becoming commodity programme suppliers.”¹⁰⁸

57. The BBC currently provides a wide range of public service content across many genres and plays an important role in setting quality standards for the rest of the broadcasting market. We expect the BBC to continue to provide quality programming and to set standards for other broadcasters in future given its guaranteed income of over £3.2 billion per annum.

58. Many stakeholders, however, expressed the view that the BBC had a negative impact on the provision of public service content by the rest of the market. We also heard that the BBC should therefore be focusing its attention on areas the market genuinely would not provide. For example, Channel 4 argued that “clearly everything the BBC does as a publicly funded organisation distorts the market” and that the BBC’s licence fee bid represented a “significant incremental public intervention in the broadcasting market, with the potential to adversely affect the competitiveness of other players”.¹⁰⁹ SMG said that the BBC’s market dominance over commercial competitors is a problem and that there is a “need for regulatory intervention [...] to redress the balance”.¹¹⁰

59. We also heard concerns about the BBC’s involvement in radio and new media. The RadioCentre argued that the BBC is “using its might to threaten a pluralistic public service broadcasting ecology” in radio and that the best option for securing plurality in the provision of public service content on radio is to maintain “reasonable restraints” on the BBC.¹¹¹ The RadioCentre also told us that it was not unreasonable to suggest that, if the market is getting bigger and more diverse, providing consumers with more of what they want, then the level of provision by the BBC “need not grow and indeed could diminish”.¹¹² ITN said that the “expansion of BBC News online, and the resources required to invest in these areas, will make it difficult for ITV News and Channel 4 News to develop their online propositions to compete as successfully as they do on television”.¹¹³ SMG argued that the BBC’s online offering, including publicly funded content free from any commercial activity, is a “real barrier to entry for the development of alternative services”.¹¹⁴

60. Greg Dyke, former Director-General of the BBC, told us that the BBC should focus on the services that matter the most to the public interest, “which is not necessarily the same thing as [the services that] matter most to the public”.¹¹⁵ When asked in oral evidence from which areas the BBC planned to withdraw, Mark Thompson, Director-General of the BBC, indicated that the BBC would reduce spending on acquisitions and imported programming and stated that “you do not need the BBC generally to show you American

¹⁰⁸ Q 251

¹⁰⁹ Channel 4, *Submission for the licence fee seminar*, May 2006, p 2, <http://www.bbccharterreview.org.uk>

¹¹⁰ Written evidence from SMG [not printed]

¹¹¹ Ev 41

¹¹² Q 105

¹¹³ Ev 189

¹¹⁴ Ev 387

¹¹⁵ Q 394

programming”.¹¹⁶ In July 2007, in a speech on the future of the BBC, Mark Thompson said that “the BBC needs to become smaller [...] in terms of its scale as an organisation and in its operations”. He also believed that the BBC “should make less” and “concentrate its finite resources on fewer, better hours of television and radio and fewer, better web pages”.¹¹⁷ More recently, Mark Thompson set out his strategy for the BBC for the next six years. He confirmed that the BBC would be “smaller than it is today” and that the BBC will “make less but make it to a higher standard”. He announced, for example, that the BBC plans to commission 10% fewer hours of television than it does today by 2012, which he hoped would allow the BBC to make more landmark programmes such as *Planet Earth*.¹¹⁸

61. Some stakeholders considered that the BBC needed to be involved in a wide range of areas, including more commercial programming, in order to maintain its relevance to the widest possible section of licence fee payers. In the Charter review process, the Government said that “the BBC should provide a wide range of content, across every genre, trying to reach the greatest possible range of audiences”¹¹⁹ and that in most cases “the BBC’s output will achieve its maximum impact only by entertaining its viewers and listeners.”¹²⁰ The Government further argued that “it is wholly legitimate—and in view of the way it is funded, necessary—for the BBC to provide programmes aimed at a wide audience”.¹²¹ The Satellite and Cable Broadcasters’ Group told us that “the careful balance of popular entertainment and public service broadcasting is the defining condition of the BBC”¹²² and that “the BBC’s ability to retain an adequate level of support for public funding will [...] remain down to its ability to present a value mix that generates enough public support”.¹²³ Lord Burns, former adviser on BBC Charter review to the Secretary of State for Culture, Media and Sport, noted that people wanted to see variety of programmes on the BBC, but that “it is patently obvious that the programmes which are most watched are the ones that are most similar to the programmes that you do see on the other channels”. He believed that it was important that the BBC provided a “good offering which has a big reach that attracts quite a substantial range of people to watch it on a systematic basis”.¹²⁴

62. Mark Thompson, Director-General of the BBC, claimed that the BBC has increasingly focused on areas that the market does not provide, and said that the “BBC has reacted to the arrival of new channels and new competitors by drawing back from those kinds of programmes that can be broadcast by others.”¹²⁵ He also indicated that, at the same time the BBC sets out its future plans, it would also be clear about the services it is not going to provide, in order to “help the rest of the industry [and] make sure that we do concentrate

¹¹⁶ Q 320

¹¹⁷ Mark Thompson, *Delivering creative future: The BBC in 2012*, 10 July 2007

¹¹⁸ Mark Thompson, *Speech to BBC staff on delivering Creative Future*, 18 October 2007

¹¹⁹ DCMS, *A strong BBC, independent of government*, March 2005, p 8

¹²⁰ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 10

¹²¹ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 10

¹²² Ev 236

¹²³ Ev 239

¹²⁴ Q 12

¹²⁵ Mark Thompson, *Delivering creative future: The BBC in 2012*, 10 July 2007

the licence fee in a way which delivers really outstanding content to the public.”¹²⁶ In October 2007, while setting out his strategy for the BBC for the next six years, Mark Thompson went some way towards doing this by announcing that the BBC would “make sure what [it does] is really distinctive—different from what commercial broadcasters can provide—and really original”.¹²⁷

63. We note that some argue that the BBC should provide more commercially-orientated programming in order to reach a wide range of audiences. However, we do not share this view and instead believe that the BBC should place a high priority on areas that other broadcasters will not provide, while continuing to offer high quality programming which attracts diverse audiences. Given the substantial provision of public service content by other broadcasters, we believe that the BBC could deliver its public service remit without providing all of its current range of services and we note and welcome the BBC’s commitment to become smaller in terms of its scale as an organisation and in its operations. We do not believe, however, it is in the public interest for the BBC to be allowed to wither, as some would like, for example, to become akin to the Public Broadcasting Service (PBS) in the US.

64. The BBC’s public service content provision is funded by the television licence fee. In 2005, the BBC set out its bid for a new licence fee settlement for 2007–08 onwards. It set out plans to build digital infrastructure, deliver digital services, provide quality content, and increase local relevance, and argued that this would require an increase in the licence fee of RPI plus 1.8% per annum. In January 2007, the then Secretary of State for Culture, Media and Sport announced the licence fee settlement for the next six years: the settlement broke the link between the licence fee and inflation but, based on projections, equates to an increase of approximately RPI minus 0.45% per annum. Michael Grade, Executive Chairman of ITV, stated that the licence fee “fell some way short of what the BBC needed in order to meet the programme that the Government had set for it in the Green and White Papers”.¹²⁸ Mark Thompson, Director-General of the BBC, told us that the level of the licence fee is a “matter of judgement for government” and that it was now up to the BBC to “deliver the best possible range of services and programmes we can within the funding that we have got.”¹²⁹

65. Other parties also considered that the licence fee settlement, while lower than the BBC’s bid, would still enable the BBC to provide a substantial amount of public service content. The Government said that the licence fee settlement “will enable the BBC to deliver its new public purposes” as set out in its Royal Charter. BSkyB argued that the licence fee settlement “is more than sufficiently generous” for the BBC to “prioritise its activities so that it delivers more public service broadcasting in areas which might not be served in the future”¹³⁰ and Andy Duncan, Chief Executive of Channel 4, considered that although the

¹²⁶ Uncorrected transcript of oral evidence taken before the Culture, Media and Sport Committee on 3 July 2007, HC (2006–07) 820, Q 26

¹²⁷ Mark Thompson, *Speech to BBC staff on delivering Creative Future*, 18 October 2007

¹²⁸ Q 251

¹²⁹ Uncorrected transcript of oral evidence taken before the Culture, Media and Sport Committee on 3 July 2007, HC (2006–07) 820, Q 12

¹³⁰ Ev 180

BBC received “less of a licence fee than they wanted [...] they have done very well” especially considering forecast future falls in the advertising market.¹³¹

66. There were concerns, however, that the BBC would not be able to provide quality programming if it received less resources. Mark Thompson, Director-General of the BBC, recognised that this was a risk and said that “a change which leads to a reduction in quality isn’t an ‘efficiency’, it’s a straightforward cut and a diminution in service”. However, Mr Thompson argued that although there was “widespread anxiety inside and outside the BBC” about the impact on quality of the BBC’s recent three-year efficiency drive, most of the quality indicators at the BBC have gone up, not down, over the past three years.¹³²

67. The Government gave the BBC Trust an overriding duty of effective stewardship of the licence fee. In the event that the BBC Trust decides that the BBC can fulfil its public purposes using less resources than afforded by the licence fee, it has the option of “not drawing down the full amount of the licence fee where the Trust considers this is in the public interest”.¹³³

68. While we recognise the concerns that the BBC received a lower licence fee settlement than desired, we believe that the BBC can continue its role in providing high quality programming within the resources available to it and we welcome the BBC’s plans to become a smaller but more distinctive organisation. However, the increase in market provision of public service content suggests to us that further analysis needs to be undertaken to assess the level of public funding that needs to be made available for public service content. On current trends, we would expect that the case for current levels of public funding will diminish. The BBC has rightly reacted to the arrival of new channels by drawing back from programming that can be broadcast by others. We welcome the BBC’s approach, and encourage the BBC Trust to limit the BBC’s activities in areas where there is already alternative provision. The BBC Trust should not treat licence fee income as a sum that must necessarily be spent in its entirety, irrespective of others’ provision of public service content, and we encourage it to bear in mind its option of not drawing down the full amount of the licence fee in future.

The role of S4C

69. S4C was optimistic about the prospects for public service content in Wales. S4C told us it could succeed in the digital age and that its 2004 Creative Excellence Strategy would answer the “challenges of the new multi-platform, multi-media environment”.¹³⁴ S4C was also optimistic about programming genres that other public service broadcasters believe will come under threat as the UK approaches digital switchover. It said that over the past two years it had doubled its financial commitment to its provision for pre-school children. S4C told us that it also planned to launch cross-platform Welsh-language services for

¹³¹ Q 196

¹³² Mark Thompson, *Delivering creative future: The BBC in 2012*, 10 July 2007

¹³³ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 61

¹³⁴ Ev 149

children and young people and added that it will not be seeking additional funds for this launch.¹³⁵

70. S4C's comparative optimism may be due to its unique funding arrangements. S4C is relatively insulated from fluctuations in the advertising market as around 95% of its income is received in direct funding from DCMS (under statute, this funding increases by RPI each calendar year).¹³⁶ S4C receives only around £8 million from other sources including advertising. DCMS, however, argued that S4C will face challenges in the multi-channel world. It considered that S4C will "not be immune to the competition for audiences facing other public service broadcasters" and noted that digital switchover will mean that S4C loses the advertising revenue it currently receives from broadcasting Channel 4 programmes in Wales.¹³⁷

71. Although S4C benefits from direct public funding, this form of support for public service content has been discounted by the Government as a wider policy option. The main concern about direct funding is the risk that it would compromise the independence of the recipient broadcaster. Despite the fact that the BBC technically receives its licence fee income in direct funding from DCMS, the BBC opposes direct funding in principle, stating that the licence fee "ensures that the BBC remains independent from political [...] influences".¹³⁸ In relation to news, for example, Channel 4 stated that direct funding needed to be handled carefully "given the absolutely critical requirement for any news provider to maintain independence from the Government and the wider political ecology".¹³⁹ On the other hand, S4C told us that it is happy with its direct funding position: it did not believe it was subject to inappropriate scrutiny as its funding formula is set out in legislation.¹⁴⁰ The Canadian Broadcasting Corporation, Canada's national public broadcaster, told us that the direct funding which it receives from the Canadian Government did not compromise its independence.

72. We are encouraged by S4C's optimism about its ability to provide public service content in the future. S4C demonstrates that a broadcaster with direct public funding and a tightly defined remit can deliver public service content without having its editorial independence compromised.

Digital multi-channels

73. The Committee heard that the provision of public service content by the digital multi-channel sector would increase in the future. The Satellite and Cable Broadcasters' Group predicted that it is "inevitable" that public service broadcasting in the digital age will consist of a wide plurality of providers as technological development and the end of spectrum scarcity will allow new channels and platforms to develop.¹⁴¹ Five echoed this

¹³⁵ Ev 152

¹³⁶ Ev 154

¹³⁷ Ev 258

¹³⁸ BBC, Response to *A strong BBC, independent of government*, May 2005, p 38, <http://www.bbc.co.uk>

¹³⁹ Ev 92

¹⁴⁰ Q 368

¹⁴¹ Ev 239

view, stating that “the growth of digital will create further opportunities for channel and programme offerings that would traditionally be defined as public service broadcasting”.¹⁴² BSkyB argued that the level of public service content from the multi-channel sector would increase in the future as the rising uptake of digital television will allow multi-channel broadcasters to reach larger audiences and therefore generate greater revenues to invest in content.¹⁴³ However, the Satellite and Cable Broadcasters’ Group expressed a concern that commercial multi-channel broadcasters would find it difficult to invest in programming and platforms without appropriate oversight of the incumbent terrestrial operators as they believed that subsidised public service broadcasters crowd out the multi-channel sector’s investment in content.¹⁴⁴

74. We outlined earlier the arguments concerning the digital multi-channel sector’s investment in UK programming. Some stakeholders argued that investment in UK-originated content by digital multi-channels would grow in the future. David Elstein, Chairman of the Broadcasting Policy Group, pointed out that in the United States, even faster fragmentation of audiences than that experienced in the UK has led to a significant increase in the volume of investment and production of high-quality content.¹⁴⁵ BSkyB stated that the economics for multi-channel investment in UK content were very challenging at the moment but were improving, and that this would mean that more UK content would be commissioned by the multi-channel sector. In addition, UK-originated public service content can be profitable for commercial broadcasters, via sales of rights and formats for example. The Voice of the Listener and Viewer pointed out that the UK is second only to the United States in the economic value of its media exports.¹⁴⁶ In relation to children’s programming, Pact noted that some programming is lucrative as it is able to generate substantial revenues from secondary and ancillary sales such as merchandising.¹⁴⁷ On the whole, however, Pact was more sceptical about the digital multi-channel sector’s future investment in public service content stating that they “cannot be regarded as a replacement for terrestrial public service programming in the foreseeable future” unless they significantly raise their investment in new UK programming.¹⁴⁸

75. The provision of public service content by the digital multi-channel sector has increased plurality in UK broadcasting. The sector provides a range and diversity of content that exhibits public service purposes and characteristics as defined by Ofcom and this provision may very well increase after digital switchover as its channels gain access to larger audiences and revenues.

