BBC Trust

BBC Trust response, on behalf of the BBC, to Ofcom's Second Public Service Broadcasting Review, Phase Two

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1 Foreword

The BBC Trust welcomes phase two of Ofcom's consultation on the future of Public Service Broadcasting (PSB). In this response the Trust is replying, as the BBC's sovereign body, on behalf of the whole BBC.

In considering the PSB review, one could be forgiven for thinking that television is in rude health. Despite the rapid growth in online, people are watching nearly an hour a week more television than they were three years ago, with signs that terrestrial channel viewing is remaining relatively stable. The internet is also starting to drive some new consumption, although this still represents only a tiny proportion of overall viewing.

However, in this environment there are some serious underlying structural challenges driven by the internet less because it is a means of consuming content and more as a substitute location for advertising.

Commercial public service broadcasters therefore face the difficulty of high demand for good quality programming yet declining revenues from the advertising generated around that programming. These problems are further exacerbated by the worsening economic climate since Ofcom launched its review.

This response discusses the BBC Trust's view of the scale of the problem. A gap may be opening between what the public expects of commercial public service broadcasters as citizens and what the market will deliver in terms of funding.

Options for filling that gap suggested by Ofcom could include an industry levy or redistributing some of the money collected for the BBC via the licence fee. However, both serve to share existing PSB funding rather than grow it. Ofcom also suggested new taxation could deliver the funds, but given current economic circumstances we do not believe that this will be a viable option. Furthermore, whilst audiences may want many of the benefits of provision beyond the BBC, their willingness to pay for them can be quite low.

Part of Ofcom's response may also to be to allow ITV and Five effectively to exit their public service obligations over time and rely on Channel 4 to deliver plurality (Ofcom's phase two models 2 and 3). The Trust's view, based on what we know from audiences is that all three play a role in securing the range of PSB content the public love and we would see all of them as key players for the future. Any solution needs to find a way to keep all of them playing to their strengths.

The Trust believes the BBC has a real role to play in delivering innovative solutions to the problems facing PSB. Our challenge to the BBC Executive during phase one of Ofcom's review was to develop sustainable partnership proposals. The reason underlying this challenge is that sustainable and effective PSB in the long term will require a different approach. Solutions must work with the grain of market changes and aim to secure PSB by finding new sources of value, rather than simply reallocating existing funds. We believe that the right sustainable partnerships could offer a long-term, strategic solution to the problems facing PSB, based on the strengths of particular institutions, which are highly valued by audiences. By leveraging the cornerstone role played by the BBC in broadcasting we are aiming to deliver potential benefits not only to the commercial PSBs but also the wider broadcasting sector, strengthening the UK's position as one of the world's strongest creative economies. At the same time it is important that any solutions do not diminish the service to audiences provided by the BBC. Far from the idea of a BBC bearing gifts, looking for opportunities to work ever more closely in partnership with other broadcasters must represent a genuine shift in attitude. It also represents a significant opportunity to better deliver the public purposes and so deliver even great public value to audiences.

The Executive has today published those proposed partnerships and the Trust is now open to views – particularly those from potential partners and others in the industry. As I have said on previous occasions, the Trust will only endorse the proposals if:

- they really make a difference and produce a sustainable outcome
- they offer demonstrable value to prospective partners and other stakeholders
- they represent a genuine offer, and do not exclude realistic options which may involve a financial cost to the BBC – provided that the cost can be justified by public gain

And most important of all:

- Firstly, that we can be sure that the principles of the BBC's independence, accountability and delivery of the public purposes are not put at risk
- Secondly, that these proposals are ones which we judge to be in the wider public interest

Ofcom's range of options in its phase two document all delivered assistance after 2012/13. Making a reality of the proposed partnerships will take a number of regulatory steps and we will work with Ofcom in the coming months. However, the Trust believes they offer the possibility of early benefits (potentially as early as the end of late 2009) to PSBs and wider broadcasters and therefore ultimately to audiences.

The Trust is also keen to ensure this is a moment that drives a fundamental shift in the way the BBC sees its role in the United Kingdom. Partnerships should not just be about securing the broadcasting heritage of the UK, but very much focussed on the needs of audiences now and in the future. In some areas such as technological standards the BBC has for many years been generous and worked to the benefit of the whole broadcasting sector. In others, such as the implementation of the WOCC, it is making real progress. The Trust recognises that to secure and implement really effective partnerships will require a further step change in effort from the BBC, but believes that the resulting impact in terms of support for the commercial PSB sector and the resulting choice for audiences will be well worth it.

Michael Lyons.

Sir Michael Lyons, Chairman

2 Executive Summary

The BBC Trust welcomes the opportunity to contribute to phase two of Ofcom's review of public service broadcasting. Our submission draws on some new analysis and research, in particular:

- An analysis of the market provision of public service content and an evaluation of funding options for content in at-risk genres, carried out by CapGemini for the BBC
- Research among the audience to explore further people's willingness to pay for PSB provision on commercial channels, and attitudes towards the licence fee in terms of the expectations that this funding brings. This research was analysed and reported by Human Capital, drawing on data collected by Ipsos MORI and The Knowledge Agency.

The scale of the problem

PSB is facing some serious structural and cyclical challenges, many of which were identified by Ofcom in its phase two consultation. There are key areas for further discussion around the levels of ongoing provision and the benefits of maintaining a range of PSB providers. We agree that these issues are critical to the debate and we support many aspects of Ofcom's emphasis on the need for a competitive broadcasting market.

The world of broadcasting is changing rapidly, with an increasing number of providers of content, both through traditional linear broadcasting as well as online and on-demand. Public service broadcasting is an ongoing part of this shifting landscape, and is facing some serious challenges. We should, however, be careful not to overplay either the problems or the benefits presented by changes in the industry, particularly online; cyclical difficulties should not be confused with structural trends. CapGemini's modelling of the commercial broadcast market shows that many of the most significant contributions made by the PSBs – original UK programming shown in peak time, sport and quality drama – remain profitable.

We believe that the requirement for funding beyond the BBC is still around £250m, rather than the £330m - £420m Ofcom proposes, but we are both clear that there are real risks around regional news, children's provision and – to a lesser extent – national news and some specialist factual content.

Any ongoing or new interventions must, of course, be efficient, effective and appropriate and represent a sustainable outcome for both the BBC and commercial broadcasters.

An ongoing role for ITV, Channel 4 and five

Ofcom has suggested that competition to the BBC delivers benefits to audiences in three respects: by delivering a range of voices and perspectives, by enhancing the reach and impact of public service content, and through acting as a competitive spur.

The Trust is clear that provision beyond the BBC is valued by audiences and that all the existing PSBs, and the broader market, continue to play important roles. We do, however, remain unconvinced that multiple providers deliver, in all instances, a range of views and perspectives, increased reach and impact, and a competitive spur. Understanding this is important, because it helps calibrate where future intervention is most needed.

There is clear audience support for provision beyond the BBC. For example, qualitative research carried out for the BBC found that people recognised that a range of PSB providers brings a range of flavours, and that, in principle, competition keeps the BBC on its toes.

However, perceptions of the need for provision beyond the BBC vary markedly by genre: 52% think it is essential for their household that ITV, Channel 4 or Five continue to show national or international news in the future; and 47% think the same when it comes to news from their part of the UK. Yet other at-risk genres such as arts and classical music programming and religion are given a much lower priority, for example: only 9% consider it essential in relation to religious programming[1]. From an audience perspective, there is therefore a varying degree of demand for intervention.

Furthermore we have found that audience's willingness to pay for at-risk PSB genres is likely to be considerably less than earlier research conducted for Ofcom suggested. Research published by Ofcom found an average willingness to pay of £2.92 per household per month, in order to preserve provision of PSB genres beyond the BBC. The research conducted for the BBC suggests that the figure audiences would be willing to pay for the at-risk genres is likely to be around £1.28 per household per month. This difference is likely to be driven, not least, by the economic downturn.

Funding

We are pleased to see in Ofcom's Phase two report a renewed focus on efficiency and value for money. We clearly endorse the need for intervention to secure the purposes and characteristics of PSB, but would argue strongly that any use of public money and support of any kind needs to be done efficiently and make best use of all options. In this case, it is particularly acute as the BBC's research suggests there is more limited willingness to pay for plural provision of PSB.

The licence fee has been suggested as a possible source of funding for PSB beyond the BBC. Given we are only one year into the existing licence fee settlement it is much too early to speculate on calls on licence fee money in 2013. In the current economic climate there is no guarantee that either the overall level of the licence fee from 2012-13 will be maintained, or that the element currently ring-fenced to aid delivery of the BBC's sixth public purpose will remain.

