



Government Response to the
House of Lords Select Committee
on Communications Report on
Public Service Broadcasting:
Short-Term Crisis,
Long-Term Future? (HL 61)
Session 2008-09

*Presented to Parliament by the
Secretary of State for Culture, Media and Sport
by Command of Her Majesty
June 2009*



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GOVERNMENT RESPONSE TO THE HOUSE OF LORDS SELECT COMMITTEE ON COMMUNICATIONS REPORT ON PUBLIC SERVICE BROADCASTING: SHORT-TERM CRISIS, LONG-TERM FUTURE? (HL 61) SESSION 2008-09

Introduction

The Government welcomes the Select Committee's Second Report of the 2008-09 session and is pleased to be able to present its response.

The Government is grateful to the Committee for its examination of the key issues relating to public service broadcasting in the United Kingdom, based on written and oral evidence from the principal public service broadcasters and other stakeholders. We welcome the detailed consideration the Committee has given to these issues, and note the Committee's recommendations.

The Government also notes the timeliness of this report. As the Committee is aware, we will shortly publish the final Digital Britain Report. That report will set out the Government's conclusions on the future of public service broadcasting in the UK. As a result, we are not able in this response to provide comprehensive policy responses to all of the Committee's recommendations. However, we will take account of the Committee's recommendations when finalising our proposals.

Conclusions and Recommendations

- **(1) For practical purposes, we recommend an approach that focuses on the provision of core elements including national and regional news, current affairs programmes, the arts, children's programming, programmes dealing with religion and other beliefs and UK content. (Paragraph 13)**

1. The Government believes that the concept and framework which we set out in the Communications Act 2003 and the characteristics and public purposes put forward in 2005 by Ofcom as part of their first public service broadcasting review provide a valuable starting point for examining public service content. Like the Committee, we believe it would be counterproductive to attempt to create a new definition now.

2. However, as we made clear in the Interim Digital Britain Report, published on 29 January 2009, the structural changes in TV consumption patterns and content funding, that are exacerbated by the current economic climate, mean that we may no longer be able to rely on the wider range of public service programming from varied sources to which we have become accustomed. That is why we identified that we would aim for plural public service provision which would give us, amongst other things, high quality impartial news at local, regional and national level, large scale original British content, children's programming for all ages, but especially the over 10s, and plural sources of commissioning for current affairs. As the interim report made clear, achieving all of this would be a significant task and there may well be a need to balance competing priorities.

- **(2) For policy decisions to be taken there is a need for as much clarity as possible on the financial position of all the public service broadcasters. (Paragraph 18)**

3. Like the Committee, the Government agrees that in order for appropriate decisions to be made regarding the future of public service broadcasting in the UK as accurate a picture as possible is required of the financial position of all the public service broadcasters.

4. As part of the PSB review process, Ofcom has carried out a comprehensive analysis of the economic situation in the public broadcasting ecology, both for the sector as a whole and for each PSB. Ahead of this review Ofcom, supported by LEK, conducted a detailed financial review of Channel 4.

5. This comprehensive analysis has shown that the advertising funded model for commercial PSB provision is not sustainable at current levels; this problem has been amplified by the current economic climate. The analysis produced by Oliver & Ohlbaum for Ofcom's most recent PSB review suggested that television advertising revenue may decline sharply, by close to 20% in total real terms, from 2006 to 2012. Though it would likely return to moderate growth thereafter, it may not return in real terms to its previous levels for some time. In fact in May of this year ITV announced that its advertising sales had dropped by 15%, which was slightly better than the industry drop of 16%. The Government therefore believes that we need to act now to secure a sustainable future for public service content.

- **(3) The Committee believes that there is a continuing need for public service alternatives to the BBC. We believe there would be dangers if the BBC were to become an even more dominant provider of public service programming. We believe that intervention is justified to ensure sufficient public service provision that the market will not provide free for the public. (Paragraph 25)**

6. The Government agrees with the Committee regarding the need for public service alternatives to the BBC. That is why we have repeatedly stated our firm commitment to sustaining public service content provision including and beyond the BBC. This is because plurality provides the range of voices and perspectives required for a healthy democracy. Having plural sources of commissioning and content also helps to raise levels of innovation and quality across all platforms.

