

Chapter 5

Public Service Content in Digital Britain

"Let us be the generation that reshapes our economy to compete in the digital age."
President Barack Obama

AMBITION: TO ENSURE THE PROVISION OF ENGAGING PUBLIC SERVICE CONTENT OF QUALITY AND RANGE, FROM MULTIPLE PROVIDERS ON MULTIPLE PLATFORMS, TO A WORLD-CLASS STANDARD

A renewed commitment to public service content provision in the digital world

1. The changes described in the preceding chapters have a significant bearing on the public service content that, as a society, we both want and can get.
2. Public service content in Digital Britain now comes from a much wider range of sources than in the analogue age. Public cultural institutions like Tate, the Royal Opera House, the RSC, the Film Council and many other museums, libraries, archives and galleries around the country now reach a wider public online. Online and on-air, the subscription-funded market provides a wide range of public service content from history and science and arts to material for younger children and national and international news.
3. Inevitably much debate about public service content focuses on broadcasting because we are still in an age where mass transmission and mass reach predominates and the genesis of the market interventions was from that mass, analogue world. As in other parts of this Report, we need to work through the implications of the transition from analogue to digital in the context of public service content.
4. It is not yet clear at what point technology and users will cross over from an environment where content is consumed passively through the linear schedule



to one where content is consumed actively through search and on-demand. Measures set out in this Report will accelerate the not-distant point when that occurs. For thousands of website designers and creators and independent producers this offers great opportunity. For traditional mass broadcasting it offers challenges. The BBC, with its secure and significant funding stream has spread into this online, on-demand and search-based world. Channel 4, smaller and more commercially focused has been rooted more firmly in broadcast, but has recently made some moves into the new world via its materials for schools and 4IP.

5. We believe this backdrop poses five key questions in relation to public intervention:
 - firstly the evolving role of the BBC in this new environment;
 - secondly, the changing role and remit of the Channel 4 Corporation as a multi-media public service counterpoint to the BBC;
 - thirdly, whether we are getting the most from or maximising the visibility to our other publicly-funded content brands;
 - fourthly whether there are any categories of content beyond plurality of news, which this Report validates as a special category, which might justify public intervention; and
 - fifthly, the scale and pace at which the Channel 3 and Channel 5 broadcast licensees move from public service to wholly commercial operations.
6. The market in Digital Britain is much more efficient. But that means it is also much more precise about what consumers are willing to pay for – implicitly or explicitly – than in the days of analogue. The surplus generated by premium advertising was sufficient to allow the implicit subsidy of public or social goods. In a sharply focused digital market this is proving unsustainable or at least can no longer be monetised to the level of sustainability. That subsidy sustained commercially-funded high-end drama, documentaries on television, investigative journalism, and a long list of genres each with passionate if numerically small audience followings, even to detailed court reporting at the level of local and regional media. But that subsidy is no longer available. If the models to provide some of these genres through television commissions are faltering, the new opportunities online enable arts and other genres to become their own commissioners and distributors to large audiences, building brands such as Tate, Royal Shakespeare Company and many others that are already showing global potential in the online world.
7. Just as convergence is blurring the distinction between audio-visual and text in broadcasting, print, online and across different platforms, so the changes to the monetisation of content are affecting all media. The current regime for Public Service Broadcasting, covering the BBC, Channels 3, 4 and Five, set out in the Communications Act 2003 is not surviving the transition to a fully Digital



Britain. Ofcom's Statutory Review, published in January 2009, made a number of recommendations for the management of that transition.

8. The 2003 Communications Act in many ways predicted the changes from linear PSB television. It is now clear that the analysis and prescriptions are more likely to be effective if they start from the premise that the structure and the set of entities which have been collectively known as 'Public Service Broadcasting' are over. **In recognition of that the Government proposes to discuss with Ofcom how it can take best account of the wider delivery of public service content in the future and in particular, whether Ofcom's statutory obligation to regularly review and report on the extent to which the purposes of PSB on television have been fulfilled, with a view to maintaining and strengthening the quality of public service television broadcasting in the UK, should be amended to allow that review to consider the wider delivery of public service content.**
9. The Digital Britain Report makes a clear case for continued strong intervention to deliver public service content; a case accentuated by the rapid diminution of the advertiser-funded market surplus that has funded commercially-provided public service content. We also take as a given the fact of the Licence Fee as by far the most significant public intervention in the content market to secure public purposes. And we take as a given the importance of an independent, stable, well funded BBC as the cornerstone for the production and distribution of high quality public service content. The question in the new world is the extent to which there should be the BBC in one 'public service' corner and all other media and platform entities in another corner and what that would mean for consumers and citizens. And if, as a society, we decide that there areas that we want more than that, that we want plurality that the market unaided will not provide, we need also to decide how to fund it.
10. Today the market provides and can be expected to continue to provide a significant diet of entertainment, information about the world around us, soaps and some other forms of drama, material for younger children, some remaining provision of other genres such as religion and arts, and UK-wide and international news.
11. The emerging gaps in market provision are concentrating in particular on News in the Nations, regionally and locally, on material for older children including online content, and hard factual and documentary. Ofcom in their Statutory Review also identify other potential gaps, such as high-end drama and original comedy and satire and more generally, content that falls under the banner of innovative. However, in an era of limited funding, it is critical to distinguish between where plurality is desirable and where it is essential and to focus public intervention on the latter.



THE BBC'S EVOLVING ROLE AT THE CORE OF OUR SYSTEM

12. The changed environment set out above makes a strong, confident and independent BBC more essential than ever. The Government is committed to such a BBC as a gold standard for British media; and to a multi-annual financial settlement that provides the BBC with operational stability and independence from political intervention.
13. The BBC is a successful institution, held in very high regard both domestically and around the world. It continues to attract some of the brightest and best of British and increasingly multi-national talent, on screen, on radio, online, in engineering and technology and behind the scenes. In part the BBC has been so successful because of its great ability to combine the best of its traditions with a willingness to innovate, both in its services and in its own role. The strategic vision of its entry into the digital and online world over the last 15 years has been matched by few.
14. Today's circumstances require the BBC again to show the flair and leadership it has displayed in the past. Its role is evolving: from being first among equals in a limited number of analogue channels, to being a public service content partner with multiple other media organisations; and to being an enabler of Digital Britain. This last role was presaged in the Public Purposes in the most recent Royal Charter, the sixth of which is:

'helping to deliver to the public the benefit of emerging communications technologies and services, and in addition, taking a leading role in the switchover to digital television'.
15. The BBC has begun to develop its role as a partner with an increasing range of other media and cultural organisations, UK-wide, in the Nations and Regions and locally. Potentially the most significant of these partnerships is the prospective joint venture between Channel 4 and BBC Worldwide to strengthen both in broadcast television, pay television, DVD and multi-media activities. This is discussed later in this chapter.