The link between the licence fee and the BBC is a complex one. Research conducted for Ofcom suggested that awareness of what the licence fee pays for is low, and concluded that many people could therefore not have an in-principle objection to the licence fee funding other broadcasters. It found that only 44% of people were spontaneously aware that the licence fee funds the BBC. In contrast, the BBC's survey found that 70% of the public spontaneously mention the BBC when asked which broadcasters are funded by the licence fee, we attribute this to an appropriately more focused question. Like Ofcom, our research found that prompted awareness rises further, to 86%.

Qualitative research carried out for the BBC also concludes that people believe that licence fee funding brings important benefits for the public: ensuring quality services, something for everyone, and keeping the BBC advertising free. In the BBC's quantitative research, the vast

[1] This is based on all adults with a television (98% of respondents in our quantitative survey)

majority of respondents (84%) agreed that the BBC should be answerable to the public when it comes to how it spends its income. This was a significantly higher level of agreement than for other broadcasters. When asked about whether the commercially funded PSBs should be answerable to the public for how they spend their income, 46% agreed that this should be the case for Five, 49% agreed for Channel 4, and 51% agreed for ITV1.

Thinking about the potential consequences of licence fee funding for other broadcasters, it is interesting to note that, although absolute numbers are low, if respondents believe that ITV1 or Channel 4 *already* receive licence fee income then they are more likely to agree that these broadcasters should be answerable to the public for how they spend their income. For example, 75% of those who believed it already receives licence fee funding believe that ITV1 should be answerable to the public, compared with 49% of those who don't think ITV1 is funded in this way. A similar pattern applies to Channel 4.

In terms of the potential use of part of the licence fee to fund at risk genres on commercial PSBs, we note that Ofcom's own research suggests that if there was a surplus, the public preference (at 63%) would be to hand the money back to them in the form of a reduced licence fee.

As well as a redistribution of the licence fee, Ofcom has suggested using an industry levy. However, both these options serve to share existing PSB funding rather than grow it. Ofcom also suggested new taxation could deliver the funds, but the current economic climate makes this appear a difficult solution to implement. Regulatory assets and self-help, however, do appear to represent significant opportunities for future funding of PSB.

The Trust believes the BBC has a real role to play in delivering innovative solutions to the problems facing PSB. Our challenge to the BBC Executive during phase one of Ofcom's review was to develop sustainable partnership proposals. The reason underlying this challenge is that sustainable and effective PSB in the long term will require a different approach. Solutions must work with the grain of market changes and aim to secure PSB by finding new sources of value, rather than simply reallocating existing funds. We believe that the right sustainable partnerships could offer a long-term, strategic solution to the problems facing PSB, based on the strengths of particular institutions, which are highly valued by audiences. By leveraging the cornerstone role played by the BBC in broadcasting we are aiming to deliver potential benefits not only to the commercial PSBs but also to the wider broadcasting sector, strengthening the UK's position as one of the world's strongest creative economies. At the same time it is important that any solutions do not diminish the service to audiences provided by the BBC. Far from the idea of a BBC bearing gifts, looking for opportunities to work ever more closely in partnership with other broadcasters must represent a genuine shift in attitude. It also represents a significant opportunity to better deliver the public purposes and so deliver even great public value to audiences.

The Executive has today published those proposed partnerships and the Trust is now open to the views of audiences and potential partners.

Conclusions

The challenges currently facing the PSB system are significant and the broadcasting world is changing rapidly. It is important in this climate that decisions on the future shape of PSB delivery are based squarely on the needs of audiences.

Audiences still highly value PSB, but the picture of how this value is derived is a complex one. While they clearly support provision beyond the BBC, the level of essential need they identify varies by genre, with international, national and regional news at the top of audience's priorities, and other at-risk genres such as arts and classical music programming and religion a much lower priority.

The Trust also believes that all the current PSBs – ITV1, Channel 4 and five – have an important role to play in the future. Audiences tell us that they value the different contributions from each of the main broadcasters. However, recent research for the BBC has found audiences' willingness to pay for PSB is considerably less than research published by Ofcom suggests, especially in the context of the current economic climate. This presents a real challenge as to how PSB provision can be maintained and strengthened in the future.

Use of the licence fee to fund provision beyond the BBC carries minority audience support. The BBC's latest audience research shows that spontaneous awareness of what the licence fee pays for is considerably higher than Ofcom found, and that there is a strong link between perceived licence fee funding and audience expectations of broadcasters.

The Trust is concerned that top-slicing risks compromising the independence of the BBC. The BBC's current funding comes from the licence fee, not from direct taxation. This funding is allocated in settlements which provide stable, predictable funding streams on which the BBC can base its long-term strategy. The BBC is accountable to the Trust, as its sovereign body, for the development and delivery of this strategy. Introducing other dependencies on the licence fee would require a further body to decide on the level of funding for both the BBC and other broadcasters. This body would be subject to additional pressures to those faced solely by the BBC, and so remove both the BBC's ability to pursue a long-term strategy provided by funding certainty, and the clear lines of accountability currently provided by the Trust.

The other funding options suggested all carry problems of their own. This leaves tough decisions to make. The Trust is keen that any solution should seek to grow PSB funding, and indeed have a wider benefit for broadcasters, rather than simply redistributing it. The Executive has today published its proposed partnerships and the Trust is now open to the views of audiences and potential partners.

3 The scale of the problem

PSB is facing some serious structural and cyclical challenges, many of which were identified by Ofcom in its phase two consultation. There are key areas for further discussion around the levels of ongoing provision and the benefits of maintaining a range of PSB providers. We agree that these issues are critical to the debate and we support many aspects of Ofcom's emphasis on the need for a competitive broadcasting market.

The world of broadcasting is changing rapidly, with an increasing number of providers of content, both through traditional linear broadcasting as well as online and on-demand. Public service broadcasting is an ongoing part of this shifting landscape, and is facing some serious challenges. We should, however, be careful not to overplay either the problems or the benefits presented by changes in the industry, particularly online; cyclical difficulties should not be confused with structural trends. CapGemini's modelling of the commercial broadcast market shows that many of the most significant contributions made by the PSBs – original UK programming shown in peak time, sport and quality drama – remain profitable.

We believe that the requirement for funding beyond the BBC is still around £250m, rather than the £330m - £420m Ofcom proposes, but we are both clear that there are real risks around regional news, children's provision and – to a lesser extent – national news and some specialist factual content.

Any ongoing or new interventions must, of course, be efficient, effective and appropriate and represent a sustainable outcome for both the BBC and commercial broadcasters.

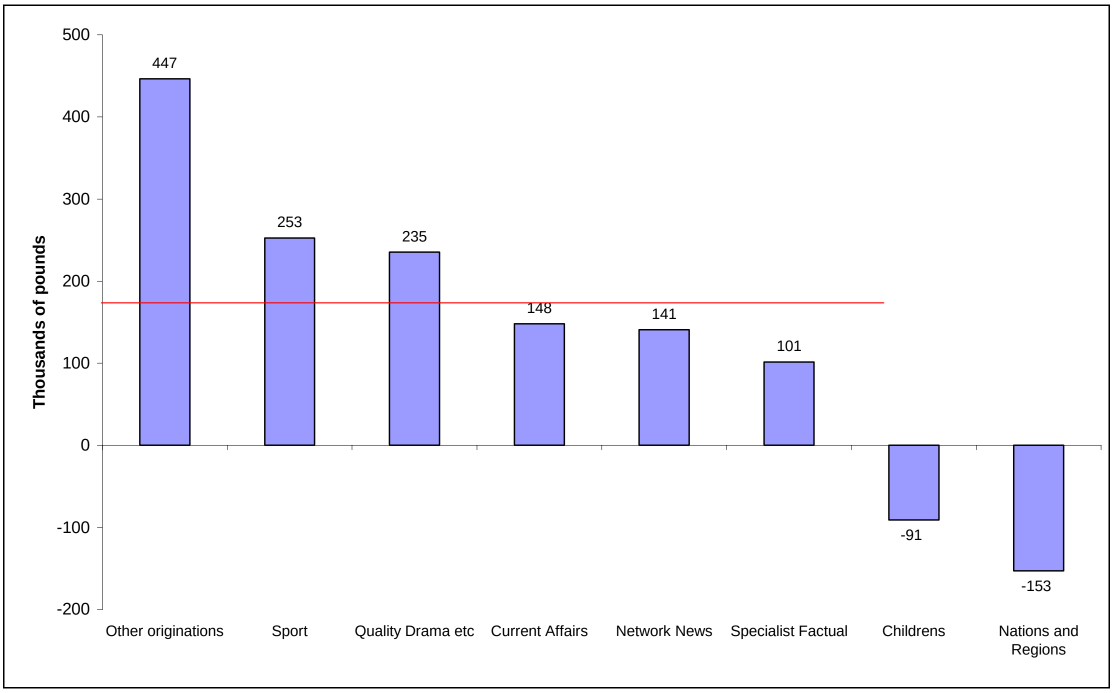
3.1 Market context

This review takes place in an increasingly diverse and competitive market for audiences. Despite this, we agree with Ofcom that market provision is and will likely remain restricted to particular areas, and that other areas, more public service in orientation, are likely to remain loss-making. As a result of the changes in broadcasting, it is clear that the old system is under pressure. More providers, lower advertising revenues and greater international competition have put PSB under pressure. Traditionally loss-making genres can no longer be cross-subsidised by profits from other parts of the licence.