¹⁴² Ev 128

¹⁴³ Ev 180

¹⁴⁴ Ev 234

¹⁴⁵ Q 5

¹⁴⁶ Ev 16

¹⁴⁷ Ev 72

¹⁴⁸ Ev 61

5 Future of content in key areas

Children's programming

76. The Voice of the Listener and Viewer told us that the UK has the most competitive market for children's programming in the world, with over 20 dedicated channels.¹⁴⁹ Save Kids' TV pointed out that this had brought a huge increase in the number of hours of children's television broadcast.¹⁵⁰ The Satellite and Cable Broadcasters' Group cited research from David Graham Associates that showed that in one month (October 2006), 8,197 hours of children's programming were broadcast across terrestrial and digital channels in the UK, 6,459 hours (79%) of which was provided by commercial digital multi-channels outside of the designated public service broadcasters.¹⁵¹ Pact, however, argued that the multi-channel sector's contribution to UK-produced children's programming was small, estimating that cable and satellite channels invested around £6 million per year on original children's programming.¹⁵² Although the Satellite and Cable Broadcasters' Group originally agreed to provide us with its own estimate of the multi-channel sector's investment in UK-produced children's programming, we note that it has since declined to do so on grounds of commercial confidentiality. **We find this failure by the Satellite and Cable Broadcasters' Group to release information on their members' investment in UK-produced children's programming very disappointing. In evidence, this body has been one of the most optimistic about the prospects for market-provided public service content in the digital age, but its failure to provide these statistics could be taken as undermining that confidence.** Nevertheless, the Rt Hon Shaun Woodward MP, then Minister for Creative Industries and Tourism, told us that the range of output being provided for children today is "quite extraordinary".¹⁵³

77. Children's programming is provided on both mixed genre channels and dedicated children's channels. The BBC provides two dedicated channels, CBeebies and CBBC, and remains "committed to providing mixed schedules of high-quality, British programming for British children".¹⁵⁴ The then Minister told us that the BBC's commissioning of first-run programmes for children had risen from 477 hours in 1998 to 1,276 today.¹⁵⁵ ITV provides children's content on ITV1 and CITV, its dedicated free-to-air children's channel which "includes a high level of originated UK programmes".¹⁵⁶ Five told us that it broadcast 652 hours of original children's programmes in 2006 and that it is the only commercial broadcaster that still broadcasts children's programming every day of the week.¹⁵⁷ S4C stated that it broadcast over 1,100 hours of children's programming in 2006.¹⁵⁸

¹⁴⁹ Ev 17

¹⁵⁰ Ev 297

¹⁵¹ Ev 237

¹⁵² Q 138

¹⁵³ Q 671

¹⁵⁴ Q 341

¹⁵⁵ Q 671

¹⁵⁶ Ev 109

¹⁵⁷ Q 285

¹⁵⁸ Ev 152

and has announced plans to launch a dedicated new television channel for children in the Welsh-language.¹⁵⁹ The then Minister told us, in contrast to the UK public service broadcasters' ongoing commitment to children's programming, that the level of children's programming originated in Canada had fallen from 817 hours eight years ago to 708 hours today.¹⁶⁰

78. The provision of specialist children's channels by satellite and cable broadcasters and ITV's focus on providing children's programming on a dedicated digital channel, rather than on ITV1, perhaps reflects children's changing consumption habits. Ofcom said that "children have overwhelmingly left what we call mixed genre channels—ITV1, BBC One, Channel 4, BBC Two"—and that they now watch "dedicated children's channels [...] or they go online".¹⁶¹ Research by Ofcom into children's viewing supported this view: in 2006, 82% of children's viewing was on dedicated children's channels, compared to 56% in 2002.¹⁶²

79. The then Minister for Creative Industries and Tourism recognised this change in children's viewing patterns, stating that children are watching many more programmes on-demand and that their needs are being met by the Internet and by children's computer games. He added that children have a wide range of material to consume and that arguments about the level of UK-originated programming should not forget about the demands of the consumer.¹⁶³ In this context we note with interest the announcement by Save Kids' TV that it is investigating the potential for a new media service for children.¹⁶⁴

80. Despite the increase in the number of channels and the quantity of programming available, some stakeholders believed that this was not good for UK children. Save Kids' TV argued that the diversity in choice of channels had led to fragmentation in funding which in turn had led to less diversity in programming.¹⁶⁵ There were also concerns that the new digital channels mainly show imported programming and repeats rather than original, UK-produced content. The Voice of the Listener and Viewer noted that imported programming provided entertainment that many children enjoy but argued that imports did not reflect the UK's "rich cultural heritage of language, literature, values and environment".¹⁶⁶ On the other hand, Ofcom research into parents' views on the importance of children's programming showed that the educational content of children's programmes was the most important consideration for parents, with 85% of parents rating this as important while "having enough programmes made in the UK" was rated as important by 65% of parents.¹⁶⁷

¹⁵⁹ "New Welsh language TV channel proposed", S4C press release, 14 May 2007

¹⁶⁰ Q 671

¹⁶¹ Q 547

¹⁶² Ofcom, *Public service broadcasting: Annual report 2007*, March 2007, p 110

¹⁶³ Q 671

¹⁶⁴ "Save Kids TV looks at kids multimedia service", *Broadcast*, 5 July 2007, <http://www.broadcastnow.co.uk>

¹⁶⁵ Ev 300

¹⁶⁶ Ev 17

¹⁶⁷ Ofcom, *The future of children's television programming*, October 2007, p 27

81. The Committee heard that children’s programming is often a difficult proposition if left purely to market forces as it is relatively more expensive to produce and generates less revenue than other programming.¹⁶⁸ Pact argued that the UK is “facing a crisis in children’s production”.¹⁶⁹ Ragdoll Productions Limited, an independent children’s production company, stated that “our industry is threatened with extinction.”¹⁷⁰ In response to the then Minister’s evidence on the amount of children’s programming currently available in the UK, Pact argued that the increased provision from the BBC did not mean that there is a greater range of UK programming on offer to children.¹⁷¹ Ofcom research found that, between 1998 and 2006, spending on original programmes had fallen by 14% in real terms but that the volume of first-run original programming had remained relatively stable.¹⁷² Five said that while it “has a strong commitment to children’s programmes” it believed that “there are serious concerns about the long-term financial viability of UK-produced children’s programming on advertiser funded channels”.¹⁷³

82. The Committee heard a lot of evidence in relation to ITV’s commitment to UK-produced children’s programming. ITV reduced its children’s output on ITV1 from 10 hours to eight hours per week in 2005 and plans to reduce this to around five hours per week in 2007.¹⁷⁴ Ofcom told the Committee that it had advised ITV it “should remain a significant player in children’s provision” and that this meant presence across the week, presence in a range of genres and presence as a significant commissioning force.¹⁷⁵ Despite this, Michael Grade indicated to us that he did not foresee children’s programming featuring in ITV1’s schedule in the long term.¹⁷⁶ Some witnesses pointed to ITV’s recent moves as evidence that broadcasters driven by commercial incentives will withdraw from children’s programming: Pact, for example, forecast that ITV would not be producing or commissioning children’s content in five years.¹⁷⁷ Despite the planned reduction in broadcast hours on ITV1, ITV told us that it remains committed to children’s programming; and that it will “broadcast more children’s hours than BBC One and BBC Two”. ITV added that there will be a “meaningful amount” of children’s programming on ITV1 and “50% of that will be originated programming”.¹⁷⁸

83. British children in multi-channel homes have access to more children’s television than ever before. This content is provided by a range of broadcasters, from the designated public service broadcasters to the digital multi-channels. Children are increasingly consuming content on platforms other than traditional mixed genre television channels. We are therefore not unduly concerned if public service

¹⁶⁸ Ev 58

¹⁶⁹ Q 133

¹⁷⁰ Ev 313

¹⁷¹ Ev 385

¹⁷² Ofcom, *The future of children’s television programming*, October 2007, p 16

¹⁷³ Ev 130

¹⁷⁴ *MediaGuardian*, 22 March 2007

¹⁷⁵ Q 550

¹⁷⁶ Q 247

¹⁷⁷ Q 155

¹⁷⁸ Q 237

broadcasters shift their children's programming focus away from their main terrestrial channels, instead providing content on dedicated children's channels. We do, however, believe that before the completion of digital switchover, it will still be important for the public service broadcasters to provide some UK-produced children's programming on their main terrestrial channels, and after the completion of digital switchover, for the public service broadcasters to provide UK-produced children's programming free-to-air.

84. We note that decisions by the Government and Ofcom have further damaged the ability of commercial broadcasters to provide children's programming. At the behest of the Government, Ofcom has imposed restrictions on television advertising of food and drink products high in fat, salt and sugar in or around programmes made for children (including pre-school children) or that are likely to be of particular appeal to children aged four to nine. In 2008, Ofcom will extend this restriction to cover children aged four to 15.¹⁷⁹ We note that Ofcom forecast that its restrictions will cause an initial loss of around £20 million per year in advertising revenue.¹⁸⁰ **While we agree with the policy objective of reducing childhood obesity, it is the case that restrictions on the advertising of food and drink products high in fat, salt and sugar have increased the financial pressure on broadcasters of children's programming and that they will have an adverse effect on the provision of original, UK-produced children's content.**

85. The then Minister for the Creative Industries and Tourism, told us that he did not believe that the BBC is going to be the only provider of original, UK-produced children's content in future. He considered that original content is going to be generated by a number of organisations in broadcasting and on other platforms.¹⁸¹ He concluded that "there is not a crisis in children's programming in this country, it is the reverse".¹⁸² Ofcom's recent discussion paper on the future of children's programming found that pre-school children (two to five-year-olds) and younger children (six to eight-year-olds) are well served by current programming, but that "there are significant reasons for concern about provision of a wide range of high quality and original programming for older children" (nine to 12-year-olds).¹⁸³

86. **We believe that a mix of imported and UK-produced content is beneficial for UK children as both types of programming can help children learn and develop, and we believe that UK-produced content plays an important role in maintaining children's cultural identity. We note the commitment to children's programming of the BBC, ITV, Five and some digital multi-channels and we encourage these broadcasters to continue to contribute to the production of UK-originated output. Despite these commitments, we believe that the financial pressure likely to face the main current commercial commissioners of children's content, in part due to the Government and Ofcom's interventions which will restrict advertising revenue for children's**

¹⁷⁹ "Ofcom publishes final statement on the television advertising of food and drink products to children", Ofcom press release, 22 February 2007

¹⁸⁰ Oral evidence from Ofcom to the Culture, Media and Sport Committee and the Trade and Industry Committee on 17 April 2007, on the Ofcom Annual Plan for 2007-08, Q 51, HC (2006-07) 459

¹⁸¹ Q 678

¹⁸² Q 685

¹⁸³ Ofcom, *The future of children's television programming*, October 2007, pp 45-47

programming, creates uncertainty about the level of UK-produced children’s content that will be attained in future. We believe that it is important that there remains a significant amount of UK-produced children’s programming on commercial channels as well as the BBC, and we would be very disappointed if ITV further reduced or withdrew from commissioning UK children’s content in the future. We therefore recommend that the Government and Ofcom should identify how much UK children’s production they consider is necessary and come to a view on whether they believe there will be a shortfall. We welcome Ofcom’s recent discussion paper on the future of children’s programming as a good first step in this process. If a shortfall is envisaged, we believe that children’s programming should be eligible for assistance as we set out later.

National news and current affairs programming

87. In the evidence that we received, news and current affairs programming was widely seen as a particularly important element of broadcasters’ offerings. The National Union of Journalists described news and current affairs as “an integral part of the system of public service broadcasting throughout the UK” setting “the benchmark across all sectors of the media in informing and educating the public”.¹⁸⁴ ITN argued that high-quality, independent news from different sources for different audiences is “essential to an informed democracy and is the stimulus for political and cultural debate”.¹⁸⁵ Tim Gardam, previously Director of Television and Director of Programmes at Channel 4, said that “one of the most important aspects of public service content is the provision of reliable information to an informed democracy in the digital age”.¹⁸⁶

88. Consumers in the UK have access to news programming from a range of sources. Of the designated public service broadcasters, the BBC provides news on radio, the Internet, and television—including a 24-hour news channel, News24. Although ITV has dropped its 24-hour news channel, it broadcasts network news and regional news, with ITN as its major provider. ITN also makes Channel 4’s news programming, while Five broadcasts news programming made by Sky News.¹⁸⁷

89. Many other operators also provide news content even though they are under no obligation to do so. For example, BSkyB broadcasts its own 24-hour news channel, Sky News. Five said that Sky News is an “established and respected” news service outside the public service broadcasting system.¹⁸⁸ Ed Richards, Chief Executive of Ofcom, accepted that “Sky News is in many ways meeting many of the purposes and characteristics that we would associate with public service broadcasting”.¹⁸⁹ The RadioCentre told us that commercial radio stations have a growing commitment to news, having increased the

¹⁸⁴ Ev 345

¹⁸⁵ Ev 190

¹⁸⁶ Q 1

¹⁸⁷ Ev 128

¹⁸⁸ Ev 128

¹⁸⁹ Q 522

provision of news, travel and weather information by around 85% between 2000 and 2004, from around 9,300 hours to 17,300 hours.¹⁹⁰

90. There is also a substantial news presence on new media. Lord Burns, former adviser on BBC Charter review to the Secretary of State for Culture, Media and Sport, argued that there are thousands of news sources on the Internet and noted that there is a huge “supply of news content on a worldwide basis”.¹⁹¹ Mark Wood, Chief Executive of ITN, noted that news is being delivered in different ways, including on mobile platforms and on broadband. He added that Channel 4 News has a very strong broadband and on-demand presence and that ITV News plans to undertake a project called “Uploaded” using user-generated content.¹⁹² The BBC also has a substantial online presence, which Ed Richards, Chief Executive of Ofcom, described as “one of the best things the BBC has done of recent years”.¹⁹³

91. Many stakeholders were optimistic about the future of news programming. For example, Ofcom argued that the provision of public service television news is assured in the period up to digital switchover¹⁹⁴ and suggested that it was likely that the “main channels will want to continue UK national and international news after digital switchover, with or without regulatory obligation.”¹⁹⁵ ITN agreed that “high quality, impartial broadcast news is not yet under threat”, and noted that it remains a “must have” in the schedules of broadcasters with big brands.¹⁹⁶ Looking further ahead, Five said that there “will always be a demand for news, and popular mass market channels like Five will want to continue providing a news service for as long as is feasible”.¹⁹⁷ In relation to radio, GCap Media told the Committee that news provision, especially local news, is a “key audience attractant” for GCap Media stations.¹⁹⁸

92. Greg Dyke, former BBC Director-General, stated that he “would be very surprised if [ITV] did not see that both news and regional news is valuable to them”.¹⁹⁹ ITV agreed that “network news represents a core part of the ITV brand”²⁰⁰ and will “remain an indispensable part of the schedule of any successful television network”.²⁰¹ ITV told us that “experience from the US and elsewhere demonstrates successful commercial channels need to provide an authoritative and impartial news service to differentiate themselves from the

¹⁹⁰ Ev 42

¹⁹¹ Q 6

¹⁹² Q 489

¹⁹³ Q 570

¹⁹⁴ Ev 211

¹⁹⁵ Ofcom, *New news, future news*, July 2007, p 1

¹⁹⁶ Ev 191

¹⁹⁷ Ev 130

¹⁹⁸ Ev 34

¹⁹⁹ Q 399

²⁰⁰ Ev 110

²⁰¹ Ev 113

long tail of minor digital channels”.²⁰² Since then, ITV has demonstrated its commitment by announcing plans to restore *News at Ten*.

93. Some witnesses doubted the future financial viability of news programming in general. Five argued that news was expensive and represents a “major commitment that cannot be varied easily in the light of changing commercial fortunes”.²⁰³ Channel 4 said that while “Channel 4 News is a flagship public service broadcasting programme for the channel, it is not a commercially successful programme” and that sustaining the level and quality of news on Channel 4 would require further subsidy.²⁰⁴

94. On the basis of the evidence, it is our judgement that there is no near- or mid-term crisis in the provision of network television news. In the longer term, while we note the arguments that high-quality news is relatively expensive to make, we believe that, on balance, the commercial public service broadcasters are likely to provide national news in the future as it is regarded as essential for their brands, but the importance of maintaining plurality in high quality news provision is such that we should remain vigilant in case this does not occur.