BBC Partnerships

In December 2008, the BBC Executive outlined a series of partnership proposals designed to create sustainable financial and other benefits across the broadcast sector and wider creative economy. These partnership initiatives include:

- Bringing Internet services to the television screen through project Canvas.
- Opening the iPlayer and its supporting technology to other broadcasters.
- Opening the BBC's local and regional infrastructure including studio and gallery time, play out facilities, etc. to support the continued delivery of regional news beyond the BBC.
- Sharing the benefits of the BBC's investment and research into digital production and seeking to create a common standard for digital production across the industry.



Since the initial set of ideas was made public, a number of other partnership proposals have been developed including:

- Supporting the national and local newspaper industry through a range of initiatives including greater online linking and the syndication of BBC News video online.
- Partnerships with commercial radio alongside continued co-operation over digital radio and the future of DAB.
- Greater collaboration between the BBC and the cultural sector, enabling more public sector organisations to harness the power of digital content.

THE SCALE AND IMPACT OF THE BBC

16. The BBC has become increasingly important in its relative scale and importance in the UK marketplace. Today, the £3,600m a year Television Licence Fee funds provision by the BBC of two thirds of all networked UK-originated television content outside sports coverage. It funds 56% of all radio content in the UK and secures a commensurate audience share for the BBC. It funds the UK's largest online content site – bbc.co.uk – the 6th most visited site by UK users. Its online funding represents around a quarter of the total UK investment in professional online content. Through the Independent quota and the WOCC – the Television Licence Fee sustains over £400m of production by the Independent sector in television and radio and over £23m last year for independent online producers.
17. In infrastructure, the BBC sustains a significant, sometimes majority, investment in the digital terrestrial television network, in Digital Audio Broadcasting and in Freesat. And a ring-fenced element of the Television Licence Fee is used to fund the Help Scheme to assist vulnerable groups with Digital Television Switchover and Digital UK's public information campaign.

Application of the Television Licence Fee 2007-08

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|---|------------------------|
| Content Expenditure | |
| Television | £1,862 m ²⁶ |
| Radio | £460 m |
| Online | £114 m |
| Non Content Expenditure | |
| Infrastructure/Support | £575 m |
| Central BBC overhead (classified as part of Infrastructure/Support) | £421 m |
| DSO Help Scheme | £27 m |

26 Including news and other programming provided to other broadcasters – e.g. S4C



18. The relative growth in the scale and importance of the BBC in the overall digital content ecology, give it a commensurate public responsibility. The BBC's partnership proposals are one means by which the BBC is seeking to demonstrate its recognition of those responsibilities.
19. The BBC's size and the nature of its funding mean that it can – and does – condition the wider marketplace, particularly new or emerging markets in this sector. This is a critical issue now. Globally, the development of the Internet is rapidly reducing the scope for high yield advertising inventory; most other, paid-for, business models are nascent and fragile. That is compounded in the UK market where one of the most significant actors in the market is publicly-funded and is obliged by the terms of the Agreement, where it provides a new service funded by the Licence Fee, to make that service available to the public without charge.
20. Free is very difficult for any paid-for business models to compete with. Given the current nature of the market, new BBC activity has a higher risk than in the past of chilling or foreclosing market developments. Certainly there are considerable benefits from the BBC's ability to innovate. Submissions to Digital Britain argued that commercial models, once allowed to establish, can produce the same degree of innovation. The development of pay-television is a good counterfactual: multi-channel, high definition, navigation, interactivity, storage and the other features of the PVR are innovations that have come from the pay platforms, which the free platforms have only subsequently adopted.
21. In these circumstances, the creation of and the actions of the BBC Trust have a critical role. The impact on the ability of the market to monetise services needs to be a crucial feature in the Public Value Test for any new BBC service. It is welcome that, in considering the Public Value Test on the proposed BBC local service, the BBC Trust accepted Ofcom's recommendation on the dynamic impact on the market and the likelihood of foreclosure. The Government believes that this is a sensible precautionary approach to adopt to new services, particularly in nascent new media markets.
22. The Government notes that the BBC Trust has also sought views on the public value and market impact of the BBC's proposed Project Canvas to bring broadcast and broadband together through hybrid IP-TV receivers. The ambition to bring together broadcasting and broadband services in a way that will ultimately benefit consumers is laudable. The specification of standards is of crucial interest to the wider market, both software and hardware, and those interested in providing services through such hybrid devices. **The BBC Trust is currently deliberating on Project Canvas and within that process it is considering whether, if Project Canvas is approved, it should be on the basis that its specifications do not foreclose commercial operators from providing monetised services via Canvas devices.** In practice this will mean at the least clarity about the ability to incorporate conditional access and scope for rival EPG/search gateways.



BBC WORLDWIDE

23. Commercial operators have also submitted views about the tension between impact in the market place and value for the licence-fee payer in the role and structure of BBC Worldwide as a wholly-owned, commercially-funded subsidiary of the BBC. In recent years, BBC Worldwide has been an increasingly vigorous and successful acquirer and exploiter of rights both domestically and in global markets. But that very vigour and success have given rise to concerns about a wholly publicly-owned body ranging widely into different commercial markets. These concerns have found voice in two recent reports, from the House of Commons Culture Media and Sports Select Committee and the House of Lords Select Committee on Communications. Both called for greater clarity and transparency in the relationship between the BBC and BBC Worldwide.
24. The Government supports that objective. However, BBC Worldwide has the potential to be a very significant global rights business for Britain and the Government believes that it would be a missed opportunity to limit BBC Worldwide to a narrow supporting role to the BBC. As indicated in the Interim Digital Britain Report, the Government believes that there is a case for greater financial and operational separation between BBC Worldwide and the BBC which would inject the greater transparency all wish to see. The Government will encourage the BBC Trust to continue to consider proposals to achieve that greater separation. These could include the sale of a part of BBC Worldwide. It would clearly need to be done in way that maintained the rationale for the 'first-look agreement' and protected the quality of the BBC brand around the world. The aim of these proposals would be to enable BBC Worldwide to have greater commercial freedom and to develop towards becoming a powerful, global British Rights Company, capable of generating additional revenue streams which could be re-invested in public service content.