However, despite these changes in the broadcasting market, we believe that PSB content remains attractive to both consumers and commercial broadcasters. Ofcom's Phase two modelling[2] highlights that in most scenarios UK drama remains profitable, as does national news. Our analysis of profitability broadly chimes with Ofcom's and we note current affairs, national news and specialist factual make a decent contribution to overall profitability. The chart below shows estimates of gross profitability per hour of programming by genre, based on the CapGemini's modelling of the commercial broadcast market.

[2] Ofcom, *Second Public Service Broadcasting review, Phase two: Preparing for the digital future* (2008), 87-91.

Figure 1: Estimated commercial PSB gross margin per hour on example genres (2007)



Note: The red line denotes the estimated £165,000 per hour required contribution to gross margin in peak time.

Source: Capgemini estimates

Although most genres are profitable at the gross margin level, in order to be commercially attractive they will also need to deliver a return that meets their share of central costs (represented by the red line). Under this metric most PSB genres are insufficiently profitable, though some only marginally. Marginally unprofitable genres may also contribute to the overall position of the channel and thus be attractive to broadcasters because of their 'halo' effect on other programming and ad sales.

It is clear to us that, without intervention, the incentives to invest in selected PSB genres remain strong, although volumes may be reduced. As a result, there will continue to be direct competition within genres in some areas of PSB, as well as ongoing broader competition between broadcasters and platforms. However, it is equally clear that key PSB genres remain under pressure and would likely see substantial reductions in their provision by the market.

In the longer term market provision may increase from other sources, particularly international broadcast markets. The BBC's main competition is therefore likely to come from the US and new forms of media, as well as from ITV and Channel 4, Sky and Virgin.[3] In an increasingly global content market, competition is not reliant on the existing PSBs, and still less on many of

[3] Robin Foster and Kip Meek, *Public Service Broadcasting in the UK: A Longer Term View*

http://www.smf.co.uk/assets/files/publications/SMF%20PSB%20in%20the%20UK.pdf their specific obligations, though they of course have a role to play. Even in an unregulated world, the BBC would still have considerable competition from ITV's commercial output and US content carried on a variety of distribution methods.

As technologies converge, market provision in more niche areas may also increase, without public funding, from sources other than traditional broadcasters. As discussed in the Trust's recent provisional conclusions on the local video public value test, there are a number of local commercial providers of newspapers, radio and online content that may develop their offerings. Although not covered directly by Ofcom's PSB Review, radio operators and newspaper groups may therefore play an important future role in the market.

Other public institutions such as museums and galleries, many of whom already have successful online presences, may also contribute more content that is public service in nature.

These are potentially areas where the BBC might develop its thinking on partnerships to deliver increased public value to audiences.

3.1.1 Uncertainty of future provision

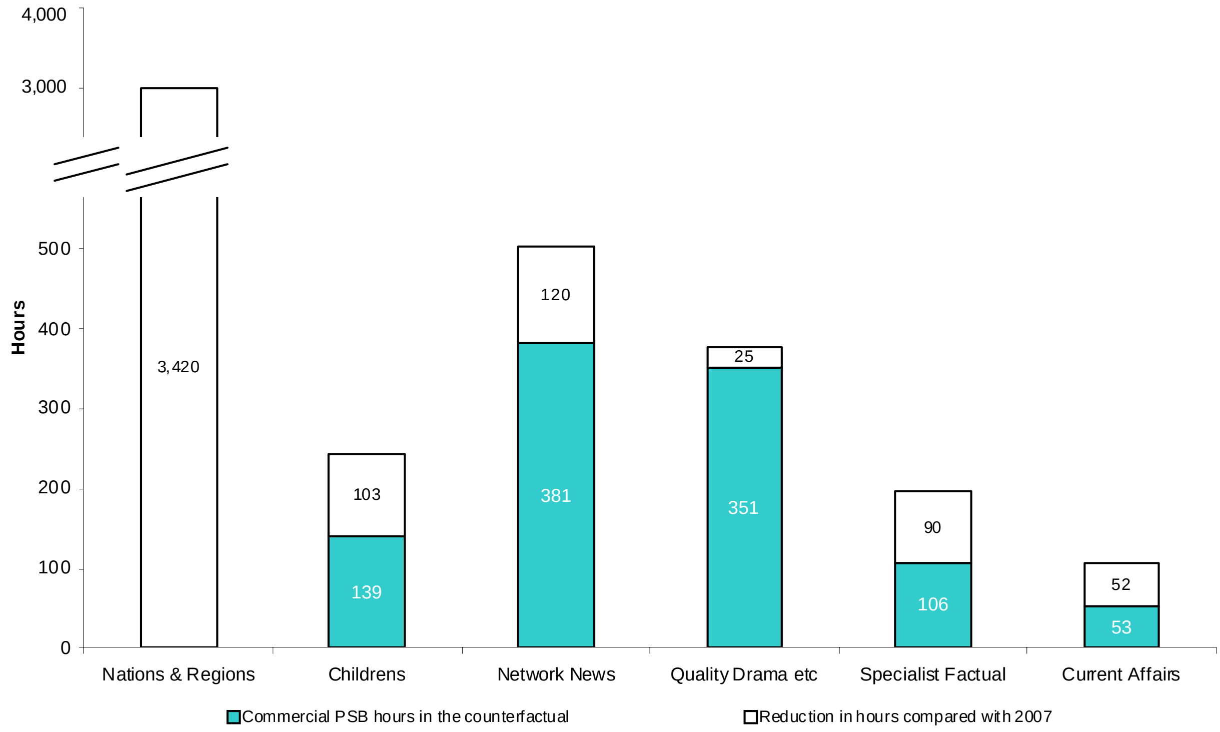
In order to assess the extent of any future shortfall in provision, Ofcom has analysed the profitability of each genre and concluded that much of the existing provision on the commercial PSBs is under threat.[4] Given ongoing uncertainties, we believe that there are a wide range of potential outcomes in terms of future PSB provision.

Methodologically Ofcom has calculated the losses incurred by specific genres by 2012 under various scenarios. Our modelling is based on the likely profit maximising strategies of the commercial PSBs. The methodologies of the modelling are different, though they share a similar set of principles. Both find a similar range of genres to be under pressure.[5] The chart below suggests where we believe reductions are likely to occur, with the overall height of each bar representing levels of provision on commercial PSBs in 2007, the blue element showing likely future provision beyond the BBC, and the white element therefore the number of hours lost.

[4] Ofcom, 86-92

[5] Cap Gemini annex

Figure 2: Reduction in commercial PSB originated first run hours in at-risk genres



Source: Capgemini estimates

Clearly there are varying degrees of pressure by genre. Our modelling suggests that the level of funding required to make good the deficit may be smaller than Ofcom believes. Although the two modelling exercises are methodologically distinct, we believe Ofcom has made a number of assumptions that has led it to a potential overestimate of the level of funding needed to secure PSB on the commercial PSBs.

In both cases, the values are based on schedules remaining very similar to their existing shape, whereas it is not clear that provision at existing levels is desirable or efficient. Our modelling, based on profit maximisation, suggests that today the required funding to deliver the current level of PSB is around £225m per annum at present – and is likely to be only a little larger in 2012

3.2 Finding a solution

Of course, both models are subject to a degree of uncertainty around trends in the wider economic environment and advertising industry. We believe that the requirement for funding beyond the BBC is still around £250m, rather than the £330m - £420m Ofcom proposes, but we are both clear that there are real risks around regional news, children's provision and – to a lesser extent – national news and some specialist factual.