95. Despite the current provision of news programming and the general optimism that this provision will continue, there is a parallel concern that news provision in the future will be of lower quality than that currently provided by the designated public service broadcasters. ITN told us that while there is a plethora of news providers in the commercial marketplace, there are no guarantees that public service broadcasting values—such as independence, impartiality²⁰⁵ and high quality—will survive the changing regulatory and market conditions of digital switchover.²⁰⁶ ITN, however, noted that competition in news had helped create high quality standards in news broadcasting and that these standards had been maintained by newer market entrants such as Sky News.²⁰⁷ Though most of the evidence focused on news, we note the continuing arguments about the failure of broadcasters, including the BBC, to commission high profile current affairs and investigative programmes and to schedule them prominently. This concern is demonstrated at the continued lament, for instance, at the demise of *World in Action* and *Weekend World*. **In the digital age, we believe policy-makers should keep a watching brief on the provision of current affairs and investigative programming and if there is a shortfall, this genre might also be eligible for assistance as set out later.**

96. Some witnesses emphasised the importance of independence and impartiality in news provision. For example, Mark Wood, Chief Executive of ITN, said that regulation of quality is important.²⁰⁸ The Voice of the Listener and Viewer considered that it was important for the news agenda to be set by “independent newscasters, not by politicians or

²⁰² EV 117

²⁰³ Ev 130

²⁰⁴ Ev 88

²⁰⁵ At present, there is a legal requirement that all UK licensed television and radio news is duly impartial.

²⁰⁶ Ev 189

²⁰⁷ Ev 190

²⁰⁸ Q 490

other powerful groups”.²⁰⁹ BECTU, a broadcasting trade union, expressed concerns about news provision from commercial sources, stating that the Government and Ofcom would be “failing in their duties” if they were to “stand back and allow an arm of News Corporation to become the overwhelmingly dominant commercial source of television news in the UK” as this “would present an unwelcome development with consequences not just for our broadcasting sector but for our democracy”.²¹⁰ In relation to new media, ITN told us that there has been a proliferation of new media news content, but that not all of it is in compliance with the “public service broadcasting values” of independence and impartiality.²¹¹

97. Other stakeholders were less concerned about impartiality, and questioned whether this quality was present even in news coverage currently provided by the designated public service broadcasters. Anthony Lilley, Chief Executive of Magic Lantern Productions, argued that it is a “comforting, mass-media myth that there was ever balance and that there was ever impartiality” in news.²¹² Irwin Stelzer, Director of Economic Policy Studies at the Hudson Institute, told us that we should “abandon this crazy idea that there are some wonderful people sitting out there completely impartial, reporting on social events and politics”²¹³ and Stephan Shakespeare, Director of Doughty Media Limited, added that “the idea that the BBC is untainted by bias is obviously ludicrous”.²¹⁴

98. Some witnesses told us we should be more concerned about whether there was a range of voices and opinions, rather than whether individual news providers were impartial. The Satellite and Cable Broadcasters’ Group said that all news services should be entitled to have opinions as long as general regulations requiring accuracy are well enforced.²¹⁵ Stephan Shakespeare considered that consumers would get a good picture of current events as long as there is a variety of voices. He argued that balance in a single body can never be achieved, but that a balance of voices was possible.²¹⁶ Irwin Stelzer agreed, arguing that everything is biased and that it was important to have conflicting biases on television.²¹⁷

99. The Committee heard evidence on the potential impact on news plurality of BSkyB’s purchase of a 17.9% stake in ITV. David Elstein, Chairman of the Broadcasting Policy Group, told us that the ITV/BSkyB deal could raise issues around news provision; specifically whether or not Sky News and ITN would cease to compete with each other in light of BSkyB’s shareholding.²¹⁸ However, Michael Grade, Executive Chairman of ITV, told us that that he did not believe ITN should have any concerns in terms of its news

²⁰⁹ Ev 16

²¹⁰ Ev 286

²¹¹ Ev 190

²¹² Q 513

²¹³ Q 615

²¹⁴ Q 512

²¹⁵ Q 616

²¹⁶ Q 511

²¹⁷ Q 615

²¹⁸ Q 10

provision.²¹⁹ Mark Wood, Chief Executive of ITN, told us that he had a “frisson of concern” when BSkyB bought the stake but “since then none at all” and that “there has been no indication at all of any influence by BSkyB” on ITN’s process for negotiating its contract with ITV.²²⁰ BSkyB said that its “intention is simply to be a supportive shareholder, but in a passive way”.²²¹ Although we saw little evidence to raise concern about the effect of BSkyB’s stake in ITV on plurality of news provision, the importance of this issue is such that the Secretary of State’s decision, on the advice of the Office of Fair Trading, to refer it to the Competition Commission for examination is appropriate. We note the Competition Commission’s provisional finding that the acquisition restricts competition and therefore operates against the public interest. In relation to the media public interest consideration, we note that the Competition Commission provisionally concluded that the acquisition will have no adverse effect on the sufficiency of plurality.²²²

100. It is, of course, possible for a range of news providers to co-exist, some with particular viewpoints and others attempting to be impartial. Mark Wood, Chief Executive of ITN, argued that it would be acceptable to have public service broadcasting-labelled news which is guaranteed to be independent, reliable and balanced alongside “an explosion of Fox-type services”. He argued that UK consumers were sufficiently sophisticated to judge what they see, but noted that they will want to know that anything which is labelled “public service news” is balanced.²²³ Stephan Shakespeare agreed that it was important to maintain traditional news values, but added that we should also look for quality in new providers such as Internet news provision.²²⁴ Ofcom said that while there is no reason for impartiality rules to be relaxed for public service broadcasters, it is timely to consider whether a relaxation in universal application or impartiality rules for television might encourage more diverse views. It also noted that impartiality requirements for all licensed television services may become less practical in a digital environment where regulated and unregulated services exist side by side on the same platform.²²⁵

101. An increasing amount of news content is provided by commercial broadcasters and other providers, and we note the concerns that this content may be of lower quality and may be less independent and impartial than content provided by the designated public service broadcasters. We are not unduly concerned, however, if news coverage from non-public service broadcasters is presented from a particular viewpoint, as long as this is made clear to the viewer: we believe that it is more important for there to be a balanced range of views and opinions from news providers across the media spectrum. News provision from other organisations, especially on new media, has an important role in maintaining the plurality and diversity of news output in the UK. We recognise in the age of broadcast by broadband that it is neither possible, nor necessarily desirable, to subject every such operator to impartiality rules. We do believe, however,

²¹⁹ Q 270

²²⁰ Q 503

²²¹ Q 452

²²² “Competition Commission provisionally finds BSkyB/ITV acquisition restricts competition”, Competition Commission news release 57/07, 2 October 2007

²²³ Q 510

²²⁴ Q 511

²²⁵ Ofcom, *New news, future news*, July 2007, p 11

that the impartiality requirements currently applied to public service broadcasters have served the UK well and policy-makers again need to keep a watching brief as the industry develops in the digital age.

Regional and local content

102. In seeking to ensure the provision of television content that caters to the needs of audiences in different geographical areas, the UK has traditionally taken a regional approach. The original ITV regional map in the 1950s created broad regional areas for licensees facilitating the provision of content—such as news and weather—specific to each region. Regional television services in the UK are currently available on ITV1, BBC One and BBC Two. Welsh programming is provided by S4C and a range of radio stations and print media also provide content specific to the regions.

103. The provision of regional content on television is sustained by regulatory obligations on the BBC, ITV and S4C. ITV is subject to regional programming quotas: ITV1 is currently required to provide seven hours of regional programming per week, of which at least 5.5 hours must be news and 1.5 hours must be other regional programmes. Higher quotas apply in the nations to reflect their additional responsibilities while somewhat lower quotas apply in the smaller regions.²²⁶ ITV has said that it currently spends around £120 million a year on regional services, the vast majority on regional news, providing 17 different news services across 10 licence regions, four more than the BBC.²²⁷ However, the regional map is historically determined and bears little relation to population size.

104. When the first UK region achieves digital switchover, Ofcom intends to reduce the non-news programming quota in the English regions to 0.5 hours per week.²²⁸ The BBC is also subject to regional programming quotas: it is required to provide 6,580 hours of regional programming per year across BBC One and BBC Two. The Voice of the Listener and Viewer told us that the nations and regions of the UK currently “enjoy distinctive high-quality services which meet their particular needs and interests”.²²⁹

105. There are concerns, however, that regional programming—news in particular—may come under threat in future. ITV told us that its regional news service involves greater costs than other genres and that regional news programmes “do not punch their weight in commercial terms”.²³⁰ ITV argued that while network public service broadcasting should continue to be sustainable, there is potential for a “funding gap” with respect to ITV’s regional services.²³¹ Scottish Screen said that current developments in Scotland raise concerns about the future of programming that preserves and promotes Scotland’s distinctive national identity.²³² Bobby Hain, Managing Director of STV, noted that he understood the business rationale behind trying to reduce regional commitments on ITV,

²²⁶ Ofcom, *Communications Market 2006*, August 2006, p 226

²²⁷ ITV, *The next five years: content-led recovery*, 12 September 2007, <http://www.itvplc.com>

²²⁸ Ofcom, *Statement on programming for the nations and regions*, June 2005, p 15

²²⁹ Ev 17

²³⁰ Ev 112

²³¹ Ev 108

²³² Ev 288

but added that SMG needs a regulatory framework within the ITV network that allows it to adequately provide Scottish content.²³³

106. ITV did see some future in regional programming, however, stating that “regional news services are highly valued by viewers up and down the country”.²³⁴ Michael Grade, Executive Chairman of ITV, said that regional programming was a “huge part of the brand value of ITV” and that a “regional connection in the post-analogue world is one of the great unique selling propositions of ITV”.²³⁵ Michael Grade recognised that costs were attached to the provision of regional services²³⁶ but added that he believes that ITV will maintain regional news programming at its present level for as long as it can²³⁷ as regional news is the “core” of ITV.²³⁸ Since then, ITV has announced its intention to reduce the number of individual news services from 17 to nine while continuing sub-regional provision for a period in some areas.²³⁹ This is now subject to discussion with Ofcom as part of its public service television broadcasting review and ITV has also argued that there should be a debate about the appropriate regional requirements on ITV in the digital age and possible means of addressing any resulting “funding gap”.²⁴⁰ Ofcom noted that economic circumstances make it “much less likely that commercial broadcasters would choose to carry news for the UK nations and regions” in the absence of effective regulatory intervention.²⁴¹

107. We note the concerns about the future viability of regional programming and we recognise that regional programming is relatively costly to produce as it cannot generate the mass audiences and revenues of national programming. While we note that it is in the interests of broadcasters to provide regional content, as this type of content is attractive to viewers, we believe that content specific to the nations and regions, especially news programming, may come under pressure in future. We also recognise the concern in some distinct areas such as the South West and the Border region about the impact that ITV’s proposals will have on relevant local news provision. We therefore believe that the Government and Ofcom should identify how much regional material they believe should be provided, and come to a view on whether they believe there will be a shortfall in future. If a shortfall is envisaged we believe that regional programming should be eligible for assistance as we set out later. In the interests of plurality it would be regrettable if regional news in any area were to become solely the preserve of the BBC.

108. Turning from regional content to more local content, the Committee received a range of submissions in support of local television. The general theme of these submissions was

²³³ Q 360

²³⁴ Ev 117

²³⁵ Q 225

²³⁶ Q 224

²³⁷ Q 230

²³⁸ Q 228

²³⁹ ITV, *The next five years: content-led recovery*, 12 September 2007, <http://www.itvplc.com>

²⁴⁰ Ev 114

²⁴¹ Ofcom, *New news, future news*, July 2007, p 1

that the Committee should recognise local television as a form of public service broadcasting, and that smaller organisations should be granted free spectrum to provide it.

109. We heard a range of arguments in support of local television. Dave Rushton, Director of the Institute of Local Television,²⁴² argued that local content enhances a sense of community and gives people the opportunity to see faces like their own, hear voices like their own and be encouraged to participate in broadcasting and the delivery of news, information and cultural activity.²⁴³ We were told that “local television is a strength of local democracy” and that the provision of local television could “revive democracy in this country”.²⁴⁴ Ofcom identified local television as a potentially important element of the future public service broadcasting mix, serving audience needs that were not fully met by national and regional broadcasting. However, Ofcom recognised that the economic viability of local services was not established, and that audience demand for them had not been adequately assessed.²⁴⁵

110. While there is currently some local television in the UK via channels broadcasting on restricted service licences,²⁴⁶ (such as Northern Visions in Belfast)²⁴⁷ or by broadband (such as Southwark.TV in London),²⁴⁸ some groups stated that local television services are not sufficiently available. Milestone Group, an operator of local television channels in Oxford and Southampton, said that “local television services in the UK are underdeveloped in relation to almost the whole of the rest of the free world”.²⁴⁹

111. Not all stakeholders believed that local television was necessary: Bobby Hain, Managing Director of STV, argued that it would be “slightly eccentric” to depart from the existing methods of delivering public service content specific to regional audiences and move towards a system of trying to deliver public service broadcasting and news and community information at a local level because the new method “may never happen”.²⁵⁰

112. The BBC ran a local television trial between December 2005 and August 2006. This provided local content to viewers in the West Midlands via satellite and on-demand via broadband. The BBC’s independent report on the trial concluded that the pilot services could be mapped onto the BBC’s public purposes, but it expressed surprise that “the strong public service benefits did not achieve wider public support” among local participants.²⁵¹ Mark Thompson, Director-General of the BBC, stated that local television was a good

²⁴² A body with the objective of supporting the introduction of local digital terrestrial television as an independent form of local public service broadcasting.

²⁴³ Q 362

²⁴⁴ Ev 274

²⁴⁵ Ofcom, *Digital local*, January 2006, p 1

²⁴⁶ Low power licences that cover a small geographical area.

²⁴⁷ Ev 327

²⁴⁸ Ev 333

²⁴⁹ Ev 352

²⁵⁰ Q 367

²⁵¹ Roger Laughton, *The BBC’s local television pilot in the West Midlands*, November 2006, p 41

example of a new commitment that the BBC had to “put a big question mark against” given the level of the licence fee settlement.²⁵²

113. Some of the submissions received in support of local television advocated terrestrial television as the most appropriate platform for local content.²⁵³ There are, however, other technologies which may be better suited to this purpose. Michael Grade, Executive Chairman of ITV, predicted that there will be an increase in people providing services at a specific local level through broadband.²⁵⁴ The BBC’s independent report on its local television trial found that local content available on-demand over broadband was a better proposition than local content delivered via a linear schedule.²⁵⁵

114. On the other hand, some witnesses stated that current broadband speeds are insufficient to support local television. Dave Rushton, Director of the Institute of Local Television, stated that broadband is unsuited to local television because it is unevenly available.²⁵⁶ More generally, the Institute of Local Television considered that broadband is not consumers’ preferred way of receiving local television.²⁵⁷ However, in the last quarter of 2006, 50% of all UK adults lived in households with a broadband internet connection, an increase from 39% in 2005 and a sevenfold increase on the 2002 level.²⁵⁸

115. Of course, media other than television—such as print and radio—provide content at a local level. The growth of digital platforms has created the opportunity for these other media providers—print in particular—to develop video content and interactive services targeted at specific geographical communities. Mark Thompson, Director-General of the BBC, said that the BBC is already present in media up and down the country with local radio stations and local websites.²⁵⁹

116. The commercial radio sector pointed out that it also provides a substantial amount of local content. While commercial radio stations are subject to regulation that requires them to provide local material, Lisa Kerr, Head of External Affairs at the RadioCentre, told the Committee that commercial radio is local because that is the only way in which it will connect with its audiences and survive commercially.²⁶⁰ Kevin Stewart, Chief Executive of Tindle Radio, said that for small local stations, the fact that they provide local content is their unique selling point and connecting with the local community is the thing that drives listeners to local stations.²⁶¹

117. We note the enthusiasm of some witnesses for the potential for local television and the view that the Government needs to take action to support the provision of local

²⁵² Q 349

²⁵³ For example, Ev 156, 326, 327

²⁵⁴ Q 227

²⁵⁵ Roger Laughton, *The BBC’s local television pilot in the West Midlands*, November 2006, p 41

²⁵⁶ Q 375

²⁵⁷ Ev 156

²⁵⁸ Ofcom, *The Communications Market: Broadband*, April 2007

²⁵⁹ Q 351

²⁶⁰ Q 76

²⁶¹ Q 63

content. However, while we do see some value in local content, we are not convinced of the need to intervene to support local television, particularly by giving away spectrum for broadcasting on digital terrestrial television. If providers want to offer local television services, we believe that more targeted delivery platforms, such as broadband, are more appropriate.