PUBLIC FUNDING FOR COMPETITIVE PROVISION OF ESSENTIAL PUBLIC CONTENT

25. The Government believes that the market alone will not provide plurality in the ownership, commissioning, editorial and production of public service content that remains essential. That is particularly true of news. It is important for civic society and democracy for people to have a range of sources of accurate and trustworthy news at all levels, local, regional and in the Nations as well as UK-wide and international news that is guaranteed, beyond market provision. The Digital Britain consultation suggested this may be also true of children's content.
26. In the Communications Act 2003, Parliament charged the new independent regulator, Ofcom, with the task of undertaking Regular Statutory Public Service Reviews with the objective of "maintaining and strengthening the quality of public service broadcasting in the United Kingdom". Since 2003, Ofcom has conducted two full Statutory Reviews, most recently in 2008, both of which reflected extensive consultation and evidence based research.
27. These reviews highlighted the importance of plural news to citizens and the increasing challenges facing new provision particularly at local, regional and



Nations level. The issues facing Nations, local and regional news are set out in greater detail later in this Chapter. But it is evident that changes in the marketplace arising from audience fragmentation, ever-increasing inventory in the market and the impact on advertising price structures from the enormous growth in online advertising mean that commercially-provided local and regional news and news in the Nations, across all media – radio, newspapers, online and television – is facing an acute challenge. Unaided, there will be a substantial diminution in the range and quality of sources of commercially-provided local, regional and Nations news.

28. The BBC's partnership proposals are very welcome and fully in keeping with its new role. There may be deeper wholesale access arrangements to BBC news facilities that could enhance the impact of these proposals. But, in content, and especially in news, there is a question to be asked: if journalistic and editorial plurality is a key objective, how far the BBC itself can go in partnership? The BBC's own proposals in news partnerships acknowledge this question, referring to 'non-rivalrous' news material. Evidence submitted since the Interim Digital Britain Report suggests that the scale of the emerging deficit in commercially provided local, regional and Nations news may well outpace the capability of partnerships alone to address it.
29. So this combination of public policy needs and the market conditions requires us to ask the question as to whether additional funding is needed. It is clear that funding could achieve substantially more per pound of input in the hands of new operators using new media than to sustain a legacy broadcast network and studios for regional news built in and for the days of surplus in the system. Thus an investment at levels similar to today's could actually achieve a significant enhancement and broadening of the quality of news in the Nations, regionally and locally and its wider distribution and syndication across a larger number of platforms.
30. Traditionally funding came implicitly by cross subsidy from the local broadcasting franchise or from high margins in advertising inventory. Both sources are diminishing very rapidly. In the current public expenditure climate further calls on the Exchequer could not be contemplated, even if it were appropriate for Government to fund news in the UK directly. The funding therefore needs to come in some form from the existing public investment made through the Television Licence Fee, either directly or indirectly.
31. The challenge therefore is to maintain a strong and independent BBC, with multi-annual funding, but also to provide contestable support particularly in local, regional and Nations' news. As well as contestability, the new models need to deliver editorial independence both from Government and from the BBC's own editorial influence. These models also need to be sustainable.
32. As is apparent from the Box above, the Licence Fee is currently used for a multiplicity of services on multiple platforms and some of it is channelled through other providers and for services other than the BBC's services. At present the largest such element is the ring-fenced Digital Switchover Help



Scheme and Digital UK's Marketing Budget which represent about 3.5% of the total Licence Fee.

33. In Budget 2009 the Government said that it would consult the BBC Trust on how the emerging underspend in the Digital Switchover Help Scheme, through to 2013, would be used to help finance the delivery of a Universal Service Commitment for Broadband at 2Mbps (i-Player quality). Those discussions are underway and reflected in Chapter 3.
34. The Government will discuss with the BBC Trust ways in which a portion of the projected Digital Switchover Help Scheme underspend could be allocated to test a range of pilots testing different models for the creation of contestable funding for news before 2012.
35. The Government notes that there is an argument, strongly advanced by some, that the Television Licence Fee is indissolubly linked in the public mind with the provision of services by or through the BBC and that its permanent use to support content provided by others, however worthwhile, would confuse and weaken support for the Television Licence Fee.
36. **In the light of all of the above factors, the Government has therefore decided to consult openly on the idea of a Contained Contestable Element of the Licence Fee used by or channelled through other organisations, primarily for news. Under this option, from 2013 when Digital Switchover is concluded, the Universal Service Commitment has been met, and DAB roll-out funding has been agreed, an element broadly equivalent to the 3.5% currently used for the Digital Help scheme and Digital UK's marketing and communications budget could be maintained as a Contained Contestable Element.**
37. **Such a Contained Contestable Element would be independent of the overall level at which the Television Licence Fee will be set in the next multi-annual settlement (ie 2013 onwards).**
38. A key element of debate in the consultation on this option would be around ways to ensure that a Contestable Element was truly contained and could not over time become simply another form of general taxation. This might involve consideration by the BBC Trust and the Government of an agreed amendment to the BBC Agreement which would specify a maximum percentage of the Licence Fee that would become the Contained Contestable Element, open to be used by organisations other than the BBC and to tie the use of that Contained Contestable Element to the specific Public Purposes set out in the Royal Charter.
39. There are two organisations with specific responsibilities in relation to the issue of funding plural public service provision: firstly the BBC Trust, with their responsibilities in relation to the licence fee payers and for maintaining the independence of the BBC; secondly, the independent Statutory regulator, Ofcom with its duties towards maintaining and strengthening the quality of public service television broadcasting in the UK which cover the BBC but go wider. Evidence and views from these bodies in the consultation will be vital. In addition, there are other public service bodies such as S4C and C4



Corporation whose views will be pertinent, as will those of the wider market. Most importantly, however, are the views of the audiences and users who pay for these public services, and those who represent them.

40. The Government will be open to other ideas and proposals in the consultation period which meet the objectives of maintaining a strong, independent BBC, while providing a sufficiency of sustainable contestable funding to support public service content, particularly in local, regional and Nations news. For example, among the suggestions put forward is for the BBC Trust to set aside a similar proportion of the annual profits from BBC Worldwide for a Foundation.