While it is clear that the 'do nothing' option is not viable, it is important that any future interventions should construct a sustainable, long-term solution for PSB. To do this we need to return to the core of the issues – the needs of audiences. Audiences must be at the heart of any solution.

The next section of this response sets out our view of evidence from audiences, and the implications for the ongoing roles of ITV, Channel 4, five and, of course, the BBC in delivering PSB in the future.

4 An ongoing role for ITV, Channel 4 and five

Ofcom have highlighted audience support for PSB provision beyond the BBC, debated the merits and scope of ongoing roles for ITV1, five and Teletext, and proposed an extended role for Channel 4. The BBC Trust is clear that, for PSB to deliver what audiences want, the existing PSBs must all continue to play continuing and unique roles.

Ofcom has suggested that competition to the BBC delivers benefits to audiences in three respects: by delivering a range of voices and perspectives, by enhancing the reach and impact of public service content, and through acting as a competitive spur.

The Trust is clear that provision beyond the BBC is valued by audiences and that all the existing PSBs, and the broader market, continue to play important roles. We do, however, remain unconvinced that multiple providers deliver, in all instances, a range of views and perspectives, increased reach and impact, and a competitive spur. Understanding this is important, because it helps calibrate where future intervention is most needed.

There is clear audience support for provision beyond the BBC. For example, qualitative research conducted for the BBC found that people recognised that a range of PSB providers brings a range of flavours, and that, in principle, competition keeps the BBC on its toes.

However, quantitative research shows that perceptions of the need for provision beyond the BBC vary markedly by genre: 52% think it is essential for their household that ITV, Channel 4 or Five continue to show national or international news in the future; and 47% think the same when it comes to news from their part of the UK. However, other at-risk genres such as arts and classical music programming and religion are given a much lower priority, for example: only 9% consider it essential in relation to religious programming. From an audience perspective, there is therefore a varying degree of demand for intervention.

Furthermore we have found that audience's willingness to pay for at-risk PSB genres is likely to be considerably less than earlier research conducted for Ofcom suggested. Research published by Ofcom found an average willingness to pay of £2.92 per household per month, in order to preserve provision of PSB genres beyond the BBC. The research conducted for the BBC suggests that the figure audiences would be willing to pay for the at-risk genres is likely to be around £1.28 per household per month. This is likely to be driven, not least, by the economic downturn.

4.1 The needs of audiences

4.1.1 Provision beyond the BBC

In preparing this submission we have drawn upon evidence from our latest programme of audience research, which is made up of three separate pieces of research, analysed and reported by independent consultants Human Capital, drawing on data collected by Ipsos MORI and The Knowledge Agency. The work was carried out between May and November 2008, and consisted of a qualitative exercise and two larger scale quantitative surveys across the UK. Full details of methodologies and findings are available in the audience research annex.

Evidence collected in research conducted for Ofcom, as well as the BBC's earlier work in Phase one[6], suggests that audiences value the distinct contributions of different institutions. Participants in the BBC's most recent qualitative research could also see the benefits of a range of PSB providers, because they felt they brought different 'flavours', and because the competition would keep the BBC on its toes. Only a small minority believed that the BBC alone should be responsible for PSB in the future.

Audiences also tell us that the BBC on its own provides a wide range of voices and styles across its output. Although its footprint naturally overlaps considerably with that of other major broadcasters, as the cornerstone of the PSB system, the overall portfolio of BBC services is able to reach higher proportions of all groups due to its scale, scope and range of output.

In our quantitative audience research, we asked respondents to what extent they agreed or disagreed with two statements about a range of different broadcasters. The statements were as follows:

- <This broadcaster> provides something for everyone
- < This broadcaster> has different styles across its different channels, programmes and services

Agreement with both of these statements for the BBC was high. 78% of respondents agreed that the BBC provides something for everyone, and 77% agreed that the BBC has different styles across its channels, programmes and services.

Although agreement with these statements was also generally quite high across for all other broadcasters, fewer respondents agreed with the same statements when considering broadcasters other than the BBC. ITV was the next closest broadcaster in terms of agreement: 71% agreed that this broadcaster provides something for everyone, and 64% agreed that it has a range of styles across its different offerings. The agreement figures for the two statements for Channel 4 were 56% and 57% respectively.

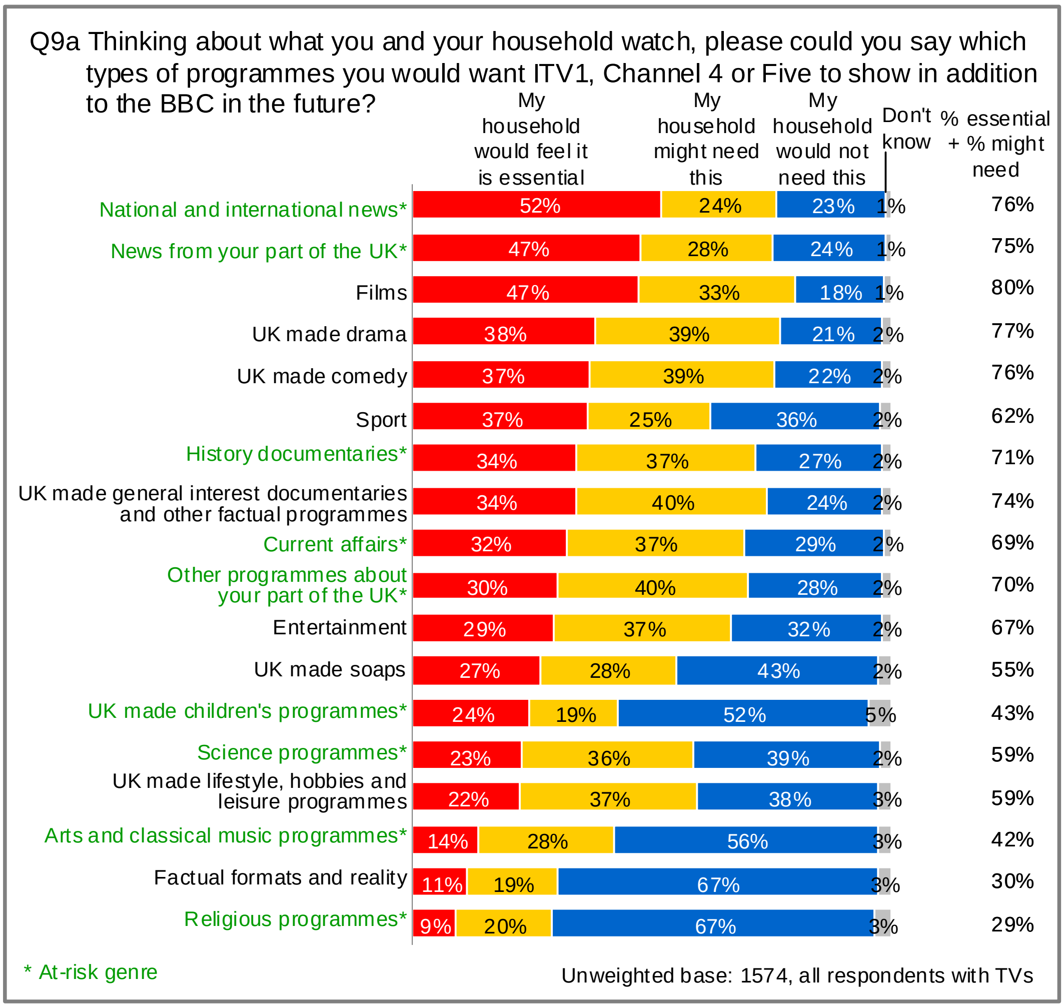
Participants in the BBC's qualitative research were able to give examples of programmes and services they watch, listen to and use, which they would consider to be "public service". Many were from the BBC, but there were plenty of examples from other PSBs which were also recognised as making strong and distinct contributions. As well as name-checking specific programmes from range of broadcasters, audiences spoke of the value of broader contributions to public service, such as free and independent news and information, locally produced or focused programming, quality children's programmes, and the BBC's national radio networks.