New media

118. The Committee's Report on *New Media and the Creative Industries* found that consumers were increasingly accessing content using a range of platforms and technologies.²⁶² This was true not only of entertainment content, but also for content exhibiting public service characteristics as defined by Ofcom. In evidence to this inquiry, we heard that there is no shortage of public service material on new media, with the designated public service broadcasters, other public bodies and news providers all contributing public service content online. New entrants have also taken advantage of low barriers to entry in order to offer content to the market.

119. Most of the designated public service broadcasters have expanded, or plan to expand, their provision of public service material on new media. ITV, for example, told us that it expects its broadband on-demand service to include all of ITV1's public service material.²⁶³ The BBC has also made a major investment in online services and Channel 4 said that it had launched "new media public services" such as FourDocs and Ideasfactory (4Talent).²⁶⁴ In addition, many major newspapers now provide a wealth of audio visual content on their websites. ITN told the Committee that it was working with newspaper publishers to help them deliver multi-media content, and that it thought channels like "Telegraph Television, Times Television [and] Guardian Television" could all emerge in the future.²⁶⁵ We were also impressed by the steps taken by the Press Association to provide video news services to newspaper publishers, Internet service providers such as AOL and Tiscali, and MSN.

120. Anthony Lilley, Chief Executive of Magic Lantern Productions, argued that it was "important to think about delivery of public service in a very wide context when you think about new media"²⁶⁶ and added that there was more to public service content on new media than a simple extension of the way the designated public service broadcasters delivered their remits. For example, some public service institutions with no historic link to broadcasting have taken advantage of new media to distribute content exhibiting public service purposes and characteristics as defined by Ofcom. The Tate Gallery, for instance, now has a television and interactive media production facility and its websites generate greater traffic than the actual footfall through the doors of the Tate. Anthony Lilley also pointed out that the NHS is providing public services online via www.nhs.co.uk and that

²⁶² Culture, Media and Sport Committee, Fifth Report of Session 2006–07, *New Media and the Creative Industries*, HC 509–I

²⁶³ Ev 119

²⁶⁴ Ev 93

²⁶⁵ Q 496

²⁶⁶ Q 486

the burgeoning community, NGO and not-for-profit sector is also providing public service content on new media.²⁶⁷

121. Given that so much public service content is already available online, many stakeholders questioned whether further intervention was necessary to support public service content on new media. For example, the BBC recognised that public service content is already widely available on the Internet, stating that “the lack of barriers to entry [and] relatively low costs of content production and distribution [...] means that valuable content can be found from many thousands if not millions of sources”.²⁶⁸ ITV considered that there is no necessary “threat” to the provision of public service broadcasting genres on new media and that “more and more such content is being provided by the market”.²⁶⁹ Channel 4 said that “given the huge range of services available online and the low barriers to entry, it will be necessary to identify where market failures arise in the new media space, and only to intervene in those circumstances”.²⁷⁰

122. A lot of public service content on new media is provided by groups outside the system of designated public service broadcasters. While recognising the contribution of the smaller, newer players to the provision of public service material on new media, some stakeholders questioned the quality of content not linked to traditional providers of public service content, such as the public service broadcasters. For example, ITV said that “if public service material is to be provided at sufficient quality and with sufficient impact via new media, it is very likely that it will need to be linked to existing public service broadcasters such as ITV1 and Channel 4”.²⁷¹ Anthony Lilley also raised concerns that new entrants might be unable to provide material with sufficient impact. He suggested that smaller new media providers may struggle to achieve and maintain scale and may also experience difficulties in developing business models or demonstrating public benefit sufficient to ensure sustainability. He believed that intervention might be needed as the challenges facing participative services on new media are different from those facing traditional, mass media services.²⁷²

123. Other stakeholders thought that public service content on new media could be valuable regardless of its scale or whether it was linked to a traditional media provider. For example, ITN argued that while traditional providers have the leverage to cross-promote, a “very vibrant” new media market including different providers will emerge.²⁷³ While Anthony Lilley told the Committee that smaller new media companies may struggle to find the resources to commission expensive television programmes, he also argued that this “does not necessarily mean that public service content has to come from public service broadcasters”.²⁷⁴

²⁶⁷ Q 486

²⁶⁸ BBC, Response to Ofcom discussion paper: *A new approach to public service content in the digital media age*, 2007, p 5

²⁶⁹ Ev 119

²⁷⁰ Ev 93

²⁷¹ Ev 119

²⁷² Anthony Lilley, *The PSP*, Speech to the Royal Television Society, 24 January 2007

²⁷³ Q 496

²⁷⁴ Q 497

124. A huge amount of content exhibiting public service purposes and characteristics, as defined by Ofcom, is currently available on new media and there is a plurality of providers of this content. We believe that there is clearly no threat to the production or distribution of public service content on new media platforms. While we note the efforts by the designated public service broadcasters to make their content available on new media, we believe that material provided by smaller, newer entrants can also meet public service purposes and characteristics as defined by Ofcom. We do not accept the arguments that the Government needs to assist new media start-ups to achieve scale and we therefore consider that there is no need for further intervention to support public service content on new media.

The public service publisher concept

125. With this in mind we turn to the public service publisher concept advanced by Ofcom. Ofcom originally proposed a public service publisher in 2005, as part of its first review of public service television broadcasting. Ofcom believed that, after digital switchover, there would be a shortfall in the amount of funding for public service broadcasting as the value of the indirect subsidies provided to ITV, Channel 4 and Five diminished. Ofcom suggested that one way of addressing this could be the creation of a new public service broadcasting institution—a public service publisher—with a remit to be a “free-to-view premier content service providing high-quality, imaginative and innovative drama, comedy and factual content, designed to take full advantage of broadband capabilities, and to provide local and communities services”.²⁷⁵ Ofcom believed that a budget of £300 million might be required for the public service publisher to invest in content and distribution.²⁷⁶

126. Ofcom’s public service publisher concept is now somewhat different from that outlined above. Ofcom now proposes that the public service publisher would be a body that commissions and distributes public service content using new media.²⁷⁷ BSkyB told the Committee that the public service publisher “has been a fairly slippery concept” evolving from a “tool to tackle market failure” to a “commissioning arm which would create public sector content on the Net, of which there is no shortage whatsoever”.²⁷⁸ In January 2007, Ofcom released a discussion paper on the potential role of a public service publisher and scaled back the funding requirement of its proposal to a budget of £50 to £100 million.²⁷⁹ It has since said that responses to its paper expressed broad support for the principle of intervention to support public service content online and that it therefore intends to carry out further work on the current level of provision and its sustainability, both as part of and outside its public service television broadcasting review.

127. Ed Richards, Chief Executive of Ofcom, told the Committee of the potential benefits of a public service publisher. He argued that “if you want to re-imagine public service content for [the digital] age you should embrace the online world, the broadband world, as

²⁷⁵ Ofcom, *Review of public service television broadcasting: Phase 3—Competition for quality*, February 2005, p 15

²⁷⁶ Ofcom, *Review of public service television broadcasting: Phase 3—Competition for quality*, February 2005, p 16

²⁷⁷ Ev 215

²⁷⁸ Q 480

²⁷⁹ Ofcom, *A new approach to public service content in the digital media age*, January 2007, p 7

well as conventional broadcasting”. He noted that audiences are migrating away from terrestrial television—that “viewers, listeners and surfers are going to want something different”—and argued that if the Government wanted public purposes and characteristics to be met in the digital and Internet age it should think about public provision on new media.²⁸⁰ Ed Richards stated that provision of content that meets public purposes on new media is “fantastically exciting” for older children in particular.²⁸¹

128. Other stakeholders also saw merit in the concept. For example, SMG told us that the public service publisher is a “form of Government intervention which must be forthcoming to fund digital public service broadcasting”. SMG said that the benefits of the public service publisher would “lie in funding the public service broadcasting offering of the future” including “areas particularly under risk—around children’s news and current affairs”.²⁸² Some stakeholders supported the idea of a public service publisher, but with a slightly different vision to Ofcom. For example, GCap Media thought that there should be a public service publisher of radio/audio output, consisting of a channel of public service audio output, broadcast on digital radio but also available for streaming online.²⁸³

129. The majority of stakeholders, however, questioned whether intervention in new media in the form of a public service publisher was necessary. Geoff Metzger, Managing Director of the History Channel, perhaps summed it up best when he said that the public service publisher was a “cure with no known disease”.²⁸⁴ The BBC questioned whether there was in fact a lack of plurality in the provision of quality UK content of public value on new media, and whether a public service publisher acting as a commissioner was the best targeted, most effective and most cost efficient way of addressing any shortfall.²⁸⁵ While not rejecting the idea for ever, the RadioCentre stated that a public service publisher would, if introduced on the terms proposed for television by Ofcom, “represent a further state intervention in an already crowded broadcasting sector”.²⁸⁶ BSkyB stated that the “public service publisher concept has no rationale to the extent that it is based on incremental state funding” and that it “plainly ignores what is being and what will be provided by the market and the role that the existing state-owned broadcasters are playing and could be playing in delivering public service broadcasting”.²⁸⁷

130. Others feared that public intervention in the form of a public service publisher could crowd out private operators. The Satellite and Cable Broadcasters’ Group said that “the very fact that Ofcom is even contemplating such a proposal will serve to disincentivise commercial companies from investing in new media ventures”.²⁸⁸ Ofcom recognised that the market did provide a large amount of public service content, and noted that it needed to think about the risk that intervention could inhibit innovation and new entry. However,

²⁸⁰ Q 567

²⁸¹ Q 569

²⁸² Ev 388

²⁸³ Ev 29

²⁸⁴ Q 607

²⁸⁵ BBC, Response to Ofcom consultation *A New Approach to Public Service Content in the Digital Media Age*, April 2007

²⁸⁶ Ev 43

²⁸⁷ Ev 182

²⁸⁸ Ev 239

Ed Richards said that a “mix of public provision and private provision has given us the quality of broadcasting in the country that we have” and argued that we should translate this mix to the online, broadband world.²⁸⁹ Ofcom told us that the commercial new media market would not be harmed by public service provision. By way of example, Ofcom said that in television broadcasting, “despite the presence of the BBC, despite the presence of Channel 4, you will see that the [spending in this country on subscription and pay TV] is as high in this country than in any other country” and that “this does not give you evidence of any kind that there is crowding out of commercial provision”. Ofcom told the Committee that this indicates that “commercial provision can prosper alongside public service provision”.²⁹⁰ On the other hand, Irwin Stelzer questioned the logic of this statement, and said that Ofcom could only guess at how much the private sector would provide in the absence of subsidised competition.²⁹¹

131. The Government has expressed lukewarm interest in the public service publisher concept. In the March 2006 White Paper on the BBC Charter review it is mentioned on one occasion as a suggested response to future pressure on the public service broadcasting system.²⁹² In oral evidence, the then Minister for Creative Industries and Tourism expressed a slightly more positive view, stating that the concept of public service publishing is bound to be important in future but that it is less certain “what form it should take and how it should be financed”.²⁹³

132. Given the huge amount of public service content currently available on new media, we believe that the creation of a new public service publisher, as currently envisaged by Ofcom, is unnecessary. The creation of a new public service content institution for new media would run the risk of distorting the market and impeding innovation. We also believe that an approach that attempts to impose the institutional interventions of the past in the new media world is misguided. At a time when technological change and digital uptake strengthens the case for the withdrawal of existing intervention, the introduction of new public institutions does not appear to be merited.

6 Sustaining public service content

133. Given our conclusions regarding the future provision of public service content, this chapter outlines a framework to help the Government and Ofcom decide whether to intervene in the market, and discusses possible steps that the Government and Ofcom could take to ensure that plural provision in a competitive market is maintained in the digital age. It also discusses how the Government and Ofcom can get the most value for money and most efficient outcomes if they do decide to intervene.

²⁸⁹ Q 568

²⁹⁰ Q 569

²⁹¹ Q 625

²⁹² DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 63

²⁹³ Q 686

Competition

134. We outlined earlier the Government and Ofcom’s commitment to plurality and competition in the provision of public service content. In summary, Ofcom said that a “competitive broadcasting marketplace is a good starting point in the quest to ensure that citizens and consumers are able to benefit from a wide range of high quality programming and other content”.²⁹⁴ The Satellite and Cable Broadcasters’ Group argued that competition is the best way of achieving public policy outcomes and that policy should aim to deliver diversity to audiences, rather than relying on further public intervention.²⁹⁵ Robin Foster²⁹⁶ advised DCMS that there is now a great opportunity to redesign the policy framework in favour of a greater reliance on market developments and that public policy interventions needed to be strategic, targeted and possibly less extensive than in the past.²⁹⁷ On the other hand, however, we have already seen how a highly competitive marketplace is affecting the commissioning of more expensive, UK-produced children’s programmes and how the evolving competitive environment is changing the future prospects for other genres which have hitherto been held socially valuable, such as regional programming.

135. Competition between providers has provided consumers with a range and diversity of content. We believe that in future, competition—not least with, and from, the BBC—will drive the provision of quality content for consumers, although there are already evident areas of concern. The most appropriate way for the Government and Ofcom to encourage the beneficial effects of competition is not to employ a heavy-handed approach to regulation. They should ensure the minimum amount of public intervention that is necessary to meet policy objectives with respect to the continuing availability of public service content in all its forms.

A framework for considering intervention

136. If the Government’s policy objective in the broadcasting market is to ensure the plural provision of content that meets public service purposes and characteristics as defined by Ofcom, the fact that broadcasters free from public service obligations currently provide a lot of this content suggests to us that an additional test is needed to consider whether the Government should intervene.

137. In 1999, Gavyn Davies, then chairman of an independent review panel commissioned by DCMS to consider the future funding of the BBC, and subsequently Chairman of the BBC Board of Governors, identified market failure²⁹⁸ as a basic principle of public service broadcasting. His report on the future funding of the BBC concluded that “the natural definition of public service broadcasting is that it is broadcasting which, for one reason or another is desirable, but which the market will not provide or will provide in insufficient

²⁹⁴ Ofcom, *Review of public service television broadcasting: Phase 3—Competition for quality*, February 2005, p 3

²⁹⁵ Ev 235

²⁹⁶ An adviser on economic policy and strategic issues in the communications sector commissioned by DCMS to produce a report on future broadcasting regulation.