C4 CORPORATION IN DIGITAL BRITAIN

41. The interim Digital Britain Report recognised the strength of the Channel 4 brand and continued validity of many of its original public purposes, but also the pressures on its commercial model and the need to re-invent its public purposes for the digital age. We believe that C4 Corporation (C4C) has a key role to play in providing a balancing mix of public service content alongside the BBC. It is publicly-owned. It is a major commissioner of independent content from across a wider range of producers than other commissioning organisations; and, in 4IP has begun to extend C4C traditional public service delivery of broadcasting into the online and multi-media world and develop innovative means of distribution in social media.
42. In the Interim Digital Britain Report, we stated that the Government would establish whether a long-term and sustainable public service organisation providing competition for quality to the BBC could be defined and designed drawing in part on Channel 4's assets and a re-cast remit, a greater focus on online and multi-media and able to develop innovative partnerships with the wider private and public sector, a 'PSB2'.
43. The Government believes it would now be right to update C4C's remit in keeping with the above objectives of recasting C4C for a Digital Britain. The original concept for Channel 4 was to be 'the open broadcasting authority'. That premise was good and, suitably updated, remains the right objective: C4C should be the open new media authority providing the seed-corn for creative innovation in the multi-media world.
44. C4C has itself proposed many of the elements for a new remit in the work it has undertaken in Next on Four. The Government welcomes that work and agrees that it provides an important series of aspirational goals for C4C. Although C4C has fared better than many advertiser-funded content companies through the current structural and cyclical changes, it has not been immune to them. Sustaining even current levels of content investment requires tough efficiency and productivity measures and new sources of revenue. Next on Four envisaged additional resources. Priority choices will therefore have to be made in current conditions.
45. The Government wants to see a Channel 4 able to sustain its role in the funding and creation of award-winning films. Television will, of course, remain a vital means of sustaining reach and range for the C4 brand. But the



Government believes that C4's current remit is now too television-centric for the role a recast and revitalised C4C should play in Britain's digital media. A recast remit is also a clear indication that the balance of C4's activities could shift over time, as the wider content market and the responsibilities of other major commercial television broadcasters evolves. The Government recognises that television advertising inventory will remain a significant part of C4's income, but part of that shift over time might be greater freedom to maximise that income in the broadcast stream while substantially enhancing the provision of online and multi-media public service content.

46. This will require C4C to develop further the skills it has built through 4IP to use techniques different from the broadcasting world to achieve reach and scale: as the more successful experiments online have shown, it is the ability to get audiences themselves to spread the content that is a key determinant of reach and impact.
47. It should also seek to develop partnerships – in the way that it has done successfully with the independent production sector – both on air and globally online with Britain's other major cultural institutions and brands that are increasingly generating public service content.

Channel 4 and Partnerships: the BritDoc Foundation

The Channel 4 BRITDOC Foundation was born out of Channel 4's documentary department four years ago and devised as a standalone, non-profit foundation with a remit to create new funding and distribution models for British-made documentary films.

As well as funding groundbreaking social-issue films (such as Bafta winner *Chosen*, double Sundance winner *Afghan Star*, Warners cinema release *Sounds Like Teen Spirit* and Tribeca winner *We Are Together*), the Foundation brokers relationships between filmmakers and the NGO, foundation and brand sectors in the UK to create better, more effective films. Channel 4 BRITDOC Foundation films are widely available: at cinemas, on DVD, on Channel 4 and online.

The Foundation manages a production fund of £0.5m annually, awarding small grants to leverage big returns. The average feature documentary grant is £33,000. On average, this investment is then tripled in match funding from other partners: international and US foundations, international broadcasters, NGOs (non governmental organisations), brands, individual donations (crowdsourcing) and private investors. Many of these partners have never funded public service media before but see that now, in a changing media environment, there is both a need and a benefit for their involvement.

The Foundation works with creative individuals with something to say about the world, nurturing independent voices. Any British director, or director based in Britain is eligible to apply for a grant from the Foundation via the website: britdoc.org. So far, 48 grants have been awarded out of nearly 2500 applications.



48. The Government will therefore take the views of the Channel 4 Board on an updated statutory remit for C4 Corporation based on the following elements:

Championing and promoting creativity and new talent across all digital media, by:

- Investing in a wide range of original, innovative, high-quality audio-visual content, including film, which provides alternative perspectives and reflects the cultural diversity of the UK.
- Providing audio-visual services and programming that can stimulate learning and which will inform, challenge and inspire people, particularly older children and younger audiences.
- Maintaining a strong commitment to distinctive national and international news and current affairs.
- Enabling through partnership the development and reach of other public service content from British cultural organisations.
- Developing new services and applications to support its overall role, embracing the potential of all digital media to connect with audiences in new ways and to encourage the wider take-up of and participation in new digital media by audiences.

The issue of children's content

It is the general consensus that since the first dedicated children's television service began transmitting on the BBC in 1946 British made children's programming has remained amongst the best, if not the best, in the world. From the 1950s with Andy Pandy and Blue Peter, the 1960s with Animal Magic and Playschool, to the 1970s with Tiswas and Newsround right up to the 1990s with the Teletubbies children have been provided with a plethora of content that not only entertains, but also educates them about their cultural heritage and the values and principles which underpin our society.

This content also, because it has significant monetary value for broadcasters and producers, impacts positively on our national economy. For example, Bob the Builder and In the Night Garden are following on from the enormous world wide success of the Teletubbies, which, has been sold to nearly 100 countries and generated more £116m in sales since 1997.

However, at present, the reality is that when we talk about children's content, we no longer focus on that legacy of success. Debate and commentary, instead focuses on the crisis that the children's television industry has been facing since around 2003, perhaps earlier.



The reasons for why we find ourselves in this position – re-focused PSB requirements, increased commercial pressures, greater restrictions on advertising in and around children’s programming and significant changes regarding how children consume media – have been well documented and do not require further forensic examination.

What is clear is that, based on the evidence produced by Ofcom and others, including respondents to the Digital Britain Interim Report, there is widespread agreement across Government, Parliament, regulators and consumers that there is a market failure that needs to be addressed, despite the large volume of programming currently available (30 dedicated channels).

That is because the reality is that fewer than one in five hours of children’s programming broadcast is made in the UK, with less than 1% made up of new UK originations. Of course, the market could be expected to provide some of this content – Disney Channel, Nickelodeon and Cartoon Network all commission some UK programming, but this only represents around 10% of total investment in new programmes. Some form of intervention is therefore required, which is why we stated that plurality of public service provision for original children’s production for all ages, but especially for the over 10s was one of the priorities for Digital Britain.

We believe that the most appropriate way to future proof the provision of original children’s production in the UK is to enshrine within the newly defined remit for Channel Four, a solid commitment to children’s content, with priority given to older children – the area where there is the greatest market failure. We are looking forward to considering the proposal of Channel 4’s board.

In order to engage with and entertain, educate and empower today’s generations we accept the need to consider a wider perspective on children’s media content than has previously been the case.

Evidence clearly shows that the media consumption habits of children are altering rapidly, with children no longer seeing television as the most important medium available for them to consume and information and be entertained. This is clearly shown by the iPlayer’s younger audience age profile when compared to the BBC’s broadcast audience. Whilst acknowledging that different metrics are used to measure TV and iPlayer audiences, 37% of the iPlayer’s audience is believed to come from those aged 16-34. Yet that group accounts for just 17% of the BBC’s broadcast audience. As a result, we would expect Channel 4 to ensure that delivery will not be restricted to traditional broadcasting, with online delivery actively encouraged.