7. The Government also agrees with the Committee that intervention is justified in order to ensure sufficient public service provision, although the market will continue to deliver some forms of content which meet public purposes. We are considering a range of options, as outlined in the interim Digital Britain report.

- **(4) While welcoming the BBC's commitment to commissioning more network programming from the three smaller nations, we feel that a due proportion could be achieved before the target date of 2016. Ofcom should consider whether Channel 4 and ITV plc might also do more in this regard. (Paragraph 26)**

8. The Government, like the Committee, welcomes the BBC's commitment to commissioning more network programming from the Nations. We note the Committee's views on the timetable,.

9. With regard to Channel Four, we should note that Ofcom, in its final PSB statement published in January, did recognise that production from and portrayal of each nation and region of the UK on UK networks was a concern for many.

10. As such, Ofcom decided to increase Channel 4's out-of-London production quotas to 35% in spend and volume. Within that there would be a quota for 3% set for production from Scotland, Wales and Northern Ireland. Ofcom plan to review these quotas in the light of forthcoming Government decisions in the final Digital Britain report.

- **(5) Although the public policy debate has concentrated on the future of Channel 4 as a public service broadcaster, in terms of quantity of public service output, employment and investment, ITV plc is the more important player. It will be important that ITV plc's request for relaxation of regulatory constraints is considered in a way which encourages ITV plc to continue its public service broadcasting role without creating further problems in the commercial television sector. (Paragraph 30)**

11. The Government acknowledges the critical role that ITV has been playing in providing audiences with high quality, public service content, from news, in particular in the regions, to high standard, engaging original creation that reflects the diversity and the talents of the UK. ITV's commitment to public service content has contributed to sustaining a wide range of voices and perspectives, as well as to improving the standards of the UK media landscape. We believe that ITV has a continued role to play in the future provision of public service content.

12. We do recognise that content markets are changing significantly, with the development of alternative viewing patterns and the shift of advertising revenue to alternative platforms and providers. This challenges profoundly the economics of linear TV whilst businesses are still only experimenting with ways of monetising digital content. As such, ITV plc is facing significant pressures that cannot be ignored.

13. We believe therefore that the regulatory framework that applies to ITV should change to take account of the media landscape. We will set out our position in the final Digital Britain report.

- **(6) Channel 4 does not accept that analysis, which underlines the need for an independent review of Channel 4's financial position. This should include potential efficiency savings and the financial implications of its programming initiatives, and should be completed before any decisions are made on its future. Such a financial review should be as open as possible to public scrutiny. (Paragraph 37)**

14. Ofcom concluded an independent financial review of Channel 4 in June 2007. Since then, Ofcom's second PSB review has built on the findings of its earlier review. Channel 4's financial prospects have also been scrutinized as part of the Digital Britain process, the conclusions of which we will be publishing shortly. The Government does not therefore believe that a further independent review of Channel 4's finances is required at this stage.

15. The Ofcom PSB review highlighted that the challenges faced by the UK's advertiser funded public service broadcasters, including Channel 4, are structural and are exacerbated by current economic conditions. That is why we are looking at Channel 4's future role and remit, and the options for a new public service provider drawing on Channel 4's assets, with a refined remit, as outlined in the Digital Britain interim report. The efficient and effective delivery of public service content will of course be essential to ensure the maximum benefit to audiences.

- **(7) This strength however brings responsibilities. The national economic position has changed radically since the licence fee was agreed by the Government and the BBC. Public service broadcasting outside the BBC is in self-evident crisis. We think that it is impractical to ask the taxpayer for further support. It therefore needs to be recognised—not least by the BBC itself—that the BBC is indispensable to the resolution of the general problems besetting public service broadcasting. This is a time when the BBC must look outwards and think about public service broadcasting as a whole. (Paragraph 39)**

16. The BBC is the cornerstone of public service broadcasting in the UK and the decision in 2006 that the BBC should be granted a 10-year Charter was based on the firm view that the Corporation should continue as a publicly-funded public service broadcaster of real scale, with a responsibility to deliver a range of services across a variety of platforms.