²⁹⁷ Robin Foster, *Future broadcasting regulation*, Report commissioned by DCMS, January 2007, p 14

²⁹⁸ That is, whether or not the market would provide the type of programming.

quantity” and added that “it is impossible to argue for a public service broadcaster unless market failure can be shown”.²⁹⁹ He suggested that:

“some form of market failure must lie at the heart of any concept of public service broadcasting. Beyond simply using the catch-phrase that public service broadcasting must ‘inform, educate and entertain’, we must add ‘inform, educate and entertain in a way which the private sector, left unregulated, would not do’. Otherwise, why not leave matters entirely to the private sector?”³⁰⁰

138. A number of witnesses also told us that market failure was a useful framework for considering whether to intervene to provide public service content. For example, David Elstein, Chairman of the Broadcasting Policy Group, said that the simple test for defining public service content is to ask: “will the market provide or will it not?”³⁰¹ Lord Burns, former adviser on BBC Charter review to the Secretary of State for Culture, Media and Sport, told the Committee that public service content is “high-quality material, probably originated in the UK, which the market itself does not provide”.³⁰² Irwin Stelzer, Director of Economic Policy Studies at the Hudson Institute, considered that policy-makers should “let the market define public service broadcasting [...] by seeing what it is that the market is not producing, and then go from there”.³⁰³ This approach would prevent the Government from funding content that would already be provided and would avoid crowding out commercial providers in the marketplace.

139. Other witnesses were more wary of a market failure approach. For example, Tim Gardam, previously Director of Television and Director of Programmes at Channel 4, argued that he would not define public service content solely in market terms as it would be “unwise to forget the social and cultural purposes of television over and beyond its market purposes”.³⁰⁴ Jeremy Mayhew, a Partner at Spectrum Strategy Consultants, told us that while a market-based test is superficially attractive, public service broadcasters have to perform a “balancing act between distinctiveness and reach”—in other words, broadcasting programming that other broadcasters would not provide and programming that appeals to a wide audience—which makes the issue too complicated for a market test to be applied.³⁰⁵

140. Perhaps surprisingly, the BBC recently advocated a market failure approach to public service broadcasting. In July 2007, Mark Thompson, Director-General of the BBC, said in a speech on the future of the BBC that “the only economic justification for the BBC—indeed for any public intervention in broadcasting—is market failure.” He said that if “there is no market failure, you don’t need public service broadcasting” and that if “purely commercial media can adequately deliver all of the public value that the public actually want, you don’t need a BBC or Channel 4.”³⁰⁶

²⁹⁹ Independent Review Panel, *The future funding of the BBC*, July 1999, p 137

³⁰⁰ Independent Review Panel, *The future funding of the BBC*, July 1999, p 10

³⁰¹ Q 1

³⁰² Q 1

³⁰³ Q 593

³⁰⁴ Q 1

³⁰⁵ Q 1

³⁰⁶ Mark Thompson, *Delivering creative future: The BBC in 2012*, 10 July 2007

141. We believe that the Government and Ofcom should only consider intervening in the broadcasting market where it appears that certain types of content would not be provided or underprovided. Given that the market currently provides a wealth of content exhibiting public service purposes and characteristics as defined by Ofcom and is likely to continue this provision in the future, we believe that the level of Government and regulatory intervention should diminish as we enter the digital age. In order to be clear about policy objectives, we consider that the Government and Ofcom should specify the socially valuable programming genres or areas which they believe should be sustained, and undertake a detailed, robust analysis of the amount of this content that is likely to be provided after digital switchover in order to identify where, if anywhere, there is likely to be a shortfall. We have already suggested children’s programming and regional programming as two areas that merit examination. If the Government and Ofcom wish to intervene in areas where the market can provide, it is our view that they should explain why. More broadly, the Government and Ofcom should ensure that any decision to intervene is evidence-based, that the intended policy outcome is clear and measurable, and that the costs of intervention are transparent to consumers.

Public funding of broadcasters in addition to the BBC

142. Should the Government wish to intervene further to support the provision of public service content, we were told that there were a number of policy levers available. One lever was discussed at length in evidence: the provision of public funding, possibly from the proceeds of the licence fee, to broadcasters other than the BBC.

143. The total current direct and indirect subsidy for public service content in the UK is valued at about £3.5 billion. By far the biggest element of this is television licence fee income—over £3.2 billion in 2006–07—which is currently reserved exclusively for the BBC and paid over by DCMS in grant-in-aid.³⁰⁷ S4C receives direct funding—just under £100 million in 2007—also paid by DCMS in grant-in-aid.³⁰⁸ ITV, Channel 4 and Five receive indirect subsidies including free or subsidised spectrum, reserved capacity on the digital terrestrial television platform, a requirement that cable platforms must carry their main channel and, in the case of Channel 4, exemption from paying a dividend to the Government. In 2004, Ofcom estimated that the total value of the subsidy for ITV, Channel 4 and Five was around £430 million, but that this would fall to around £25 million per year after digital switchover.³⁰⁹

144. Many other countries that intervene to ensure the provision of certain types of content do so by distributing public funding to more than one broadcaster or content provider. In Canada, for example, we learnt that in addition to providing direct funding to Canada’s national public broadcaster—the Canadian Broadcasting Corporation—the Canadian Government has created a Canadian Television Fund to support the production and broadcasting of high-quality, distinctively Canadian television programmes. The Fund is a public-private partnership funded by the Canadian Government, cable companies and

³⁰⁷ BBC, *Part Two: BBC Annual Report and Accounts 2006–07*, July 2007, p 83

³⁰⁸ Ev 154

³⁰⁹ Ofcom, *Review of public service television broadcasting: Phase 2—Meeting the digital challenge*, September 2004, pp 24, 34

satellite service providers: independent production companies or private broadcaster affiliated companies can apply to the Fund for money to make certain genres of public service content. We also note that competition for public funding to support public service content is a feature of the New Zealand broadcasting system. The New Zealand Government provides direct funding for New Zealand’s public broadcaster—Television New Zealand—and also provides direct funding for New Zealand On Air, a body which allocates funding to broadcasters and programmes not otherwise provided by the commercial market.³¹⁰

145. In the UK, the Government has stated that it will review the case for making public funding more widely available beyond the BBC.³¹¹ In June 2007, the Government announced that it will bring forward this review, most likely to commence in 2009.³¹² In evidence to the Committee in October 2007, the current Secretary of State, Rt Hon James Purnell MP, said that no target date had yet been set for the end of the review, thought it would need to be finished by the completion of digital switchover. He also confirmed that, prior to the completion of the review, no decisions had been taken, such as “top-slicing” the BBC licence fee or over a distribution model for public funding.³¹³

146. If the Government were to conclude that public funding should be distributed more widely beyond the BBC, a number of funding sources would potentially be available:³¹⁴

- general taxation;
- funds hypothecated from spectrum sales;
- licence fee income; and/or
- a tax on the turnover of UK licensed broadcasters.

147. The Committee heard a range of views on one of these options: further distributing licence fee income more broadly beyond the BBC. Licence fee income is forecast to rise from £3.2 billion today to around £3.9 billion in 2012–13.³¹⁵ By that time, the costs associated with digital switchover will have been met, potentially releasing more money for broadcasting purposes. There will therefore be a substantial amount of money available to support public service content for the next six years at least.

148. Many stakeholders supported the idea of making available public funding, including television licence fee income, to providers other than the BBC, in particular doing so on a contestable basis. For example, Lord Burns, in his advice on BBC Charter review to the Secretary of State for Culture, Media and Sport, recommended that wider distribution of licence fee funds, via competition, would help sustain plurality in public service content. Lord Burns envisaged the creation of an independent Public Service Broadcasting

³¹⁰ DCMS, *Public service broadcasting—the international dimension*, July 2004, p 7, <http://www.bbccharterreview.org.uk>

³¹¹ DCMS, *A public service for all: the BBC in the digital age*, Cm 6763, March 2006, p 63

³¹² Secretary of State for Culture, Media and Sport, Speech to the Royal Television Society, 20 June 2007

³¹³ Uncorrected transcript of oral evidence taken before the Culture, Media and Sport Committee on 25 October 2007, HC (2006–07) 1099–i, Q 44

³¹⁴ Q 571

³¹⁵ HC Deb, 29 January 2007, col 109W

Commission, which would be able to award part of the licence fee to other public service broadcasters.³¹⁶ He told us that that the Government should identify the content that was missing and then establish and fund a body “to commission programmes in a contestable way” to fill “the gap between that which we would like to see and that which we think the market place will deliver”.³¹⁷ Irwin Stelzer, Director of Economic Policy Studies at the Hudson Institute, argued that there should be as much competition within the funding framework as possible and that competitive bidding for licence fee income by programme providers would get the best out of the system.³¹⁸ Stephan Shakespeare, Director of Doughty Media Limited, also advocated wider distribution and argued that “if there is going to be a licence fee [...] it ought not to prop up a monopoly”.³¹⁹

149. S4C currently benefits, albeit indirectly, from licence fee income. The BBC is required by statute to provide S4C with up to ten hours of programming per week. In 2007, S4C will receive around £23 million worth of licence fee funded content from BBC Wales and it has recently entered a strategic partnership under which the BBC will spend £72 million on S4C services over three years. S4C believes that this is a “blueprint for how public service broadcasters other than the BBC can utilise the licence fee for the benefit of other users” and that the system “sustains public service broadcasting outside of the BBC without compromising the BBC’s independence”.³²⁰ Bobby Hain, Managing Director of STV,³²¹ described the BBC’s provision of S4C content using licence fee income as a form of indirect redistribution of the licence fee and added that SMG may prefer a more direct version of that in future.³²²

150. Others were less positive about the idea of wider distribution of public funding, such as licence fee income. Ofcom, for example, told us that it did not have a definitive view on the issue but stated that everyone should “be open-minded about the funding model” after digital switchover.³²³ Mike Darcey, Chief Operating Officer at BSkyB, cautioned that when public funding is mixed with advertising funding, there is a risk that public money is used to make programming that is already commercially viable, raising the potential for the distortion of competition and state aid concerns.³²⁴

151. The BBC said that there are “powerful” arguments against distributing licence fee income more widely, such as breaking the clear link in the minds of the public between the licence fee and the BBC.³²⁵ Caroline Thomson, Chief Operating Officer, BBC, said that “no one in their right mind would completely rule out the licence fee going to support either Channel 4 or other forms of broadcasting” but argued that there are other levers at the

³¹⁶ Lord Burns GCB, Advice to the Secretary of State for Culture, Media and Sport, 27 January 2005

³¹⁷ Q 8

³¹⁸ Q 614

³¹⁹ Q 502

³²⁰ Ev 154

³²¹ STV is the broadcasting business division of SMG.

³²² Q 373

³²³ Qq 574, 575

³²⁴ Q 481

³²⁵ Q 332

Government and Ofcom's disposal before this would be necessary.³²⁶ Five stated that allocating licence fee income to any broadcaster other than the BBC would undermine the principle of the licence fee and weaken support for the licence fee in the long-term.³²⁷ On the other hand, Iona Jones, Chief Executive of S4C, told us that S4C's support from the licence fee did not in any way diminish the BBC's accountability to licence fee payers.³²⁸

152. Others raised concerns that redistributing licence fee income would merely transfer funds between broadcasters and not lead to an increase in public service content provision. David Elstein, Chairman of the Broadcasting Policy Group, believed that the BBC might simply reduce its public service output if licence fee income was redistributed.³²⁹ The Voice of the Listener and Viewer and Pact echoed this view.³³⁰ However, a redistribution of licence fee income would have a positive impact on the provision of public service content if, for example, the BBC were to drop commercial programming—such as imports or reality television—as a result of the transfer, and the recipient broadcaster were then to use the money to provide public service content. Some stakeholders told the Committee that the BBC should prioritise public service content ahead of more commercial programming in any case. BSkyB argued that the BBC should be required to prioritise its activities so that it delivers more public service content in areas which might not be served in the future and that the licence fee settlement is more than generous enough for the BBC to do so.³³¹

153. While the Government has committed itself to conducting a review of the case for wider distribution of public funding beyond the BBC, we note that the Government has already redistributed the licence fee to pay for broadcasting (and non-broadcasting) activities. For example, the BBC's provision of content to S4C is an indirect redistribution of licence fee income. The Government has also directly redistributed licence fee income by requiring the BBC to contribute up to £14 million to Channel 4's capital digital switchover costs.³³² In addition, the Government has required the BBC to fund, from the licence fee, the £600 million digital switchover targeted help scheme. In our Report on *Analogue Switch-off* we expressed concern that the Government was using licence fee income to fund a social cost.³³³ We still maintain this view, but we simply note that this demonstrates that the Government is willing to distribute licence fee income beyond the BBC to support outcomes other than the provision of public service content.

154. We note that the Government has committed itself to reviewing the case for making available public funds, including licence fee income, beyond the BBC and we welcome the Government's commitment to bring forward the timing of this review. We foresee that the BBC will remain the main provider of public service programming in the future and will continue to receive by far the largest share of the public funds

³²⁶ Q 337

³²⁷ Ev 129

³²⁸ Q 370

³²⁹ Q 27

³³⁰ Q 55, Q 162

³³¹ Ev 180

³³² Secretary of State for Culture, Media and Sport, Speech to the Royal Television Society, 20 June 2007

³³³ Culture, Media and Sport Committee, Second Report of Session 2005–06, *Analogue Switch-off: A signal change in television*, HC 650–I, para 95

available. However, we believe that public funding, should be made available beyond the BBC, on a contestable basis, to sustain plurality and to bring the benefits of competition to the provision of public service content that the market would not provide. We do not necessarily accept the arguments against the redistribution of public funding: redistribution might increase accountability and transparency and could lead to a greater provision of public service content. However, the body allocating public funding would need to take care not to fund programming that is already commercially viable.

155. We believe that the most appropriate source of public funds for public service content is either from the licence fee or from general taxation, although we do not believe that the overall cost to the public should be allowed to increase.

Channel 4

156. Distribution of public funding to broadcasters other than the BBC has most recently been discussed in the context of Channel 4. Channel 4 contends that it will face financial difficulties and a “funding gap” in delivering its public service remit in the run up to digital switchover. Under Channel 4’s current funding model, it cross-subsidises less commercially attractive public service output by generating profits from more commercial output. However, Channel 4 considered that “the old funding model that supported commercially funded public service broadcasting is breaking down”. This view echoes Ofcom’s prediction of the decline of the “PSB compact” and future pressure on advertiser funded public service broadcasters. Channel 4 argued that there is “probably a case for filling at least some of the funding gap that will be created as a result of digital switchover through new forms of public funding”.³³⁴

157. Many broadcasters disagreed with Channel 4’s contention that it will require further subsidies. For example, ITV said that “Channel 4 remains a broadcaster in rude good health” with high profit levels and growing market share.³³⁵ BSkyB told us that the “claim by Channel 4 that it faces commercial difficulties in providing public service broadcasting is neither plausible at present nor likely to become so in the future” as “revenues have been growing strongly and profits are at record levels”.³³⁶ Greg Dyke, former Director-General of the BBC, told the Committee that he was not as pessimistic about the future of Channel 4’s income as the broadcaster is, as Channel 4 has a young audience which is “crucial to advertisers”.³³⁷ Five described Channel 4 as a “robust and successful business” which was “well able to make a significant contribution to public service broadcasting for many years ahead”³³⁸ and its Chief Executive, Jane Lighting, said simply: “I wish I had their problems”.³³⁹

³³⁴ Ev 88

³³⁵ Ev 115

³³⁶ Ev 180

³³⁷ Q 396

³³⁸ Ev 129

³³⁹ Q 281

158. It is correct that Channel 4 is currently performing well. In financial terms, in 2006, Channel 4 Group generated revenues of over £930 million, made an operating profit of £14 million, and retained cash balances of £180 million. Between 2005 and 2006, Channel 4's digital channels, such as Film4, E4 and More4—which are supposed to create profits to subsidise public service content on Channel 4's main channel—increased revenues by 50% to over £128 million and halved their losses to around £17 million. In audience terms, between 2005 and 2006, Channel 4 increased the audience share of its main channel from 9.7% to 9.8%, and increased its portfolio audience share (including digital channels) from 11% to 12.1%.³⁴⁰

159. In the light of the concerns about its future viability, Ofcom recently conducted a review of Channel 4 including a financial review by consultants LEK. LEK analysed Channel 4's medium-term outlook under a “no schedule change” approach, whereby its programme schedule in terms of genre mix, and peak/non-peak, licence and remit programming was forecast to remain as in 2006³⁴¹ in order to “develop forward-looking models based on a clear and consistent approach”.³⁴² LEK's central case forecast was that Channel 4 is likely to face financial difficulties and be loss-making beyond 2010, with projected losses of around £32 million in 2012. LEK also concluded that current cash reserves could be sufficient to cover losses until at least 2012.³⁴³

160. In June 2007, Ofcom stated that although Channel 4's ability to deliver public service broadcasting in the future is likely to come under pressure from 2010 onwards, there is no need for immediate intervention. Ofcom added that work to evaluate potential interventions in the long term should begin now and stated that it will assess a full range of options for intervention after 2010.³⁴⁴

161. Channel 4 is currently profitable and has been performing well compared to other terrestrial broadcasters. We note, however, that Ofcom believes Channel 4 is likely to face financial difficulties in the medium term. After digital switchover, should Channel 4's residual subsidy be insufficient to provide public service content that the market would otherwise not provide, we believe that Channel 4 should be able to apply, on a contestable basis, for public funding—which could potentially include television licence fee income—to make specific public service programmes that meet its remit.