49. A measure of success for the new remit and delivery by Channel 4 would be the extent to which they succeeded in stimulating competition for innovation and quality from the leading public service content provider in the children’s market, the BBC. This is likely to push at the depth of educational content



offered to children and young people and the levels participation and creativity, including content creation, by children and young people.

50. The current framework gives the sector regulator, Ofcom, the primary role in the governance, licensing and regulation of C4C. The independent Board of the C4 Corporation is responsible for ensuring that Channel 4 meets its financial and public service responsibilities. It is a unitary plc-style Board, with a non-executive Chairman, appointed by Ofcom, with the approval of the Secretary of State, other non-executive directors similarly appointed in consultation with the Chairman. The Chairman and non-executive members appoint the executive members of the Board. C4C has a remit and specific duties. It has a series of specific quotas and must publish annually a statement of programming policy setting out how it intends to meet its public service commitments in the coming year and how effectively it has delivered them in the preceding year. We note C4C's inclusion of a public impact statement for the first time in its annual report for 2008, and welcome this as a useful framework for demonstrating the delivery of C4C's public purposes.
51. In certain circumstances, including if C4C were in future to become the recipient of significant sums of public money, these arrangements may need to change, to ensure proper 'separation of powers' and accountability for such public funds, perhaps to something closer to the Welsh Authority/BBC Trust model (or indeed towards an umbrella public service trust model providing accountability for a range of such bodies).
52. In looking to secure a long-term and stable financial footing for Channel 4 the Government has considered a range of structural options and invited expressions of interest from third parties for the development of innovative partnerships. This process evinced a number of commercial approaches, some of which are still being considered by the Board of C4C. The main options we examined in detail were a joint venture between C4C and BBC Worldwide; a merger between C4C and a private sector partner, creating a new commercial entity, majority publicly owned but underpinned by private capital; and a standalone C4C, either retaining the current linear TV model with a more focused public service remit, or delivering substantially more of its public service obligations online, enjoying a cross subsidy from a more fully commercial core TV channel progressively relieved of PSB obligations. Each of these options was examined in detail for its potential to sustain plurality of public service content in the Digital Britain.
53. On balance, the Government's conclusion, which has been strongly supported by the Board of C4C is that a minority privatisation, even on terms that provided significant additional funding over the short to medium term to invest in television programming, could not be assured of delivering the public policy objectives previously outlined over the long term.
54. The Government looked at C4C's current and prospective commercial position. The Government concluded that it could not make available direct Exchequer



funding given current public service priorities. Moreover, it was possible that such direct funding could over time alter the ethos that has made C4C a valued part of the public service mix.

55. The Government considered the option of a merger between today's BBC Worldwide and today's C4C, involving the move to a BBC Worldwide with greater structural separation from the BBC and a recast C4C, particularly in relation to the ownership of rights. The Government concluded that at this stage further work needed to be done by both the BBC and BBC Worldwide on the practical and strategic implications of further structural separation. Equally, significantly changing the terms on which C4C negotiates and acquires its content rights would have had wider consequences for the existing rights regime and for what is a successful UK production sector.
56. The Government also took the view that a straight asset transfer from the BBC to C4C in whatever form would have had significant competition implications. The parties have worked on a series of partnerships of scale, including around digital channels, advertising and DVD sales. The Government welcomes this work and believes that such ventures have the potential to deliver significant value to both parties. We have made clear to both parties that we are ready to facilitate such joint ventures if commercial terms can be agreed, with the appropriate approvals within the parties' governance arrangements and any relevant regulatory clearance. Alternatives to the joint ventures with BBC Worldwide have also emerged over recent months: the Board of C4C is right to explore whether those make commercial sense and can strengthen C4C.

THE IMPORTANCE OF NEWS AND LOCAL JOURNALISM FOR DEMOCRACY

57. A major new study, commissioned by Oxford University's Reuters Institute for the Study of Journalism, argued earlier this year that we need to think openly and dispassionately about ways to fund the news in Digital Britain.
58. As the economic foundations of news publishers come under great pressure, especially in local and regional markets, there's an imminent danger that large parts of the UK will be left without professionally verified sources of information. Information is the lifeblood of a vibrant economy. A strong, viable and diverse news media is also integral to democratic life. When a newspaper goes under, we lose more than a tax-paying business. We also lose an institution's memory; archives, values and community relationships that have, in many cases, been built through generations. Worst of all, we risk losing the talent of seasoned editors and journalists.
59. To sustain the vital civic function of journalism, citizens, Government and business will need collaboratively to devise new ways of funding the news. The commercial model will continue to play an important role, especially as publishers explore the potential of new platforms and technologies. But it will also need to be supplemented with a range of alternative models – for example, local ownership, community media and non-profit organizations.



60. Digital television delivers a large number of international news channels into our homes, including global brands such as Fox News, Star News, CNN and others. These are complemented by newspapers who are increasingly becoming providers of audio-visual news through services such as Telegraph TV. In addition to these purely market provided players, there remains a critical role for companies such as ITN, the UK's leading independent producer of public service broadcast news and the current Appointed News Provider to ITV. ITN competes to tender national news to other broadcasters including currently providing Channel 4, competing in particular with Sky News, the current provider of news to Five. Today, ITN has evolved into one of the UK's most innovative multimedia companies with skills and experiences in producing news and other content for television, mobile and broadband. As we look forward, the views and role of the established UK news providers such as ITN and Sky News will continue be of great importance.
61. Local websites of all shapes and sizes are providing community news and information to hundreds of thousands of people. Most of these sites are volunteer run, using free publishing platforms like www.wordpress.com with no hard costs. They show that grass roots media can provide an accurate, reliable, popular sources of news and information without regulation or subsidy. Their news values and thresholds are new, reflecting grass roots interests and priorities.
62. Community sites with no costs can serve very small, human news geographies of a single ward or a few streets. Community websites with no old media legacy are able to discriminate between types of media production to suit local needs. The written word and photos predominate, sound and video are in a minority. In some communities with established local sites the readership within the community appears comparable to that of traditional news media.
63. Digital Britain is at the beginning of a new and possibly disruptive wave of local news, generated by communities for communities using free online media. Over the medium term this has the potential to be good for local pluralism and expression as commercial funding for traditional media diminishes. 4IP and Screen West Midlands are making a major investment in Talk About Local to create hundreds of new community websites by giving community activists the simple skills. Digital Mentors are taking a similar approach on a smaller scale.



Demotix: a new approach to the news

Demotix is a street journalism website and newswire.