17. We believe that at this time of profound and disruptive changes having a strong BBC is even more important. We agree with the Committee that responding to current challenges requires a greater role for the BBC as an enabling force of Digital Britain – using its talent, facilities, resources and the BBC brand value to add to public service content production as a whole.

18. The BBC has started to embrace this potential new role – exploring the ways in which all licence fee payers can benefit from the BBC working strategically as an enabler, releasing the talent of commercial partners. Like the Committee, we welcome the partnerships proposals that give flesh to this new approach.

- **(8) Although we believe that the BBC must make a substantial contribution to tackling the general problems of public service broadcasting, that does not necessarily mean a merger between BBC Worldwide and Channel 4. There are unanswered questions about the viability of such a merger, and it certainly would not meet the needs of other public service broadcasters. We believe that it would be wise for the Government to look at other options. (Paragraph 54)**
- **(9) We believe that a partnership of this kind would be a quicker and less disruptive way of making extra resources available to Channel 4 than a merger. The BBC has been criticised in the past for its failure to work successfully in partnership with outside bodies. It is of the utmost importance that this partnership proposal be made to work. (Paragraph 56)**

19. The Government notes the Committee's concerns about the possibility of a merger between Channel 4 and BBC Worldwide and its preference for a partnership approach. As indicated in the Digital Britain interim report, the Government is looking at a range of potential options for future public service provision. We will announce our conclusions in the final DB report, which will be published shortly.

- **(10) We welcome the BBC's partnership proposals and recommend that the other public service broadcasters take full advantage of them. (Paragraph 57)**

20. The Government encourages the BBC to explore the potential for working in partnership with other organisations and broadcasters. We welcome the proposals that the BBC have put forward and the positive effects such partnerships could bring for the wider creative economy. For example, in March 2009 the BBC entered into news gathering and production partnerships with ITV plc. The Memorandum of Understanding that underpins this decision is designed to help deliver cost savings for the provision of regional news in England and Wales on ITV. With the synergies that might be created, it is estimated that there is the potential for a saving to ITV of £1.5m in 2011 rising incrementally to around £7m a year by 2016. The Government welcomes this move and considers it to be a very important first step, encouraging the BBC to explore further synergies and partnerships with other broadcasters and media providers.

21. The BBC Trust is considering other key partnerships with other broadcasters and with independent content producers, in particular to help enable the delivery of internet protocol television (IPTV) and to open the iplayer service. We are looking forward to seeing the outcomes of the Trust's work.

- **(11) We recommend that an element of contestable funding should be introduced to fill some of the gaps that might otherwise arise in public service broadcasting. This would entail the setting up of a limited fund to which broadcasters and programme makers could apply. (Paragraph 66)**

- **(12) On the assumption that cost savings and additional income generated through partnerships will not be sufficient to meet the anticipated funding shortfall in public service broadcasting, we propose that funding for public service broadcasting in the advertising-funded television sector should be provided by (a) the underspend on the digital switchover programme (b) the continuance of funding from the licence fee after 2012 when the digital switchover programme ends and (c) the use of at least part of analogue spectrum revenue after 2012. Consideration may ultimately need to be given to redirecting an element of the licence fee to support public service content provision outside the BBC. (Paragraph 70)**

22. The Government notes the Committee's views. We will set out our views on how best to ensure the future provision of public service content beyond the BBC in the final report, due shortly.

- **(13) Accordingly we recommend that the BBC is established by statute. We urge the Government to reconsider its proposal to persist with the Royal Charter and to substitute a democratic process which will enable the public to be consulted more fully. (Paragraph 75)**

23. The question of the BBC's constitutional status was fully addressed in the last Charter Review. The firm conclusion was that preserving the BBC's status as a chartered body was the best way of ensuring the independence, certainty and flexibility necessary for the Corporation to remain the cornerstone of public service broadcasting. Providing for a Charter with a fixed end-date ensures that there is an opportunity for a thorough review of the BBC's role and purpose before the end of each Charter period.



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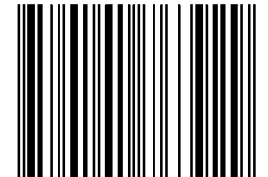
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