162. Concerns were also raised that Channel 4's remit is not defined tightly enough and is no longer appropriate in the digital age. Channel 4 has a remit to provide a broad range of high quality and diverse programmes which, in particular:

- demonstrate innovation, experiment and creativity in the form/content of programmes;
- appeal to the tastes and interests of a culturally diverse society;

³⁴⁰ Channel 4, *Channel Four Television Corporation Report and Financial Statements 2006*, April 2007

³⁴¹ L.E.K. Consulting, *Financial review of Channel 4*, April 2007, p 13

³⁴² L.E.K. Consulting, *Financial review of Channel 4*, April 2007, p 6

³⁴³ L.E.K. Consulting, *Financial review of Channel 4*, April 2007, p 26

³⁴⁴ Ofcom, *Channel 4 financial review: Statement*, June 2007

- make a significant contribution to meeting the need for programmes of an educational nature and other programmes of an educative value; and
- exhibit distinctive character.³⁴⁵

163. ITV told us that Channel 4 has benefited from a “loosely termed remit which has been interpreted very freely with few underlying measurable obligations and without any of the periodic assessments faced by the BBC (via Charter renewal) or ITV (via licence renewals)”.³⁴⁶ In May 2007, Lord Puttnam, the Deputy Chairman of Channel 4, called for a review of the broadcaster’s remit, stating that its remit “clearly isn’t fit for purpose in today’s multi-channel world”.³⁴⁷ He expressed concerns that the requirements to innovate and be distinctive are interpreted by today’s programme makers as a remit to be controversial, with little regard for being respected and trusted by audiences. These concerns have been amplified in the light of Channel 4’s provision of content that might not meet public service purposes and characteristics, however defined. For example, ITV said that the “reported £70 million per annum that Channel 4 spends on Big Brother and Celebrity Big Brother is not public service broadcasting”.³⁴⁸ On the other hand, Andy Duncan, Chief Executive of Channel 4, argued that the format of Big Brother still met Channel 4’s public service remit.³⁴⁹

164. In parallel with its work on Channel 4’s finances, Ofcom also undertook work to assess Channel 4’s delivery of its current public service remit. In April 2007, Ofcom noted that Channel 4 delivers the quantifiable elements of its remit, consistently meets and in some cases significantly exceeds its licence obligations and delivers many core public service broadcasting genres (for example, news and current affairs).³⁵⁰ However, Ofcom concluded that a range of different kinds of measures will be required to assess Channel 4’s public service contribution fully in the future and that quantitative measures such as hours of output or spending per hour in particular genres constitute only one part of a full assessment,³⁵¹ particularly given that several areas of its remit relate to the characteristics of its programming that do not easily translate into delivery of traditional programme genres.³⁵²

165. We believe that Channel 4’s remit is inappropriate in the digital age and that it needs to be more tightly tied to the provision of content that the market would be unlikely to provide, such as high-quality, challenging UK-produced drama and documentaries of the kind that used to be synonymous with the channel. A more tightly defined remit would help the body considering applications for public funding judge

³⁴⁵ Ev 87

³⁴⁶ Ev 116

³⁴⁷ “Puttnam: Channel 4’s remit outdated”, *MediaGuardian*, 1 June 2007

³⁴⁸ Ev 116

³⁴⁹ Q 176

³⁵⁰ Ofcom, *Channel 4 financial review: Ofcom analysis of the output, reach and impact of Channel 4’s remit delivery*, April 2007, p 3

³⁵¹ Ofcom, *Channel 4 financial review: Ofcom analysis of the output, reach and impact of Channel 4’s remit delivery*, April 2007, p 54

³⁵² Ofcom, *Channel 4 financial review: Ofcom analysis of the output, reach and impact of Channel 4’s remit delivery*, April 2007, p 8

whether to allocate money to Channel 4 and would also more clearly justify the expenditure of public money on supporting the channel. Of course, Channel 4 would still be able to produce commercial programming to cross-subsidise the provision of content that the market would not provide.

Streamlining regulation

166. The Committee also heard concerns that some elements of the existing broadcasting regulatory framework unnecessarily prevented commercial broadcasters from generating revenues to provide content. We discussed earlier the restrictions on the advertising of products high in fat, salt and sugar, but the Committee considered two further regulatory issues in television broadcasting—the Contract Rights Renewal mechanism and product placement regulations—and one issue in radio broadcasting—licence restrictions in relation to format and localness.

Contract Rights Renewal

167. Commercial broadcasters, including ITV, cited the Contract Rights Renewal (CRR) mechanism as one regulatory intervention that was damaging the advertising market and limiting their provision of public service content. The CRR mechanism is a remedy imposed by the Competition Commission in 2003 as a condition of the merger of Carlton and Granada (two of the largest Channel 3 licence holders). The merger effectively allowed the formation of ITV plc, and the CRR was imposed in recognition of the concerns of advertisers about the extent of market power after the merger. As a result, the CRR imposes conditions on ITV plc which are intended to ensure that advertisers and media buyers are no worse off after the merger than before. It includes an automatic “ratchet”—a linkage which reduces the amount advertisers will have to commit if ITV1’s audience shrinks.

168. Some stakeholders considered that it is necessary to review the CRR mechanism given the shift in advertising away from television towards the Internet and in light of its effect on ITV1 and commercial broadcasters as a whole. Since the CRR remedy was imposed, advertisers have been migrating away from television and radio broadcasters towards the Internet. The Internet Advertising Bureau noted that Internet advertising grew by 41% between 2005 and 2006 to over £2 billion, which is just over half the size of the £3.9 billion television advertising market.³⁵³

169. Michael Grade, Executive Chairman of ITV, told us that the CRR formula “ravages” ITV’s revenues and has a severely deflationary effect on the cost of ITV’s airtime.³⁵⁴ There are concerns that the CRR remedy is having a negative impact not only on ITV, but on the television advertising industry as a whole. For example, Enders Analysis said that the CRR remedy is having a significant deflationary effect on total television advertising spending and has made it easier for airtime buyers to withdraw money from the television medium as a whole when there is a large fall in ITV1 commercial audiences in the previous year.³⁵⁵

³⁵³ Internet Advertising Bureau, *Online adspend study 2006*, March 2007

³⁵⁴ Q 204

³⁵⁵ Enders Analysis, *CRR (Cash Withdrawal Machine)*, September 2006

Michael Grade told us that the CRR is “damaging for the whole sector” as “all commercial broadcasters price directly or indirectly off the ITV price, so there is a lot of money leaking out of the whole of the commercial sector as a result of CRR”.³⁵⁶ He has also since argued that it creates incentives for ITV to skew programme commissions and scheduling decisions towards achieving the maximum possible audience rather than encouraging greater experimentation and risk-taking. Bobby Hain, Managing Director of STV, agreed that the CRR depressed revenues for his channel and for television as a whole.³⁵⁷ Greg Dyke, former Director-General of the BBC, told us that the CRR has been “pretty damning to ITV” and noted that “some of the people who wanted protection at the beginning do not want it now because it has brought down the whole market”.³⁵⁸

170. Michael Grade argued that it was time for a review of the CRR.³⁵⁹ Ofcom told the Committee that it was in an “important dialogue” with the Office of Fair Trading (OFT) about the CRR. Ed Richards, Chief Executive of Ofcom, stated that it was true that the advertising market has moved on, but that it was also true to say that ITV1 still had a very high market share and that there were a number of different factors to consider.³⁶⁰ We note that ITV is still unique in being able to offer advertisers the ability to reach mass audiences. Michael Grade agreed that ITV was still in a strong position and accepted that advertisers are “entitled to the protection that ITV will behave properly and fairly in the sale of its advertising airtime” but he still believed it was time for a review.³⁶¹ The OFT has now announced a review of the CRR mechanism.³⁶²

171. We welcome the OFT’s decision to hold a review of the Contract Rights Renewal (CRR) mechanism. The advertising market has changed dramatically since the CRR mechanism was imposed and we believe there is a strong case for relaxing or possibly removing this remedy. We note, however, that ITV is still likely to have a high market share and consider that it is likely that there will still need to be some intervention.

Product placement

172. A further reform which could support commercial broadcasters is the removal of the prohibition on product placement.³⁶³ In our recent Report on *New Media and the Creative Industries*, we encouraged Ofcom to take advantage of the proposed derogation in the Audio Visual Media Services Directive under which limited use may be made of product placement.³⁶⁴

³⁵⁶ Q 222

³⁵⁷ Q 361

³⁵⁸ Q 397

³⁵⁹ Q 222

³⁶⁰ Oral evidence from Ofcom to the Culture, Media and Sport Committee and the Trade and Industry Committee on 17 April 2007, on the Ofcom Annual Plan for 2007–08, Q 56, HC (2006–07) 459

³⁶¹ Q 223

³⁶² “OFT statement regarding contract rights renewal”, Office of Fair Trading press release 129/07, 6 September 2007

³⁶³ The inclusion of, or reference to, a product or service within a programme in return for payment or other valuable consideration.

³⁶⁴ Culture, Media and Sport Committee, Fifth Report of Session 2006–07, *New Media and the Creative Industries*, HC 509–I, para 94

173. On 24 May 2007, agreement was reached on a new EU Audio Visual Media Services Directive. Under the new Directive, Member States would be able to allow product placement in cinematographic works, films, series, light entertainment and sports programmes, but not in children’s programmes. The Directive should enter into force by the end of 2007, and it would then be for Ofcom to decide whether to permit product placement in the UK.

174. In December 2005, Ofcom published a consultation document on issues relating to product placement, with a clear caveat that any action would depend on European Union policy. The responses to that consultation varied: in general, broadcasters favoured a controlled introduction of product placement while consumer and viewer groups were opposed to the concept. Ofcom also noted that the predicted economic benefits appeared to be modest.³⁶⁵ Pact noted that some genres (such as sport and entertainment) lent themselves better than others to product placement; and it suggested to us that if product placement were to be used sensitively and creatively, it would not have an adverse effect on the content itself.³⁶⁶ Ofcom’s research also noted public support for product placement which was “relevant to the programme and subtle”.³⁶⁷

175. Given the concerns about the future provision of some genres of public service content, we reiterate our recommendation from our Report on *New Media and Creative Industries* that commercial broadcasters should be permitted to introduce product placement within the boundaries set by the new EU Audio Visual Media Services Directive.

Radio

176. The commercial radio industry told the Committee that regulation of commercial radio should be reduced. Commercial radio licences are currently allocated by Ofcom via “beauty contests” which are based mainly on the applicant’s proposed provision of public service content, such as news, traffic reports and weather. Ofcom is also required by the Communications Act 2003 to regulate to secure an appropriate amount of “local” material in commercial radio. Each local station is therefore required to provide a service which caters for local interests and is distinct from the output of other local services. Ofcom includes details of these obligations, known as the “format”, in the station’s licence.

177. The RadioCentre said that commercial radio is “pretty overregulated” given its size and relative impact in the market place.³⁶⁸ The downturn in the broadcasting advertising market as whole has had an impact on commercial radio as well as television. While some radio stations, particularly those in areas where there is less competition, are highly profitable, others struggle financially. The RadioCentre told us that “competition between

³⁶⁵ Ofcom, *Product placement: Summary of responses to consultation on issues relating to product placement*, October 2006

³⁶⁶ Culture, Media and Sport Committee, Fifth Report of Session 2006–07, *New Media and the Creative Industries*, HC 509–II, Q 374

³⁶⁷ Ofcom, *The future of television funding*, September 2005

³⁶⁸ Q 72

radio owners for advertising revenue is fierce”.³⁶⁹ Ed Richards, Chief Executive of Ofcom, agreed that commercial radio companies are facing a lot of pressure.³⁷⁰

178. The commercial radio sector also told the Committee that it would provide public service content without regulation. GCap Media said that commercial radio provides public service output because of its understanding of community needs and its sense of corporate responsibility.³⁷¹ The RadioCentre argued that its member stations make substantial public service contributions and many go beyond the minimum criteria required by Ofcom.³⁷² As such, the commercial radio sector considered that regulation requiring them to provide public service content is not necessary.

179. In particular, the commercial radio sector told the Committee that it would provide local content without regulation. Kevin Stewart, Chief Executive of Tindle Radio, said that “localness” was radio’s unique selling point and that there was “no necessity” to legislate for localness.³⁷³ The RadioCentre cited research that found that about 65% of commercial radio stations delivered more local news than their format required.³⁷⁴ However, Ofcom stated that it did “not believe that the market would necessarily supply local programming [...] as local programming is expensive, and it is always likely to be more profitable to network as much programming as possible”.³⁷⁵

180. In April 2007, Ofcom released a consultation on radio regulation, which set out a number of proposals to deregulate the radio industry, including proposals to relax the format regulations on analogue stations. Ofcom proposed to link these changes to the level of digital radio take-up. Some stakeholders stated that restrictions should be lifted sooner as they believed that it would be hard to drive growth in digital listening while they were still subject to onerous regulation. Ed Richards, Chief Executive of Ofcom, told the Committee that he believed that regulation needed to be relaxed in relation to radio but that Ofcom needed to strike a balance to make sure it respected its statutory obligations relating to diversity and “localness”. Tim Suter, Partner, Content and Standards at Ofcom, told us that Ofcom was focusing on finding the balance between relaxing regulation and maintaining a core of public purposes.³⁷⁶

181. We recognise the substantial provision of public service content from the radio sector, including commercial radio. We sympathise with the concerns of commercial radio that the BBC is over-dominant with a 55% share of total listening and that the sector is too heavily regulated relative to its size. Ofcom proposes to reform the regulation of commercial radio and we encourage it to be as radical and as speedy as

³⁶⁹ Ev 40

³⁷⁰ Q 531

³⁷¹ Ev 28

³⁷² Ev 37

³⁷³ Q 63

³⁷⁴ Q 62

³⁷⁵ Ofcom, *Future of radio: The future of FM and AM services and the alignment of analogue and digital regulation*, April 2007, p 8

³⁷⁶ Q 531

possible in removing requirements that are unnecessary given the impact of regulation on the commercial sector's current and likely future provision of public service content.