Founded on the principles of freedom of speech and freedom of knowledge, Demotix enables freelance, amateur and citizen journalists to share their stories with the world, and license them to the mainstream media. Its vision is both global and ultra-local.

Demotix launched officially in January 2009. The creators of Demotix saw how citizen journalism could both supply the very foundations for free expression all over the world, and revolutionise the way news is sourced.

Demotix has been particularly successful at covering news the mainstream media cannot reach, and came to prominence with its user-generated reporting of the war in Gaza and the G20 protests, where the depth and quality of its news gathering measurably surpassed that of the mainstream media.

Demotix has already seen its images on the front cover of The Guardian, Spectrum (of the Sunday Times), and al-Masr al-Yaum; has licensed its content into the Telegraph, the BBC, the Guardian, the Times, the London Paper, the Huffington Post and others all over the world, and has placed its news galleries into The Telegraph, Le Monde, Future News (Lebanon), the Himalayan Times (Nepal), OpenDemocracy.net, and elsewhere.

Demotix, with a core team of only 4 staff members, has over 5,000 users from over 120 countries and territories around the world, uploading between 40-50 news stories daily.

In March 2009, Demotix won the Guardian Media Awards 09 for Independent Journalism, the biggest industry prize in the UK.

64. However, the impact of the content revolution is to demolish existing structures faster than new ones come into being. In news above all it would be unwise to leave a gap in plural provision between the old and the new. So in addition to trusting to the medium-term potential of online hyper-local news, we also need to help the more traditional media in building bridges to the future.
65. At the heart of our commitment to UK media is the Government's commitment to a free, independent and active press. Whether at a local, regional or national level it is essential that high quality, independent journalism should continue to thrive and keep UK citizens informed.
66. The basic framework for the press, online and offline is right. We continue to support self-regulation of the press as the best way to ensure that reporting is accurate, fair, and independent and treats both those who are part of the news and those reading the news fairly.



ENSURING A LOCAL MEDIA FRAMEWORK FLEXIBLE ENOUGH TO ALLOW CONSOLIDATION

67. The Interim Digital Britain Report said that the Government would invite the Office of Fair Trading (OFT) together with Ofcom and others to undertake an exploratory review across the local and regional media sector.
68. During that Review, there were representations from industry and others that regional and local newspapers are in crisis. Structural changes brought about by the advent of the Internet, coming together with the economic challenges of the current international climate, have created very significant changes in the markets in which local and regional titles have operated.
69. The OFT have concluded their Review and it is published today alongside this document.
70. The report makes it clear that the OFT fully recognise the very significant structural challenges to the traditional business models of local and regional press. The OFT are confident that the existing merger framework as it applies to media in general, and local and regional newspapers in particular, is sufficiently robust and flexible to take into account the various considerations that need to be brought to bear, but modest changes would be advantageous.
 - There have been significant structural changes in the local media and advertising markets, in particular towards online and innovative platforms. Many of the most important advertiser groups for regional and local newspapers have transferred substantial spend to Internet-based methods of advertising their products.
 - The UK merger regime is designed to protect competitive rivalry between firms, and hence protect consumers from any negative competitive effects of consolidation. The regime is **evidence-based** and is therefore already capable of reflecting market developments, such as increasing competitive constraints between different types of media, when assessing local or regional media mergers. It is quite possible that print advertising faces sufficient competitive pressure from advertising on other media, especially the Internet, to protect consumers (readers and advertisers) in the face of a merger. This, though, will depend on the specific facts of the case and may vary between regions.
 - The regime is **flexible**, in that it is capable of taking account of the evidence in each case, including valid 'failing firm' arguments, efficiencies and customer benefits. For example, if there is clear and compelling evidence that a merger will be beneficial (or neutral) for the market, and therefore consumers, it will normally be cleared. Or if, in the context of local or regional press, there is compelling evidence that a title would close in the absence of a proposed merger, and that there is no realistic alternative purchaser, then it is unlikely that that element of the merger would lead to a substantial lessening of competition.



- The issues to be considered will vary case by case. Consequently the OFT believes that further research would be best carried out in the context of a notified merger, and is not warranted absent a notified merger. The OFT's final report on its review will, however, provide relevant **guidance** to market participants and interested parties.
 - Notwithstanding the fact-specific nature of any given merger, some general lessons could still be learnt from a detailed inquiry into any specific merger or transaction involving the local and regional press. For example, the analytical methodologies employed are likely to be similar across mergers within the same sector. Any such merger or transaction could benefit from **pre-notification discussion with the OFT**, or alternatively, if the case is likely to raise significant competition issues, from the **OFT 'fast-tracking' the merger to the Competition Commission** with the parties' agreement.
 - The OFT review recommends that **no legislative change** is required to the existing merger regime under the Enterprise Act.
 - Representations were made to the OFT that the **media public interest provisions** should be altered, for example to include the need for 'independent investigative journalism' as a consideration. The review notes that public interest considerations have never so far been used in respect to regional or local press mergers, but the OFT recommends that BIS should consider these representations, as well as take account of the ongoing Ofcom review of Media Ownership Rules.
 - The OFT notes broad concern amongst stakeholders about the potential impact on commercial publishers of local authority publications. The review recommends that Government should consider the costs and benefits of any intervention or guidance to limit the scope of local authority publications.
71. The Government has discussed the penultimate point about the public interest test with the OFT and Ofcom. The Government has concluded that the existing framework provides an adequate mechanism for considering the importance of having a source of independent news and reporting at a local and regional level across the UK. At the most basic level the competition authorities' guidance suggests it is unlikely that they would reach a finding of a substantial lessening of competition (SLC) in a situation where, in the absence of a specific proposed merger, the last remaining title or titles in an area would close. This should protect communities against the risk of losing their independent reporting voice as a result of the merger control process.
72. However there may also be other consumer interests, over and above the simple continuation of news coverage. It is probable that Ofcom, with their extensive knowledge and understanding of media markets, might be well placed to advise the OFT on these issues. **The OFT therefore propose to amend their guidance to ensure that in cases relating to local and regional newspaper mergers raising prima facie competition issues the OFT will ask**



Ofcom to provide them with a Local Media Assessment covering relevant factors arising from their understanding of media markets, which may include views on:

- The scope of relevant product and geographic markets.
- The relevant counterfactual to the merger (including the risk of title closure).
- Competitive effects of the merger.
- Exceptions to the duty to refer, and in particular:
 - whether the markets are of insufficient importance (de minimis) to warrant reference;
 - whether there are 'relevant customer benefits' – such as higher quality (which could e.g. reflect the range and quality of reportage) or greater choice of products – which might be weighed against an identified substantial lessening of competition.

which the OFT will then take into account in reaching their conclusions.