To explore the concept of audience support for PSB provision beyond the BBC, quantitative research for the BBC used an inter-linked series of questions. First, it looked at audiences' views on the types of programming they felt should be shown on ITV1, Channel 4 or five in addition to the BBC. This was asked from a household perspective. For each genre respondents were asked to indicate whether it was essential for this type of programme to be shown on commercial PSBs in addition to the BBC, whether their household might need this, or whether they felt there was no need. This question was designed to measure existing preferences for provision beyond the BBC. It asked respondents for their views on a wide range of genres (not

[6] Ofcom's second review of PSB, Phase one: The Digital Opportunity and Public Service Broadcasting Now and in the Future – Audience Attitudes, A report by Human Capital for the BBC, June 2008

just those at risk). The chart below shows the proportion of respondents who gave each response.

Figure 3 - need for provision of genres on commercial PSBs



Source: Quantitative survey of 4,577 adults, reported by Human Capital (Dec 08)

The majority of respondents (84%) felt it was essential that at least one genre, of the 18 included in the research, must, in the future, be provided by ITV1, Channel 4 or Five in addition to the BBC for their household. Such an essential need was most commonly identified for national and international news (52%) and regional news (47%). For some genres, provision by a commercial PSB in addition to the BBC was viewed as essential by relatively small proportions of the audience, for example religious programmes (9%) and arts / classical music programmes (14%). While less of a necessity for the sample overall, UK-made children's programming was deemed to be essential by almost half of parents with children at home, making this their second highest priority after national and international news.

In subsequent questions, the research focused on those respondents who had identified an essential need for a particular genre. For each genre where respondents believed that provision beyond the BBC was essential, we asked them why they felt this. Looking at responses overall, around a third of those who want provision beyond the BBC say it is because they value the availability of a range of approaches or voices. For around another third it is because they are accustomed to turning to a particular broadcaster or broadcasters for certain programme types, and for the final third it is because they want more volume of programming.

The variations in both levels of need for continued provision beyond the BBC, and the variations in reasons behind that preference, suggest there may be wider considerations to be borne in mind beyond simply multiple interventions in every genre.

4.1.2 Willingness to pay

So having explored what audiences value, and why, the next stage is to examine whether they are willing to pay for it. Research conducted for Ofcom – carried out before the economy took a particularly marked downturn – suggested that the 78% of respondents personally valued public service programming on ITV1, Channel 4 and Five sufficiently to be prepared to pay for it, in addition to the current licence fee for the BBC. (The figure from a citizen perspective was 74%). Ofcom's results showed that households were willing to pay an average value of up to £2.92 per household (when averaged across all those in the sample).

We have appreciated the opportunity to engage with Ofcom in constructive dialogue about the methodological challenges inherent in willingness to pay research. We appreciate that this is a difficult area to assess via any research methodology, given the complexity and uncertainty of what is at risk. It is also clear that this type of research will always involve a number of difficult practical decisions on how to present information to respondents.

Our investigation was adapted from a methodology used by the Work Foundation when assessing willingness to pay for the BBC on behalf of DCMS[7]. This method was based on an extrapolation from a points-based allocation exercise to assess the value audiences ascribed all genres, including those at-risk.

As with the research conducted for Ofcom, this analysis showed that there is willingness to support elements of PSB provision beyond the BBC, although in our latest research the overall willingness to pay for at-risk genres was under half of the estimate in Ofcom's research – an average of £1.28 per month based on all respondents.

From the research conducted for the BBC it is also clear that willingness to pay is concentrated on certain genres. Factual and national and international news account for over half of consumer willingness to pay for at-risk genres, despite more limited requirement to intervene in these areas. These two genres accounted for £0.73 per month of the £1.28 which was allocated to all at-risk genres

There are likely to be many reasons for the discrepancy in overall levels between our work and Ofcom's - willingness to pay research is difficult and complex, and question wording and approaches will clearly affect the results. However, we note a number of potential differences.

The two pieces of research had different approaches to the genres to be included in analysis. The research commissioned for the BBC included only the at-risk genres in its analysis. We

[7] Willingness to pay for the BBC during the next charter period: A report prepared for the Department of Culture, Media and Sport (The Work Foundation, 2006)

note that, in the research conducted for Ofcom all PSB genres were included as PSB genres for which willingness to pay was assessed, including UK Drama and Comedy on Channel 4. We note that only a tiny fraction of the spend in these genres is identified as being under threat in Ofcom's assessment.

The changing economic circumstances in the UK are also likely to have impacted on audiences' responses to willingness to pay for PSB provision beyond the BBC. According to the Nationwide Consumer Confidence Survey[8], the proportion of adults that viewed the current economic situation as "bad" increased from 25% in January 2008 to 52% in May 2008. By November 2008, the figure was 76%. Figures from Ipsos MORI's tracking survey of issues facing Britain show that 32% of respondents cited the economy as an issue in June 2008 (when Ofcom conducted their fieldwork) whereas the figure was 62% by November when the fieldwork was carried out for this study.

[8] http://www.nationwide.co.uk/consumer_confidence/data_download/default.htm

5 Funding

We are pleased to see in Ofcom's Phase two report a renewed focus on efficiency and value for money. We clearly endorse the need for intervention to secure the purposes and characteristics of PSB, but would argue strongly that any use of public money and support of any kind needs to be done efficiently and make best use of all options. In this case, it is particularly acute as the BBC's research suggests there is more limited willingness to pay for plural provision of PSB.

The licence fee has been suggested as a possible source of funding for PSB beyond the BBC. Given we are only one year into the existing licence fee settlement it is much too early to speculate on calls on licence fee money in 2013. In the current economic climate there is no guarantee that either the overall level of the licence fee from 2012-13 will be maintained, or that the element currently ring-fenced to aid delivery of the BBC's sixth public purpose will remain.

The link between the licence fee and the BBC is a complex one. Research conducted for Ofcom suggested that awareness of what the licence fee pays for is low, and concluded that many people could therefore not have an in-principle objection to the licence fee funding other broadcasters. It found that only 44% of people were spontaneously aware that the licence fee funds the BBC. In contrast, the BBC's survey found that 70% of the public spontaneously mention the BBC when asked which broadcasters are funded by the licence fee, and attribute this to an appropriately more focused question. Like Ofcom, our research found that prompted awareness rises further, to 86%.

Qualitative research carried out for the BBC also concludes that people believe that licence fee funding brings important benefits for the public: ensuring quality services, something for everyone, and keeping the BBC advertising free. In the BBC's quantitative research , the vast majority of respondents (84%) agreed that the BBC should be answerable to the public when it comes to how it spends its income. This was a significantly higher level of agreement than for other broadcasters. When asked about whether the commercially finded PSBs should be answerable to the public for how they spend their income, 46% agreed that this should be the case for Five, 49% agreed for Channel 4, and 51% agreed for ITV1.

Thinking about the potential consequences of licence fee funding for other broadcasters, it is interesting to note that, although absolute numbers are low, if respondents believe that ITV1 or Channel 4 already receive licence fee income then they are more likely to agree that these broadcasters should be answerable to the public for how they spend their income. For example, 75% of those who believed it already receives licence fee funding believe that ITV1 should be answerable to the public, compared with 49% of those who don't think ITV1 is funded in this way. A similar pattern applies to Channel 4.

In terms of the potential use of the licence fee to fund at risk genres on commercial PSBs, we note that Ofcom's own research suggests that if there was a surplus, the public preference (at 63%) would be to hand the money back to them in the form of a reduced licence fee.

As well as a redistribution of the licence fee, Ofcom has suggested using an industry levy. However, both these options serve to share existing PSB funding rather than grow it. Ofcom also suggested new taxation could deliver the funds, but the current economic climate makes this appear a difficult solution to implement. Regulatory assets and self-help, however, do appear to represent significant opportunities for future funding of PSB

The Trust believes the BBC has a real role to play in delivering innovative solutions to the problems facing PSB. Our challenge to the BBC Executive during phase one of Ofcom's review was to develop sustainable partnership proposals. The reason underlying this challenge is that sustainable and effective PSB in the long term will require a different approach. Solutions must work with the grain of market changes and aim to secure PSB by finding new sources of value, rather than simply reallocating existing funds. We believe that the right sustainable partnerships could offer a long-term, strategic solution to the problems facing PSB, based on the strengths of particular institutions, which are highly valued by audiences. By leveraging the cornerstone role played by the BBC in broadcasting we are aiming to deliver potential benefits not only to the commercial PSBs but also to the wider broadcasting sector, strengthening the UK's position as one of the world's strongest creative economies. At the same time it is important that any solutions do not diminish the service to audiences provided by the BBC. Far from the idea of a BBC bearing gifts, looking for opportunities to work ever more closely in partnership with other broadcasters must represent a genuine shift in attitude. It also represents a significant opportunity to better deliver the public purposes and so deliver even great public value to audiences.