Indirect subsidies

182. In Chapter 4 we outlined the indirect subsidies enjoyed by ITV, Channel 4 and Five, including free and subsidised access to spectrum, prominence on the electronic programme guide and must carry status on cable. While we believe that the value of these subsidies is diminishing, some stakeholders told us that new indirect subsidies could play a role should the Government wish to support the provision of public service content in future.

183. Channel 4 advocated indirect, as opposed to direct, funding for public service content. It stated that, should the Government and Ofcom decide further support is necessary for Channel 4, support should come in the form of indirect subsidy, such as an additional gift of spectrum for digital terrestrial television. Channel 4 prefers indirect funding to direct funding as it believes that the former has enabled the evolution of vital commercial and entrepreneurial spirit in recipient broadcasters and has allowed an additional level of institutional freedom.³⁷⁷ Andy Duncan, Chief Executive of Channel 4, said that the reason that the channel prefers indirect subsidies is that it allows it a creative freedom to take risks.³⁷⁸ Channel 4 and Ofcom noted that external funding bodies may be able to exert direct control over the public service content for which they have paid.³⁷⁹ However, we note that S4C receives direct public funding and we reiterate our conclusion that this demonstrates that broadcasters with direct public funding can deliver public service content without having their editorial independence compromised.

184. Direct funding also has a range of benefits. Ofcom pointed out that direct, transparent funding offers potential for a significant shift in the appreciation of the cost of public service content as it would, for the first time, make the cost of public service content explicit to all stakeholders, both recipients and donors.³⁸⁰ In addition, as direct funding could make the cost of each element of public service content explicit, this could make value for money discussions easier and more prominent and enable higher levels of scrutiny to accompany the levels of funding.³⁸¹ Direct funding would provide transparency and accountability in how the UK spends public money on public service content, two factors which David Elstein, Chairman of the Broadcasting Policy Group, argued were necessary.³⁸² In any case, Ofcom noted that indirect subsidies will no longer be possible on the scale the UK has experienced in the past and stated that any further funding will need to be in direct forms.³⁸³

³⁷⁷ Ev 91

³⁷⁸ Q 196

³⁷⁹ Q 196, Ev 210

³⁸⁰ Ev 210

³⁸¹ Ev 210

³⁸² Q 5

³⁸³ Ev 210

Spectrum

185. The largest current indirect subsidy for public service content is the scarce analogue spectrum allocated to the public service broadcasters. The BBC, Channel 4 and S4C each have an allocation of free spectrum. ITV and Five have privileged access to subsidised spectrum: these broadcasters make licence payments which include an implicit payment for use of the spectrum. It is generally recognised that the most valuable spectrum in the UK is between around 200 Mhz and 1 Ghz. The spectrum used to broadcast analogue television occupies nearly half—368 Mhz or 46%—of this spectrum.³⁸⁴

186. The UK's analogue television signals will be switched off, region by region, between 2008 and 2012. In principle, this means that all 368 Mhz might be available for new uses and technologies, including mobile television, wireless broadband and digital television services in both standard or high definition. However, the Government had previously decided that 256 Mhz—or 70%—of the 368 Mhz should be used for digital terrestrial television and be allocated, at no cost until at least 2010, to the public service broadcasters.³⁸⁵ This leaves a remaining 112 Megahertz—known as the “digital dividend”—to be released for new uses.

187. It was suggested that some of the scarce spectrum that has not already been allocated to the public service broadcasters might be given in future to help sustain public service content. For example, Caroline Thomson, Chief Operating Officer of the BBC, told us that one lever for supporting public service content could be to offer broadcasters additional free or subsidised spectrum in return for commitments to provide public service content.³⁸⁶ Channel 4 said that it is particularly keen to identify alternative means of indirect support such as access to additional digital terrestrial television spectrum.³⁸⁷

188. The way spectrum is managed, both in the UK and elsewhere, is changing. Spectrum is increasingly recognised as a valuable resource with many alternative uses. There is rapid innovation in wireless services, and every type of wireless device needs access to spectrum. It is therefore increasingly important to ensure that the way spectrum is managed creates incentives to use it efficiently, so that the use of spectrum changes when this benefits society. For this reason, most users of spectrum, including the Ministry of Defence, the emergency services and telecommunications companies, currently pay for access to spectrum.³⁸⁸

189. If the Government decides that additional forms of support are needed for public service content, we believe that this support should be provided using direct, accountable subsidies. On balance, we believe that the benefits of direct funding outweigh any risks to broadcasting independence. In particular, we believe that the Government and Ofcom should not interfere further with the spectrum market to

³⁸⁴ Ofcom, *Digital dividend review*, December 2006, p 6

³⁸⁵ Ofcom, *Digital dividend review*, December 2006, p 7

³⁸⁶ Q 336

³⁸⁷ Ev 88

³⁸⁸ Ev 206

pursue broadcasting policy, for example by allocating additional spectrum to support the provision of public service content.

190. In June 2007, Ofcom announced that from 2014, digital terrestrial radio and television broadcasters will be required to pay an annual fee—known as Administered Incentive Pricing—that reflects the amount of spectrum they use.³⁸⁹ Ofcom’s policy was criticised by broadcasters. Caroline Thomson, Chief Operating Officer of the BBC, stated that the proposals to introduce spectrum pricing for broadcasting would increase the pressures on the public service broadcasters.³⁹⁰ Lisa Kerr, Head of External Affairs at the RadioCentre, argued that the existing public service content which commercial radio provides could be threatened because of the introduction of Administered Incentive Pricing.³⁹¹

191. Ofcom maintains that a requirement to pay merely brings broadcasters into line with most other spectrum users. It adds, furthermore, that it has a duty to secure optimum use of spectrum and that that duty is best met by providing incentives to users to adopt technologies which enable effective and minimal use of spectrum. In evidence to our *New Media and Creative Industries* inquiry, Ofcom suggested that the likely cost to broadcasters, maybe in the region of £3 million per year for a channel such as ITV1, is comparatively small in relation to their previous licence fee payments and other regulatory burdens imposed on commercial broadcasters, and could be absorbed.³⁹²

192. We support Ofcom’s decision to introduce Administered Incentive Pricing for spectrum used for broadcasting. We note that broadcasters have benefited from a long immunity from paying for the spectrum they use and that the introduction of Administered Incentive Pricing will merely bring broadcasters into line with other users of the spectrum, such as the Ministry of Defence.

193. Pressure is being applied upon Ofcom to reserve some of the “digital dividend” spectrum for high definition television services. For example, the public service broadcasters and manufacturers and retailers of high definition televisions (including Sony, Toshiba, Samsung and Dixons) have established a campaign—“HD for all”—which aims to ensure that Ofcom, in allocating the spectrum released by digital switchover, reserves adequate spectrum for public service broadcasting in high definition to ensure “that the social value of universal digital terrestrial television is not lost and the public interest is protected”.³⁹³

194. Greg Dyke, former Director-General of the BBC, told us that some spectrum should be given away for high definition television as, without high definition, Freeview could become a transitory technology and not a long-term technology.³⁹⁴ Michael Grade said that

³⁸⁹ Ofcom, *Future pricing of spectrum used for terrestrial broadcasting*, June 2007, p 1

³⁹⁰ Q 337

³⁹¹ Q 114

³⁹² Culture, Media and Sport Committee, Fifth Report of Session 2006–07, *New Media and the Creative Industries*, HC 509–II, Qq 249, 250

³⁹³ Oral evidence from Ofcom to the Culture, Media and Sport Committee and the Trade and Industry Committee on 17 April 2007, on the Ofcom Annual Plan for 2007–08, Ev 22, HC (2006–07) 459

³⁹⁴ Q 421

Ofcom's forthcoming allocation of the spectrum released by digital switchover "threatens to disadvantage digital terrestrial television viewers".³⁹⁵

195. Other broadcasters have suggested that some of the spectrum released by digital switchover should be reserved for "socially valuable broadcasting". For example, Teachers TV, a channel directly funded by the Department for Children, Schools and Families, told the Committee that "non-commercial social broadcasters" such as itself were failing to fulfil their potential for social impact due to restricted access to the digital terrestrial television platform. Teachers TV proposed that Ofcom should amend its auction model to achieve greater social value from the released spectrum.³⁹⁶

196. The Government has declared that it supports Ofcom's proposals to auction, on an open basis, the spectrum released by digital switchover and views such an approach as consistent with the Government's established policy.³⁹⁷ In our *Report on New Media and the Creative Industries*, we concluded that a persuasive case had not been made to justify reserving spectrum for high definition television following digital switchover, and we endorsed Ofcom's approach of not favouring any particular technology or application in the framework being drawn up for re-allocation of spectrum.³⁹⁸

197. We reiterate our support for Ofcom's technology-neutral approach to auctioning the spectrum released by digital switchover. We have continued to listen to the arguments but we fail to see how transmission of extra high definition digital terrestrial television channels delivers sufficient extra public value to justify intervention. In any case, we note that Ofcom and the public service broadcasters have agreed in principle that it is technically possible to transmit up to four channels in high definition within their current allocation of spectrum. We agree that the most appropriate use of the vacated spectrum is best determined by market mechanisms and note that this will still allow the broadcasters the option of purchasing additional spectrum in the marketplace.

³⁹⁵ Q 204

³⁹⁶ Ev 384

³⁹⁷ HM Treasury, *Budget 2007*, HC (2006–07) 342, p 151

³⁹⁸ Culture, Media and Sport Committee, Fifth Report of Session 2006–07, *New Media and the Creative Industries*, HC 509–I, para 100

Conclusions and recommendations

1. The purposes and characteristics approach put forward by Ofcom, though hard to measure and assess, is a useful starting point for examining public service content. We agree that a huge amount of currently available content meets these purposes and characteristics, and that this content is available from the designated public service broadcasters and from other providers including commercial broadcasters who are not bound by public service obligations. Given this, we believe that the fact that content exhibits public service purposes and characteristics as defined by Ofcom is not, in itself, a sufficient condition for the Government to considering intervening to provide this content. (Paragraph 23)
2. There is currently an abundant supply of content that exhibits public service purposes and characteristics as defined by Ofcom. There are more providers and hours of this type of content available to consumers than ever before, including a substantial provision from the radio and digital multi-channel sectors. We note, however, the criticism that the digital multi-channel sector is not sufficiently investing in UK-produced content. We welcome the declared intention of these broadcasters to increase their investment in this area and believe that Ofcom should conduct and publish a detailed analysis of the multi-channel sector's level of investment in UK-produced content. (Paragraph 38)
3. Plurality in the provision of content is important, as it brings the benefits of competition, different services and a diversity of viewpoints to consumers. We consider that there is currently a plurality among providers, commissioners and producers of public service content and we note and welcome the Government's commitment to plurality. Despite this commitment, it is the case that a large proportion of the Government's support for public service content has been concentrated on one provider, the BBC. We believe that the Government and Ofcom should set out what they consider to be a sufficient level of plurality, and the investment necessary to achieve that, in order to assess whether this is likely to be threatened in future. (Paragraph 42)
4. We believe that the primary and most important factor for policy-makers and regulators to assess when looking at the provision of public service content is the amount of content exhibiting public service purposes and characteristics, as defined by Ofcom, available to consumers. However, we recognise that an assessment of the number of public service content providers and their levels of public subsidy can be a useful, but firmly secondary, way of looking at the issue. (Paragraph 47)
5. We recognise that the value of the indirect subsidy of analogue spectrum for ITV, Channel 4 and Five, which granted exclusive access to mass audiences, will diminish as the UK approaches digital switchover and we note the concerns that ITV, Channel 4 and Five might therefore reduce their current provision of public service content. On the other hand, we note that there will still be an (albeit smaller) subsidy for the commercial public service broadcasters after digital switchover and we believe that this, and broadcasters' commercial interests, will sustain public service content. We do, however, believe that it will be increasingly difficult to continue to impose

public service obligations on commercial broadcasters beyond the value of this ongoing subsidy. The question, increasingly, will be what level of obligation is sustainable. (Paragraph 53)

6. The BBC currently provides a wide range of public service content across many genres and plays an important role in setting quality standards for the rest of the broadcasting market. We expect the BBC to continue to provide quality programming and to set standards for other broadcasters in future given its guaranteed income of over £3.2 billion per annum. (Paragraph 57)
7. We note that some argue that the BBC should provide more commercially-orientated programming in order to reach a wide range of audiences. However, we do not share this view and instead believe that the BBC should place a high priority on areas that other broadcasters will not provide, while continuing to offer high quality programming which attracts diverse audiences. Given the substantial provision of public service content by other broadcasters, we believe that the BBC could deliver its public service remit without providing all of its current range of services and we note and welcome the BBC's commitment to become smaller in terms of its scale as an organisation and in its operations. We do not believe, however, it is in the public interest for the BBC to be allowed to wither, as some would like, for example, to become akin to the Public Broadcasting Service (PBS) in the US. (Paragraph 63)
8. While we recognise the concerns that the BBC received a lower licence fee settlement than desired, we believe that the BBC can continue its role in providing high quality programming within the resources available to it and we welcome the BBC's plans to become a smaller but more distinctive organisation. However, the increase in market provision of public service content suggests to us that further analysis needs to be undertaken to assess the level of public funding that needs to be made available for public service content. On current trends, we would expect that the case for current levels of public funding will diminish. The BBC has rightly reacted to the arrival of new channels by drawing back from programming that can be broadcast by others. We welcome the BBC's approach, and encourage the BBC Trust to limit the BBC's activities in areas where there is already alternative provision. The BBC Trust should not treat licence fee income as a sum that must necessarily be spent in its entirety, irrespective of others' provision of public service content, and we encourage it to bear in mind its option of not drawing down the full amount of the licence fee in future. (Paragraph 68)
9. We are encouraged by S4C's optimism about its ability to provide public service content in the future. S4C demonstrates that a broadcaster with direct public funding and a tightly defined remit can deliver public service content without having its editorial independence compromised. (Paragraph 72)
10. The provision of public service content by the digital multi-channel sector has increased plurality in UK broadcasting. The sector provides a range and diversity of content that exhibits public service purposes and characteristics as defined by Ofcom and this provision may very well increase after digital switchover as its channels gain access to larger audiences and revenues. (Paragraph 75)

11. We find this failure by the Satellite and Cable Broadcasters' Group to release information on their members' investment in UK-produced children's programming very disappointing. In evidence, this body has been one of the most optimistic about the prospects for market-provided public service content in the digital age, but its failure to provide these statistics could be taken as undermining that confidence. (Paragraph 76)
12. British children in multi-channel homes have access to more children's television than ever before. This content is provided by a range of broadcasters, from the designated public service broadcasters to the digital multi-channels. Children are increasingly consuming content on platforms other than traditional mixed genre television channels. We are therefore not unduly concerned if public service broadcasters shift their children's programming focus away from their main terrestrial channels, instead providing content on dedicated children's channels. We do, however, believe that before the completion of digital switchover, it will still be important for the public service broadcasters to provide some UK-produced children's programming on their main terrestrial channels, and after the completion of digital switchover, for the public service broadcasters to provide UK-produced children's programming free-to-air. (Paragraph 83)
13. While we agree with the policy objective of reducing childhood obesity, it is the case that restrictions on the advertising of food and drink products high in fat, salt and sugar have increased the financial pressure on broadcasters of children's programming and that they will have an adverse effect on the provision of original, UK-produced children's content. (Paragraph 84)
14. We believe that a mix of imported and UK-produced content is beneficial for UK children as both types of programming can help children learn and develop, and we believe that UK-produced content plays an important role in maintaining children's cultural identity. We note the commitment to children's programming of the BBC, ITV, Five and some digital multi-channels and we encourage these broadcasters to continue to contribute to the production of UK-originated output. Despite these commitments, we believe that the financial pressure likely to face the main current commercial commissioners of children's content, in part due to the Government and Ofcom's interventions which will restrict advertising revenue for children's programming, creates uncertainty about the level of UK-produced children's content that will be attained in future. We believe that it is important that there remains a significant amount of UK-produced children's programming on commercial channels as well as the BBC, and we would be very disappointed if ITV further reduced or withdrew from commissioning UK children's content in the future. We therefore recommend that the Government and Ofcom should identify how much UK children's production they consider is necessary and come to a view on whether they believe there will be a shortfall. We welcome Ofcom's recent discussion paper on the future of children's programming as a good first step in this process. If a shortfall is envisaged, we believe that children's programming should be eligible for assistance as we set out later. (Paragraph 86)
15. On the basis of the evidence, it is our judgement that there is no near- or mid-term crisis in the provision of network television news. In the longer term, while we note

the arguments that high-quality news is relatively expensive to make, we believe that, on balance, the commercial public service broadcasters are likely to provide national news in the future as it is regarded as essential for their brands, but the importance of maintaining plurality in high quality news provision is such that we should remain vigilant in case this does not occur. (Paragraph 94)