73. The OFT review also noted the adverse impact on local newspapers of the increasing role of local authorities in taking paid advertising to support local authority information sheets. Clearly, if such advertising grows to the extent that, coupled with the other pressures on local commercial media it renders them unviable, that would be against the public interest. While local authority information sheets can serve a useful purpose for local residents and businesses, they will inevitably not be as rigorous in holding local institutions to account as independent local media. **In the same way that Ofcom plays a valuable role in its Market Impact Assessments in relation to proposed new BBC services, the Government is therefore inviting the Audit Commission to undertake a specific inquiry into the prevalence of this practice, its impact and to make recommendations on best practice and if restraints should be placed on local authority activity in this field.**

MODERNISING THE LOCAL MEDIA OWNERSHIP RULES

74. The Communications Act 2003 requires Ofcom to conduct a statutory review of the media ownership rules every three years. Ofcom are now undertaking such a review and are expected to report back later this year.



High level summary of the rules

| Type | Principle | National/local | Media (ie TV/Radio etc) |
|--|---|---|---|
| Local Cross Media Ownership Rules | Rules which prevent one entity from owning different types of local media over specified market share levels. | Local | Radio, Television (Channel 3) and newspapers. |
| National Cross Media Ownership | Rules which prevent one entity owning both a Channel 3 licence and greater than a 20% market share in one or more national newspapers. Also prevents a national newspaper owner (with a greater than 20% market share) owing more than a 20% interest in a company which holds a Channel 3 licence. | National | Television (Channel 3) and national newspapers. |
| Local Radio Ownership Rules | Detailed rules about the number of analogue and digital radio licences one entity can own in specified geographical areas and limits on ownership of local DAB multiplexes whose coverage overlaps. | Local | Radio |
| National Radio Ownership Rules | A rule that one person cannot own more than one national radio multiplex | National | Radio |
| Public Interest Test | Rules which mean that for media mergers the Secretary of State may intervene on "public interest grounds". These grounds include media plurality. Ofcom's role in these cases is to provide advice as appropriate. | Local and National | Radio, television and newspapers. |
| Restrictions on holding broadcast licences | Rules which prevent or limit control of television and radio by certain owners whose influence might cause concern. (e.g. political parties and religious bodies.) There are also a number of qualified restrictions (e.g. Channel 4 and S4C may not hold Channel 3 or Channel 5 licences). | Local and National (depending on specific rule) | Radio, television and newspapers (depending on specific rule) |
| Appointed News Provider Rules | Rules for the provision of national and international news to Channel 3 by an independent news source independent of the BBC, not under the control of political or religious bodies and suitably well funded. | National | Television (Channel 3) |

75. The Government has asked Ofcom in this current review to consider specifically the impact of the current local ownership rules on the longer term sustainability of the local media market. The media ownership rules are a layer of constraint over and above the competition rules set out in the media mergers regime. The Government believes that an arguable case could now be made for greater flexibility in the local radio and cross-media ownership rules to support consolidation of local media groups which taken together would allow for greater economies of scale and a sustainable local voice alongside that of the BBC. For example, a local radio stations and local newspaper could consolidate and share news gathering resources, reduce overheads and help build local brands through cross-promotion.
76. In local radio, Ofcom has already made a number of recommendations for change, essentially rationalisations. The Government accepts these. The Government also looks to Ofcom in their current review to consider whether



the current ownership 'points system', which has the effect of requiring a minimum of two commercial radio stations alongside the BBC in any given locality, is any longer desirable or sustainable.

77. The Government looks forward to the evidence based recommendations from Ofcom's review and stands ready to bring forward an Order to give effect to any necessary changes to the local media ownership rules.

Supporting sustainable multi-platform regional news

78. As discussed earlier, competition in news at the level of the Nations and regionally and locally is under threat. Over time – and in some Licence areas very soon – it is clear that the old Channel 3 newsgathering, production and broadcasting economics will become unsustainable. They will need to be replaced by updated, lower cost production and distribution methods; they will need to be multi-media though still significantly video based. Though more sustainable than the current model, they may well need some independent public finance. Since the publication of the Interim Digital Britain Report proposals have been advanced from a range of sources for a series of contestable licence awards for multi-media regional, local and Nations news, provided by independently financed news consortia. The Government welcomes this concept.

What is an IFNC?

Independently Financed News Consortia are a joining of interested parties who will provide a more ambitious cross-media proposition and enhanced localness compared with current commercial television regional news; but which, to maximise audience reach, will also broadcast in the regional news slots in the schedule of current Channel 3 Licensees.

Consortia would include but not be limited to existing television news providers, newspaper groups or other newsgathering agencies.

IFNCs would be chosen against public criteria. As essential criteria these are likely to include: the ability to achieve reach and impact; high production and editorial standards to sustain accuracy and impartiality; and the financial stamina to sustain the service at quality throughout the period of the award. Criteria for desirable outcomes could include the ability to raise the proportion of total activity devoted to journalism; commitments to distinctiveness and original/investigative journalism; commitments to multi-media training and willingness to/arrangements for syndication of news stories to other news organisations, whether nationally, regionally or locally.



IFNCs would be awarded on a contestable basis to maximise public value. The commercial national news service will have access to IFNCs' regional news footage for stories of UK-wide significance.

The Government and Ofcom will examine whether advertising minutage or other revenue-raising opportunities should be made available to the IFNCs in the Channel 3 regional news slots, to provide a supplementary stream of commercial income, recognising the impact of any such changes on the rest of the commercial market.

The necessary governance arrangements will ensure that IFNCs deliver value for money, with sufficient reach and impact to justify the public investment; are editorially independent; simple and transparent in their set-up and on-going administration, properly accountable for their use of public funds and capable of providing regional news programmes based on clear service level agreements.

79. **Subject to the outcome of the consultation on contestable funding mechanisms for news and other public purposes set out above, the Government is minded to mount three pilot IFNCs before 2012, aiming to begin in 2010 – one in Scotland, one in Wales (where S4C have already done work to develop a related initiative) and one in an English region which would be the most likely to demonstrate true contestability, without involving the current Channel 3 incumbent licensee. One of the objectives of the pilots will be to test the scope and scale of commercial funding.**
80. Third parties wishing to join the pilots in Scotland and Wales would need to meet essential criteria, including being either an existing news provider with an established audience in the relevant Nation (e.g. a local newspaper or radio station), a media production company or other broadcast, local television or multi-media company with a track record of delivering news or current affairs in the Nation; and can meet financial integrity and compliance tests. This approach reflects the particular requirements of the Nations, as highlighted for example in the work of Blair Jenkins. Similar criteria will be applied to the overall composition of the Consortium for the English region. Third parties with clear business and financial integrity with experience in news provision would tend to be in a stronger position.
81. The Channel Islands governments elect constructively to adopt United Kingdom broadcasting policy. The role of the C3 Licensee, Channel Television, as a provider of local news is particularly salient for the Channel Islands. We will therefore discuss with the Channel Island governments the extent to which they wish to initiate arrangements similar to the proposed pilots in Scotland and Wales.