The Executive has today published those proposed partnerships and the Trust is now open to the views of audiences and potential partners.

5.1 Use of the licence fee

The licence fee has been the subject of attention from Ofcom and others, based on the suggestion that there is an 'excess' licence fee or 'switchover surplus' available post 2012. It is important that this concept is clearly understood. The letter from the Government to the BBC outlining the current licence fee settlement makes it clear that 2012-13 should be considered the first year of a new funding settlement, not the continuation of the existing one.[9] Given we are only one year into the existing licence fee settlement it is much too early to speculate on calls on licence fee money in 2013. In the current economic climate there is no guarantee that either the overall level of the licence fee from 2012-13 will be maintained, or that the element currently ring-fenced to aid delivery of the BBC's sixth public purpose will remain.

It is also important to note that the settlement in 2006 ring-fenced income specifically to support the BBC's sixth public purpose through the digital switchover help scheme and Digital UK. It was not set aside to support PSB more generally, and the Trust's default position is that if the BBC requires a smaller licence fee in 2013 then the money should not be collected from the public. Licence fee payers appear to support this position, with Ofcom's own research suggesting that 63% of audiences want any available funds to be returned to them in the form of a reduced licence fee payment in the event that the funds are no longer required for supporting the BBC's digital purpose.

[9] Letter from DCMS

5.1.1 Audience attitudes towards the licence fee and the BBC

Since the licence fee has featured in the debate as a potentially attractive source of funding for commercial PSBs, we have carried out further research, both qualitative and quantitative, which explores the nature of the link between audiences, the BBC and the licence fee. This research highlights how the public view the potential consequences of using the licence fee to fund other broadcasters beyond the BBC.

We believe that the link between the licence fee and the BBC is a complex one. In qualitative research conducted for the BBC, when participants initially thought about what the licence fee is for, most instinctively understood payment of the licence fee as giving them the right to watch all TV. In parallel, however, the great majority of participants also had a broad awareness of what the licence fee revenue is actually used for (funding a range of BBC services across different media). It was clear that these two ideas were generally understood concurrently.

Looking at the awareness issue quantitatively, research published by Ofcom suggested that only 44% of interviewees are able to identify that the licence fee pays for BBC services without prompting. In contrast, the BBC's research suggests a higher proportion, with 70% able to spontaneously mention the BBC as being funded by the licence fee. This discrepancy is undoubtedly due to question phrasing, since Ofcom used the question 'What do you think the money from the Licence Fee pays for?', whereas our study took a more focused approach by specifically asking respondents to identify 'the broadcaster or broadcasters' that the money from the licence fee funds.

When it came to overall prompted awareness however, a less variable or debatable measure, the BBC's research showed that 86% knew that that the licence fee pays for the BBC, almost identical to the 87% identified in analysis for Ofcom. The latest research for the BBC also looked at awareness of whether individual BBC services received licence fee funding. The research showed that while the most highly identified category of services was BBC One and BBC Two (selected by 86% of respondents), around two-thirds of respondents (67%) recognised that BBC Three and Four were also licence fee funded (rising to 86% of regular viewers of BBC digital television channels). Fewer people were aware that the BBC's radio and online services were licence fee funded, although both had at least 50% prompted awareness, and again these figures were higher amongst more regular users.

5.1.2 Implications of direct public funding for other broadcasters

The recent Ross/Brand affair has provided a vivid illustration of the expectations that accompany public funding. An unacceptable broadcast prompted widespread debate about all levels of the BBC; its very purpose for existing, the robustness of its editorial systems, the competency of its management, and the speed with which the issue was dealt with.

The second area it is important for us to understand is the question of what the licence fee means to audiences. Research shows that audiences believe that receipt of licence fee funding carries extensive obligations for the BBC. For example, in the qualitative research conducted for the BBC, licence fee funding was felt to be important in guaranteeing both the quality and range of BBC output (ensuring it provides something for everyone), and in keeping the BBC free of commercial advertising.

In the quantitative research, it is also clear that expectations of accountability to the public were higher for the BBC than for the other main broadcasters. Respondents were significantly more likely to say that the BBC should be answerable to the public when it comes to how it spends its income, when compared to the scores they gave for other broadcasters. 84% of respondents said that they strongly agreed or tended to agree with that statement for the BBC, whilst only 4% disagreed. Responses for other broadcasters (ITV, Channel 4, five and Sky) were much lower and very similar to one another. When asked about whether the commercially funded PSBs should be answerable to the public for how they spend their income, 46% agreed that this should be the case for Five, 49% agreed for Channel 4, and 51% agreed for ITV1.

Our analysis shows that the greater the awareness of what the licence fee pays for, the greater the expectation on the BBC. Specifically, the more BBC types of services a respondent believed the licence fee paid for, the more they agreed that the BBC should be answerable for how it spends its income. For those people who did not know that any BBC services receive the licence fee, 62% agree that the BBC should be answerable to public when it comes to how it spends its income, whereas for respondents who could identify three or more types of BBC services which were paid for by the licence fee, 90% agree that it should be answerable.

Thinking about the potential consequences of licence fee funding for other broadcasters, it is interesting to note that, although absolute numbers are low, if respondents believe that ITV1 or Channel 4 *already* receive licence fee income then they are more likely to agree that these broadcasters should be answerable to the public for how they spend their income. For example, 75% of those who believed ITV already receives licence fee funding believe that ITV1 should be answerable to the public, compared with 49% of those who don't think ITV is funded in this way. A similar pattern applies to Channel 4.

The increased level of public scrutiny that receipt of public funds inevitably entails is also likely to alter the institutional nature and capacity of potential recipients. This is likely to be of particular relevance to Channel 4, where a broader set of PSB output and outcome requirements, coupled with increased regulatory oversight and heightened audience expectations, might inhibit its ability to deliver on some of its most basic and successful characteristics – such as being edgy, alternative and risk-taking.

If looking specifically at contestability, covered in more detail later in this response, in order to allow scope for innovation and investment, contracts will need to be sufficiently long to provide certainty. Ofcom envisages that some contracts would run for a relatively long period of time. In doing so some of the costs and burdens of the contestable model may be mitigated, as providers would be able to plan for investment (to an extent) and the costs of bidding would be spread over a long period of time. However, this would also reduce the flexibility of the contracts. Institutions are normally able to respond to changes in the marketplace by fulfilling their remit in different ways, but there is a real risk that detailed PSB contracts could stifle the ability of operators to deliver public value. While public service institutions can create room to innovate, commercially driven organisations on a contract may not be able to, and contracts could either be handed back or reduced to mechanical compliance.

To the Trust, this analysis suggests that using licence fee money would be likely to change expectations of regulation on those providers, as well as weakening commercial incentives by mixing commercial revenue and public funding. For the minority of the audience who do not make a link between BBC services and the licence fee, we believe that the solution to a lack of clarity over funding should not be to confuse the issue still further. Rather, it would be better to increase clarity on what the licence fee is used for, as well as continuing to work to ensure the BBC is visibly accountable to all audiences.

5.1.3 Audience attitudes to top-slicing

The Trust also notes that people who actually responded to Ofcom's phase one consultation were universally negative on licence fee funding being used beyond the BBC. Most individuals were firmly in favour of retaining the licence fee for the BBC, sending 2,500 postcards and 700 emails objecting to sharing the licence fee with other broadcasters. Their views are shared by a 'wide range of stakeholders' including ITV[10], five, PACT, and BSkyB

Qualitative research for the BBC showed a similar perspective on the principle of the licence fee being used to fund commercial PSBs. Initial opinions were divided on whether licence fee funding for PSB on these channels was appropriate: many felt that it would be fair for the licence fee to be shared between broadcasters (although a minority were happy for PSB to be the sole domain of the BBC). However, on reflection, and when the possible advantages and drawbacks of top-slicing were discussed in more detail, the majority of those who had initially been pro-top-slicing changed their minds. Many were concerned about the impact of top-slicing on the BBC, in particular, the potential dilution of quality, whilst others did not wish to see the range of programmes and services produced by the BBC reduced.

There were also fears about the range of output being compromised, cuts to regional broadcasting, and/or the introduction of sponsorship or similar commercial practices on the BBC: all elements which are highly valued as characteristic of the BBC. Some research participants spontaneously questioned whether commercial companies should be allowed to carry advertising in any publicly funded programmes: on the whole they felt that they should not.