16. In the digital age, we believe policy-makers should keep a watching brief on the provision of current affairs and investigative programming and if there is a shortfall, this genre might also be eligible for assistance as set out later. (Paragraph 95)
17. An increasing amount of news content is provided by commercial broadcasters and other providers, and we note the concerns that this content may be of lower quality and may be less independent and impartial than content provided by the designated public service broadcasters. We are not unduly concerned, however, if news coverage from non-public service broadcasters is presented from a particular viewpoint, as long as this is made clear to the viewer: we believe that it is more important for there to be a balanced range of views and opinions from news providers across the media spectrum. News provision from other organisations, especially on new media, has an important role in maintaining the plurality and diversity of news output in the UK. We recognise in the age of broadcast by broadband that it is neither possible, nor necessarily desirable, to subject every such operator to impartiality rules. We do believe, however, that the impartiality requirements currently applied to public service broadcasters have served the UK well and policy-makers again need to keep a watching brief as the industry develops in the digital age. (Paragraph 101)
18. We note the concerns about the future viability of regional programming and we recognise that regional programming is relatively costly to produce as it cannot generate the mass audiences and revenues of national programming. While we note that it is in the interests of broadcasters to provide regional content, as this type of content is attractive to viewers, we believe that content specific to the nations and regions, especially news programming, may come under pressure in future. We also recognise the concern in some distinct areas such as the South West and the Border region about the impact that ITV's proposals will have on relevant local news provision. We therefore believe that the Government and Ofcom should identify how much regional material they believe should be provided, and come to a view on whether they believe there will be a shortfall in future. If a shortfall is envisaged we believe that regional programming should be eligible for assistance as we set out later. In the interests of plurality it would be regrettable if regional news in any area were to become solely the preserve of the BBC. (Paragraph 107)
19. We note the enthusiasm of some witnesses for the potential for local television and the view that the Government needs to take action to support the provision of local content. However, while we do see some value in local content, we are not convinced of the need to intervene to support local television, particularly by giving away spectrum for broadcasting on digital terrestrial television. If providers want to offer local television services, we believe that more targeted delivery platforms, such as broadband, are more appropriate. (Paragraph 117)

20. A huge amount of content exhibiting public service purposes and characteristics, as defined by Ofcom, is currently available on new media and there is a plurality of providers of this content. We believe that there is clearly no threat to the production or distribution of public service content on new media platforms. While we note the efforts by the designated public service broadcasters to make their content available on new media, we believe that material provided by smaller, newer entrants can also meet public service purposes and characteristics as defined by Ofcom. We do not accept the arguments that the Government needs to assist new media start-ups to achieve scale and we therefore consider that there is no need for further intervention to support public service content on new media. (Paragraph 124)
21. Given the huge amount of public service content currently available on new media, we believe that the creation of a new public service publisher, as currently envisaged by Ofcom, is unnecessary. The creation of a new public service content institution for new media would run the risk of distorting the market and impeding innovation. We also believe that an approach that attempts to impose the institutional interventions of the past in the new media world is misguided. At a time when technological change and digital uptake strengthens the case for the withdrawal of existing intervention, the introduction of new public institutions does not appear to be merited. (Paragraph 132)
22. Competition between providers has provided consumers with a range and diversity of content. We believe that in future, competition—not least with, and from, the BBC—will drive the provision of quality content for consumers, although there are already evident areas of concern. The most appropriate way for the Government and Ofcom to encourage the beneficial effects of competition is not to employ a heavy-handed approach to regulation. They should ensure the minimum amount of public intervention that is necessary to meet policy objectives with respect to the continuing availability of public service content in all its forms. (Paragraph 135)
23. We believe that the Government and Ofcom should only consider intervening in the broadcasting market where it appears that certain types of content would not be provided or underprovided. Given that the market currently provides a wealth of content exhibiting public service purposes and characteristics as defined by Ofcom and is likely to continue this provision in the future, we believe that the level of Government and regulatory intervention should diminish as we enter the digital age. In order to be clear about policy objectives, we consider that the Government and Ofcom should specify the socially valuable programming genres or areas which they believe should be sustained, and undertake a detailed, robust analysis of the amount of this content that is likely to be provided after digital switchover in order to identify where, if anywhere, there is likely to be a shortfall. We have already suggested children's programming and regional programming as two areas that merit examination. If the Government and Ofcom wish to intervene in areas where the market can provide, it is our view that they should explain why. More broadly, the Government and Ofcom should ensure that any decision to intervene is evidence-based, that the intended policy outcome is clear and measurable, and that the costs of intervention are transparent to consumers. (Paragraph 141)

24. We note that the Government has committed itself to reviewing the case for making available public funds, including licence fee income, beyond the BBC and we welcome the Government's commitment to bring forward the timing of this review. We foresee that the BBC will remain the main provider of public service programming in the future and will continue to receive by far the largest share of the public funds available. However, we believe that public funding, should be made available beyond the BBC, on a contestable basis, to sustain plurality and to bring the benefits of competition to the provision of public service content that the market would not provide. We do not necessarily accept the arguments against the redistribution of public funding: redistribution might increase accountability and transparency and could lead to a greater provision of public service content. However, the body allocating public funding would need to take care not to fund programming that is already commercially viable. (Paragraph 154)
25. We believe that the most appropriate source of public funds for public service content is either from the licence fee or from general taxation, although we do not believe that the overall cost to the public should be allowed to increase. (Paragraph 155)
26. Channel 4 is currently profitable and has been performing well compared to other terrestrial broadcasters. We note, however, that Ofcom believes Channel 4 is likely to face financial difficulties in the medium term. After digital switchover, should Channel 4's residual subsidy be insufficient to provide public service content that the market would otherwise not provide, we believe that Channel 4 should be able to apply, on a contestable basis, for public funding—which could potentially include television licence fee income—to make specific public service programmes that meet its remit. (Paragraph 161)
27. We believe that Channel 4's remit is inappropriate in the digital age and that it needs to be more tightly tied to the provision of content that the market would be unlikely to provide, such as high-quality, challenging UK-produced drama and documentaries of the kind that used to be synonymous with the channel. A more tightly defined remit would help the body considering applications for public funding judge whether to allocate money to Channel 4 and would also more clearly justify the expenditure of public money on supporting the channel. Of course, Channel 4 would still be able to produce commercial programming to cross-subsidise the provision of content that the market would not provide. (Paragraph 165)
28. We welcome the OFT's decision to hold a review of the Contract Rights Renewal (CRR) mechanism. The advertising market has changed dramatically since the CRR mechanism was imposed and we believe there is a strong case for relaxing or possibly removing this remedy. We note, however, that ITV is still likely to have a high market share and consider that it is likely that there will still need to be some intervention. (Paragraph 171)
29. Given the concerns about the future provision of some genres of public service content, we reiterate our recommendation from our Report on New Media and Creative Industries that commercial broadcasters should be permitted to introduce

product placement within the boundaries set by the new EU Audio Visual Media Services Directive. (Paragraph 175)

30. We recognise the substantial provision of public service content from the radio sector, including commercial radio. We sympathise with the concerns of commercial radio that the BBC is over-dominant with a 55% share of total listening and that the sector is too heavily regulated relative to its size. Ofcom proposes to reform the regulation of commercial radio and we encourage it to be as radical and as speedy as possible in removing requirements that are unnecessary given the impact of regulation on the commercial sector's current and likely future provision of public service content. (Paragraph 181)
31. If the Government decides that additional forms of support are needed for public service content, we believe that this support should be provided using direct, accountable subsidies. On balance, we believe that the benefits of direct funding outweigh any risks to broadcasting independence. In particular, we believe that the Government and Ofcom should not interfere further with the spectrum market to pursue broadcasting policy, for example by allocating additional spectrum to support the provision of public service content. (Paragraph 189)
32. We support Ofcom's decision to introduce Administered Incentive Pricing for spectrum used for broadcasting. We note that broadcasters have benefited from a long immunity from paying for the spectrum they use and that the introduction of Administered Incentive Pricing will merely bring broadcasters into line with other users of the spectrum, such as the Ministry of Defence. (Paragraph 192)
33. We reiterate our support for Ofcom's technology-neutral approach to auctioning the spectrum released by digital switchover. We have continued to listen to the arguments but we fail to see how transmission of extra high definition digital terrestrial television channels delivers sufficient extra public value to justify intervention. In any case, we note that Ofcom and the public service broadcasters have agreed in principle that it is technically possible to transmit up to four channels in high definition within their current allocation of spectrum. We agree that the most appropriate use of the vacated spectrum is best determined by market mechanisms and note that this will still allow the broadcasters the option of purchasing additional spectrum in the marketplace. (Paragraph 197)

Formal minutes

Tuesday 6 November 2007

Members present:

Mr John Whittingdale, in the Chair

Janet Anderson
Philip Davies
Paul Farrelly
Mr Mike Hall

Alan Keen
Rosemary McKenna
Adam Price
Mr Adrian Sanders

Draft Report (*Public service content*), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Motion made and Question put, That paragraphs 1 to 197 stand part of the Report.

The Committee divided

Ayes 5	Noes 1
Janet Anderson	Alan Keen
Philip Davies	
Paul Farrelly	
Mr Mike Hall	
Adam Price	

Paragraphs agreed to.

Motion made and Question put, That the Summary stand part of the Report.

The Committee divided.

Ayes 5	Noes 1
Janet Anderson	Alan Keen
Philip Davies	
Paul Farrelly	
Mr Mike Hall	
Adam Price	

Summary agreed to.

Motion made and Question put, That the Report be the First Report of the Committee to the House.

The Committee divided.

Ayes 5	Noes 1
Janet Anderson	Alan Keen
Philip Davies	

Paul Farrelly
Mr Mike Hall
Adam Price

Resolved, That the Report be the First Report of the Committee to the House.

Ordered, That the Chairman do make the report to the House.

Written evidence was ordered to be reported to the House for printing with the Report.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 13 November at 10.15 a.m.]

Witnesses

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Lord Burns GCE , a Member of the House of Lords; Mr David Elstein , Mr Tim Gardam , and Mr Jeremy Mayhew .	Ev 3
Ms Jocelyn Hay , Voice of the Listener and Viewer; Ms Kirsty Young , Classic FM Consumer Panel, Professor David Buckingham , and Mr Richard D North .	Ev 20
 Tuesday 27 February 2007	
Mr Darren Henley , Managing Director, Classic FM; Mr Simon Cooper , Corporate Responsibility Adviser, GCap Media; Ms Lisa Kerr , Head of External Affairs, RadioCentre; and Mr Kevin Stewart , Chief Executive, Tindle Radio.	Ev 44
Mr John McVay , Chief Executive, Pact; and Mr Mike Watts , Director, Novel Entertainment, and Chair, Pact Children’s Policy Group.	Ev 79
 Tuesday 13 March 2007	
Mr Andy Duncan , Chief Executive, and Ms Anne Bulford , Group Finance Director, Channel 4	Ev 95
Mr Michael Grade , Executive Chairman, and Mr John Cresswell , Chief Operating Officer, ITV.	Ev 120
Ms Jane Lighting , Chief Executive, and Ms Sue Robertson , Director of Corporate Affairs, FIVE	Ev 131
 Tuesday 24 April 2007	
Mr Mark Thompson , Director-General, and Ms Caroline Thomson , Chief Operating Officer, BBC.	Ev 137
Ms Iona Jones , Chief Executive, S4C; Mr Bobby Hain , Managing Director, STV; and Mr Dave Rushton , Director, Institute of Local Television.	Ev 162

Tuesday 8 May 2007

Mr Greg Dyke Ev 172

Mr Mike Darcey, Chief Operating Officer, **Mr Graham McWilliam**, Head of Corporate Communications and Policy; and **Mr Martin Le Jeune**, Head of Public Affairs, BSkyB. Ev 182

Mr Mark Wood, Chief Executive, ITN; **Mr Stephan Shakespeare**, Director, Doughty Media Limited, and **Mr Anthony Lilley**, Chief Executive, Magic Lantern Productions. Ev 194

Tuesday 15 May 2007

Mr Ed Richards, Chief Executive, and **Mr Tim Suter**, Partner, Content and Standards, Ofcom. Ev 216

Tuesday 12 June 2007

Mr Geoff Metzger, Satellite and Cable Broadcasters' Group, and **Mr Irwin Stelzer**. Ev 241

Thursday 14 June 2007

Mr Shaun Woodward MP, Minister for Creative Industries and Tourism; and **Mr Jon Zeff**, Director of Broadcasting Policy, Department for Culture, Media and Sport. Ev 262

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3	Richard D North	Ev 20
4	GCap Media plc	Ev 28
5	RadioCentre	Ev 36, 56
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7	Channel 4	Ev 87, 104
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24	Tom Collis	Ev 282
25	British Telecommunications plc	Ev 282
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27	Scottish Screen	Ev 287
28	Save Kids' TV	Ev 294
29	Professor Sylvia Harvey	Ev 302
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34	MIMAC (Moving Image Media Access Centre)	Ev 324
35	Church of England and the Catholic Bishops' Conference of England and Wales	Ev 324
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38	Community Media Association	Ev 332
39	Community TV Trust	Ev 333
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41	The Campaign for Press and Broadcasting Freedom (CPBF)	Ev 340
42	National Union of Journalists (NUJ)	Ev 344

43	National Campaign for Children's Radio	Ev 347
44	The Rural Media Company	Ev 349
45	The Independent Film Parliament	Ev 349
46	Milestone Group plc	Ev 351
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48	UK Film Council	Ev 373
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51	Visit London	Ev 379
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53	Federation of European Film Directors	Ev 381
54	Teachers TV	Ev 383
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List of unprinted written evidence

Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Parliamentary Archives, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Parliamentary Archives, House of Lords, London SW1. (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Community TV Trust

Cultural Diversity Advisory Group to the Media

Celtic Arrow Media

Hayes FM

Cathy Peattie

Northern Visions

Mark Langon

Lee Norman

British Music Rights

Carole Tongue

Estuary Media Limited

Reports from the Committee since 2005

Session 2005–06

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First Report	Broadcasting Rights for Cricket	HC 720
Second Report	Analogue Switch-off	HC 650 I, II
Third Report	Preserving and Protecting our Heritage	HC 912 I, II, III
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Fifth Report	New media and the creative industries	HC 509
Sixth Report	Caring for our collections	HC 176 I, II
Seventh Report	Self-regulation of the press	HC 375
First Special Report	Self-regulation of the press: Replies to the Committee's Seventh Report of Session 2006–07	HC 1041