Many also feared that the Licence Fee would simply rise proportionally to cover the extra funding, and that even a small amount of top slicing could be 'the thin end of the wedge'. This would mean either a continuing loss of income for the BBC, or a steady increase in the Licence Fee, neither of which was an acceptable outcome.

These qualitative findings are broadly similar to those observed in the Phase one quantitative survey commissioned by the BBC in May 2008. When asked to consider a range of alternative funding methods that could be used to fund PSB on the commercially funded PSBs, all of the funding methods received relatively low favourability scores. Use of the licence fee was one of the least preferred options, receiving a mean score of 4.6 out of 10. When presented with a full range of funding options, only 13% of respondents interviewed felt that it would be their preferred method of funding PSB obligations on ITV1, Channel 4 and Five.

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[10] Whilst ITV's submission to phase one of Ofcom's review is confidential, Michael Grade recently outlined, to the Royal Television Society, six principles by which ITV will judge its future options, including that ITV does not itself want any direct public money

http://www.itv.com/PressCentre/Pressreleases/Corporatepressreleases/MichaelGradeoutlinestoughdecisionsforITVsfuture/default.html

5.1.4 Effectiveness of top-slicing

When looking at the effectiveness of intervention through top-slicing there are two elements to consider. Firstly, would the recipient of licence funding meet the needs of audiences? Secondly, what would be the impact on the BBC's delivery of the public purposes?

Taking the first of these questions, regional news is the main area identified both by Ofcom as at risk and by audiences as important to maintain. Children's is another area on which debate has focused. While not identified by all audiences as important to maintain, it nonetheless deserves attention due to the specific, limited target audience of the genre and its importance to parents and to society overall.

Aside from the issues raised by using the licence fee discussed above, the Trust questions whether the major intended recipient of licence fee funds, Channel 4, is the appropriate vehicle for intervention in regional news (this is also recognised by Ofcom, who instead suggest this may be an area for contestable funding) and children's programming. Channel 4 has no history of delivery in either area, and while it provides a respected international news service, it lacks the infrastructure to deliver regional news.

Taking the second question, the Trust is concerned that top-slicing risks compromising the independence of the BBC. The BBC's current funding comes from the licence fee, not from direct taxation. This funding is allocated in settlements which provide stable, predictable funding streams on which the BBC can base its long-term strategy. The BBC is accountable to the Trust, as its sovereign body, for the development and delivery of this strategy. Introducing other dependencies on the licence fee would require a further body to decide on the level of funding for both the BBC and other broadcasters. This body would be subject to additional pressures to those faced solely by the BBC, and so remove both the BBC's ability to pursue a long-term strategy provided by funding certainty, and the clear lines of accountability currently provided by the Trust.

5.2 Other sources of funding

5.2.1 Regulatory assets

Ofcom has estimated that the likely value of funding for commercial PSBs by 2012/13, from a range of sources, will be around £185m. The Trust believes that these existing funding mechanisms can continue to make a substantial contribution to PSB, and therefore that regulatory assets should be a major part of any solution. The existing bundle of regulatory assets will also retain value post-switchover and so continue to deliver substantial benefits to the PSB system. Used in an efficient manner, we believe these can continue to provide benefits to PSB beyond 2012.

The value of these regulatory assets is derived in a number of ways:

- Reduced spectrum costs – ITV and Channel 4 are gifted spectrum, five receives preferential rates
- Due prominence for ITV1, Channel 4 and five on electronic programme guides and TV listings

- Channel 4, by virtue of public ownership, is not required to pay a shareholder dividend (as ITV does for instance)
- Greater coverage of the UK on PSB multiplexes (compared to commercial ones)

The way in which this value is created limits the alternative uses of such assets. This is because it is difficult to reallocate any of these assets without losing some of the value currently created.

For instance, over the past eleven years, five has built its brand and reputation to establish itself firmly as an important part of the PSB system. Due prominence on EPGs and a place alongside the other PSBs in TV listings enables it to remain as the UK's fifth largest channel. The loss of these benefits could potentially result in a long-term decline in viewing. If these benefits were to be assigned to another channel or broadcaster it is questionable whether they would be able to recreate five's success, and so limit the PSB benefits that could be extracted by the regulator in exchange.

The regulator's ability to get value out of the slots on Mux 2 assumes both that Ofcom retains control of the multiplex and that ITV continues to receive the slots. Were the slots to be auctioned off, the regulatory assets could fall by a material amount. The exact figure is hard to establish but could be up to £40m. If Channel 4 was excluded from the auction (as Ofcom's models 2 and 3 imply), the loss could still be up to £30m p.a.

Use of existing regulatory assets may therefore be most effective if the main PSBs remain recipients of PSB funding, when regulatory assets could be worth £185m p.a. from 2012. This is unevenly distributed to the broadcasters, with Channel 4 representing nearly half of the money and the rest being split between ITV and five.

5.2.2 Other forms of direct funding

Ofcom has suggested a number of potential funding sources to support PSB other than the licence fee, but these options also appear to be problematic and may be inappropriate for large scale funding.

- Whilst possible, given the current economic climate additional public funding may be a difficult solution to implement. In specific cases, there may be some role for small direct sources of public funding, for instance a potential role for devolved government in Scotland. We note that within the BBC, specific funding is granted for particular policy objectives by government departments, for example the FCO grant to the World Service
- Similarly, if introducing industry levies it will be important to ensure these do not act as an active barrier to innovation and investment in a world where budgets are likely to be reduced in any case due to the advertising downturn and economic pressure.

5.2.3 Increased efficiency

At the same time, there should be an assumption that organisations make best use of the assets and income they have. All PSBs need to ensure that they maximise efficiencies to minimise reductions to programming budgets. The BBC is committed to year on year efficiencies for the next five years, and would expect other publicly owned broadcasters to adopt similar targets.

There is scope for increased efficiency in the sector to deliver savings both generally and in the provision of PSB.

5.3 Potential for introducing contestability

Ofcom asked what role competition for funding should play in the future, in which areas of content, and whether we had comments on Ofcom's description of how contestability might work in practice. We have reservations about using a contestable model for PSB provision as we believe it is unlikely to deliver value for money or be particularly efficient in reaching audiences. We share many of the concerns that Ofcom highlight in their consultation document.

In particular we believe that contestability is likely to:

- Increase the cost of PSB provision
- Impose a complex regulatory burden on potential recipients and prevent flexible adjustments to changing market
- Result in limited changes to the existing PSB output

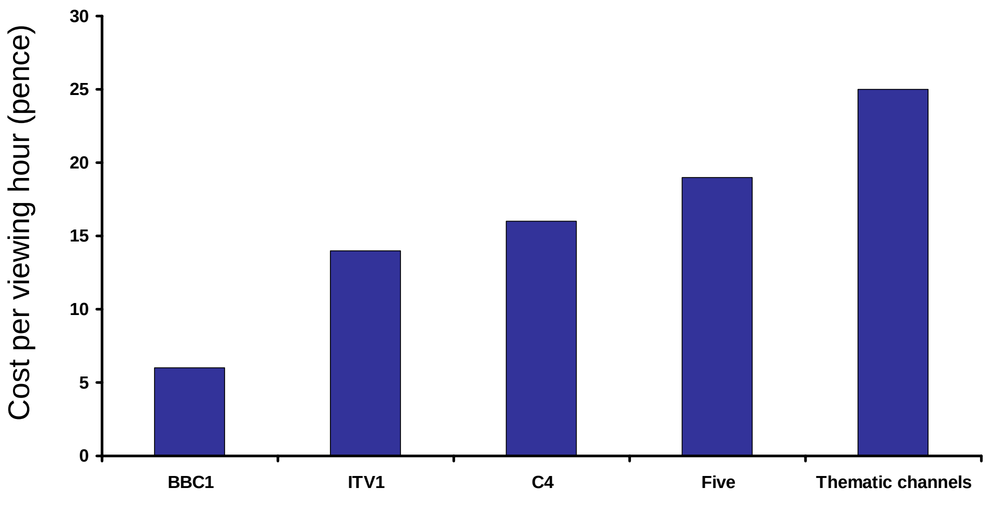
5.3.1 Increased costs

Contestability could increase costs in a number of ways – particularly through increased costs of programming and through additional administration.

Looking first at programming costs, the BBC and ITV can take advantage of economies of scale in production costs, while all the existing PSBs can exploit large legacy audiences to secure high volume consumption relative to other providers.

Cap Gemini's modelling for the BBC suggests that the average cost of reaching audiences is higher the smaller the channel is (on a cost per viewer hour metric). Although the opportunity cost per broadcast hour is lower on smaller channels, the cost per viewer suggests that, after the BBC, provision on ITV and other major channels is more cost effective in the long run.

Figure 4: Comparison of cost per viewer hour of current affairs



Source: Capgemini estimates

We recognise that further support may be needed for ITV, Channel 4 and five, and that careful consideration will need to be given to their remits post switchover, but they still offer the best opportunity to deliver PSB to large audiences.

Turing to the administration costs, allocation of funds by a contestable model inevitably increases cost of delivery though additional administration: CapGemini's analysis suggests that existing funding bodies spend 5-10% of their funding on administration.

Other costs are potentially larger. There is a material risk that content would be funded that would have been made anyway, as it will be hard to identify unprofitable content. The economics of broadcasting is complex and it is hard to imagine that any funding body would be able to police the accounts of PSB providers effectively to ensure delivery.

Finally, it is clear that many of the genres in danger are not easily supported on a contestable model. For example, Nations and Regions programming is cited by Ofcom as a potential recipient of contestable funding in two of the three models for PSB delivery. However, N&R content requires a high level of fixed cost investment, while incremental bulletins are relatively inexpensive. A contestable model would mean that each new provider would need to invest heavily before being able to deliver. We believe that only a small number of content areas meet Ofcom criteria of being suitable for contestability – where 'there are a number of bidders with similar business models, opportunity costs and audience reach.'

5.3.2 Limited change

Given Ofcom's stated aims for PSB and the importance of impact, we also believe that contestability would not significantly widen the base of PSB provision. Cap Gemini's analysis of the cost per viewer hour to intervene suggests strongly that PSB on larger audience channels represents the most cost effective means to act (see above).

This view is also backed up by audience behaviour. Despite the growth of digital channels and TV content on-demand, the reach and viewing of the main terrestrial broadcasters remains high, with 86% of UK individuals watching each week compared to 87% three years ago. People are also spending more time watching the main channels, up 16 minutes per week more compared to last year[11]. Although the situation may change over time, on-demand viewing appears to be in addition to TV, rather than a direct substitute.

As a result, we would expect most of the contracts to be won by larger broadcasters. Particularly for high value content, it is hard to see funding being effective if attached to small broadcasters: not only do the main PSBs have scale, they also have trusted and well-established brands and a strong track record of producing PSB content. While laudable, it is hard to see a funding body responsible for impact allocating much funding elsewhere.

[11] Source: BARB 2008 Q3, "terrestrial" includes C4+1

5.4 Partnerships: an alternative solution?

To achieve optimum outcomes for audiences, the wider debate should focus on the delivery of sustainable solutions, rather than on estimated deficits in the short term and the transfer of amounts of money between broadcasters. To make PSB sustainable and effective in the long term will require a different approach that works with the grain of market changes and aims to secure PSB by finding new sources of value, rather than simply reallocating existing funds.

As part of phase one, the BBC Trust challenged the Executive to explore new ways of helping bring the benefits of the BBC's scale and public investment to the whole sector. The reason underlying this challenge was to develop a long-term, strategic solution to the problems facing PSB, based on the strengths of particular institutions, which are highly valued by audiences. Far from the idea of a BBC bearing gifts, looking for opportunities to work ever more closely in partnership with other broadcasters must represent a genuine shift in attitude. It also represents a significant opportunity to better deliver the public purposes and so deliver even great public value to audiences. The BBC Executive's partnership proposals, published today, represent their response to this challenge.

The Trust welcomes these proposals. They offer the prospect of making a meaningful contribution to the future of public service broadcasting in the UK. The key partnerships proposals include:

- Sharing BBC iPlayer
- IPTV
- Supporting broadband take-up
- Supporting DAB
- Sharing digital production technology with all other broadcasters
- Sharing regional news facilities
- Commercial deals involving BBC Worldwide
- Plus sharing research

At the time of the first phase of Ofcom's PSB review, the Trust undertook to publish any partnership proposals it received and to seek the views of industry, stakeholders and licence fee payers. We are now doing so and are particularly interested in the views of potential and actual partners. We would be interested in general comments about the proposals as a whole and will be open to views for the next three months.

Most of the partnership proposals will be subject to the general approval of the Trust under its existing protocols. The Trust will evaluate them against the following questions:

- Do the proposals really make a difference and produce a sustainable outcome?
- Do they offer demonstrable value to prospective partners and other stakeholders?
- Do they represent a genuine offer, not excluding options which may involve a financial cost to the BBC – if that cost can be justified by public gain?

- Can the Trust be sure that the principles of independence, accountability and delivery of the public purposes are not put at risk?
- Are these proposals ones which the Trust judges to be in the wider public interest?

Within these questions the Trust has two points it will pay particular attention to:

Making sure partnerships deliver benefits for audiences

The key issue for the Trust will also be how the proposals strike the right balance around delivering benefits to audiences, public service broadcasters and any impact on the wider broadcasting sector. In particular the Trust will pay particular attention to the scope to open certain initiatives to a much wider number of broadcasters and other media providers.

We will seek to act in co-operation with Ofcom who have the necessary powers to licence commercial PSBs and also to decide whether those broadcasters have the necessary funding for their commitments. Indeed, although a matter for Ofcom, it must be possible that the number, range and variety of those designated as 'PSBs' may change over time.

Partnership as a sustainable model

Subject to the outcome of any representations and subsequent regulatory processes, progress on partnerships by the Executive and the flow of benefits will be considered by the Trust as a quarterly item and in addition the Trust will publish its views on overall progress in its annual report. In addition, the Trust remains open to further proposals from the Executive for other potential partnerships.

There are also two specific aspects of the proposals where the Trust intends to use its wider regulatory powers: the decision to open the iPlayer service to other broadcasters (where the Trust will consider whether a Public Value Test should be applied) and the development of IPTV, which the Trust considers requires a "non-service" approval process under the BBC Agreement.

5.4.1 Timetable for consideration

The following administrative timetable is designed to give a broad indication of when the main issues could be considered by the Trust. This is purely for indication and without prejudice to the Trust's exercise of its regulatory responsibilities.

- December – non-service approval process for IPTV commences with consultation from early in the new year.
- December – February 2009 – Trust open to representations on partnership proposals as a whole.
- Spring 2009 – Possible PVT launch for iPlayer sharing.
- Summer 2009 – non-service decision for IPTV.
- Autumn 2009 – PVT decision for iPlayer sharing.

. Details of these processes will be published separately.

6 Conclusions

The challenges currently facing the PSB system are significant and the broadcasting world is changing rapidly. It is important in this climate that decisions on the future shape of PSB delivery are based squarely on the needs of audiences.

Audiences still highly value PSB, but the picture of how this value is derived is a complex one. While they clearly support provision beyond the BBC, the level of essential need they identify varies by genre, with international, national and regional news at the top of audience's priorities, and other at-risk genres such as arts and classical music programming and religion a much lower priority.

The Trust also believes that all the current PSBs – ITV1, Channel 4 and five – have an important role to play in the future. Audiences tell us that they value the different contributions from each of the main broadcasters. However, recent research for the BBC found that audience's willingness to pay for PSB is considerably less than research published by Ofcom suggests, especially in the context of the current economic climate. This presents a real challenge as to how PSB provision can be maintained and strengthened in the future.

Use of the licence fee to fund provision beyond the BBC carries minority audience support. The BBC's latest audience research showed that spontaneous awareness of what the licence fee pays for is considerably higher than Ofcom found, and that there is a strong link between perceived licence fee funding and audience expectations of broadcasters.

The Trust is concerned that top-slicing risks compromising the independence of the BBC. The BBC's current funding comes from the licence fee, not from direct taxation. This funding is allocated in settlements which provide stable, predictable funding streams on which the BBC can base its long-term strategy. The BBC is accountable to the Trust, as its sovereign body, for the development and delivery of this strategy. Introducing other dependencies on the licence fee would require a further body to decide on the level of funding for both the BBC and other broadcasters. This body would be subject to additional pressures to those faced solely by the BBC, and so remove both the BBC's ability to pursue a long-term strategy provided by funding certainty, and the clear lines of accountability currently provided by the Trust.

The other funding options suggested all carry problems of their own. This leaves tough decisions to make. The Trust is keen that any solution should seek to grow PSB funding, and indeed have a wider benefit for broadcasters, rather than simply redistributing it. The Executive has today published its proposed partnerships and the Trust is now open to the views of audiences and potential partners.

7 Appendices

7.1 CapGemini market modelling

7.2 Audience research