SUPPORTING ORIGINAL HIGH QUALITY INDEPENDENT CONTENT ACROSS THE UK ONLINE AND ON AIR: THE FRAMEWORK FOR THE INDEPENDENT PRODUCTION SECTOR

82. The Interim Digital Britain Report said that a forward look was desirable at how the relationships between independent producers and those who commissioned their work could evolve in the multi-platform digital age. To that end the Government commissioned and has published research by Perspective Associates and held a series of workshops involving both independent producers and commissioners, both the traditional broadcasters and new media commissioners including online commissioners from elsewhere in the public sector. The conclusions of that work are as follows.
83. Firstly, there is broad agreement that the Independent Production Quota and the 2003 Communications Act Framework for the Terms of Trade (governing the release of programming into the secondary market and new media rights) are working well.
84. Secondly, despite some concerns from broadcasters, the Government is satisfied that Ofcom's guidelines within which Terms of Trade are agreed between producers and broadcasters are at a sufficiently high-level to allow for innovative agreements, particularly encompassing new media rights. The Government agrees that regular reviews of the guidelines could chill the commercial market while the reviews were undertaken; but welcomes Ofcom's readiness to review their guidelines if a significant body of stakeholders wished it.
85. Thirdly, issues will arise in the transition from first-window to first use, around shorter/deeper window periods and about holdback provisions in the fully digital age. But the Government believes that the Framework is sufficiently flexible to allow these to be resolved commercially which is both the Government's and the regulator's preference.
86. Fourthly, the BBC's implementation of the recommendations of the 2004 Review of BBC Online by Philip Graf and its 25% quota for the commissioning of externally supplied online content was an important bedrock for new media production in the UK. The Government noted that the definition of qualifying eligible spend includes significant technical and operational activities, contrary to the spirit of the Graf Review recommendations and welcomes the efforts of the BBC Trust to align the definitions more closely with the recommendations of the Review.
87. **Fifthly, the BBC's voluntary introduction of its New Media Rights Framework in 2007 has been widely welcomed and provides a model that Digital Britain recommends should be adopted more widely in Government and other public bodies who commission online content.**
88. Sixthly, while there remained a market power/incentives argument for maintaining the Independent Production Quota at its current levels and the Terms of Trade framework on those broadcasters who currently hold public



service licences, no compelling case was made to extend rules beyond provisions of the AVMS Directive to any other broadcaster or commissioner.

BBC New Media Rights Frameworks

The headlines for the five New Media Rights Frameworks are as follows:

- Framework 1 – The Supplier owns any stand alone content proposal they bring to the BBC; the BBC has an exclusive licence only.
- Framework 2 – The BBC retains all rights in a stand alone new media commission based on an existing BBC created format, associated with an in-house programme or based on a developed idea.
- Framework 3 – The Supplier licences their existing third party content or services to the BBC on a non-exclusive basis.
- Framework 4 – The Suppliers licences their off the shelf technology product to the BBC on a non-exclusive basis.
- Framework 5 – The Supplier licences their off the shelf technology product to the BBC on a non-exclusive basis, but the BBC owns (or may take a non-exclusive licence in) the bespoke development which it specifies and pays for.

Source: BBC

SUSTAINING A CONTENT PRODUCTION BASE IN THE NATIONS

89. The Government welcomes the BBC's partnership with the Gaelic media Service and the successful launch of the Alba service, the BBC's partnership discussions with STV Group plc in Scotland, and the BBC Trust's targets to source 12% network production to come from the Nations by 2012 and 17% by 2016. The Government endorses the emphasis the Trust has placed on sustainable growth and notes that the initial proposals for Scotland propose relocating the production of a number of long-running programme strands. Nonetheless in view of the rapidly increasing pressures on commercially commissioned production in the Nations, **the Government looks to the BBC Trust to encourage the BBC to seek to exceed its targets for enhanced network production in Scotland for 2012 and subsequently for 2016 to adopt a comparable approach for Wales and Northern Ireland.**



Broadcasting in Scotland

The independent panel chaired by Blair Jenkins, sat from August 2007 to September 2008, carrying out an independent investigation into the current state of television production and broadcasting in Scotland, triggering a wide-ranging and frequently passionate debate about the future of the industry and the services it provides to audiences in Scotland. The panel published its final report with recommendations on 8 September 2008 arguing for a number of changes to ensure more high-quality creative content is produced in Scotland in the future than ever before and a number of particular recommendations, including the formation of a new Scottish Digital Network, comprising an integrated broadcast and broadband service.

90. STV Group plc and UTV Ltd face high audience expectations in their respective Nations. They have a numerically limited market; and relatively significant production costs should they wish to develop their businesses to scale. The Government has a keen interest in ensuring that the Nations are able to sustain a content production base. In addition to the IFNC concept discussed above, and the Government's suggestion to the BBC Trust to accelerate its targets for network production in the Nations, **the Government therefore recognises the case that while they continue to produce the majority of their output for their respective Nations, they have equivalent status to qualifying independent production companies for the purposes of independent production quotas applying to the BBC, C4, ITV plc and five in the UK-wide market. The Government proposes to bring forward any necessary legislation to give effect to this objective following a consultation.**

LOCAL TELEVISION

91. Ofcom's recent PSB Review raised the issue of what role local television might play among the opportunities that exist for more local services. Ofcom has commissioned economic analysis on the economic sustainability of various types of local television services to consider the issues for local TV. We received responses to the Interim report from United for Local Television, the Scottish Local TV Federation and others on this issue.
92. The Government is keen to see local television develop on a multi-platform basis. Other initiatives within this report offer excellent opportunities to demonstrate the role that local television can play in the wider local media ecology. In particular, IFNCs could provide opportunities for local television operators, along with other news providers, to contribute to local news provision.
93. More opportunities are being created for local TV than ever before through the release of geographically targeted interleaved spectrum for auction. Some local TV providers have already purchased spectrum and further packages of spectrum will be released for auction. Some local TV services are successfully provided online and so have much lower unit costs. The measures to roll out



and increase the take-up of broadband will increase the reach of local TV operators.

94. Although Government is keen to see local TV thrive, the reservation and gifting of radio spectrum for local TV providers would be a significant intervention. In the current economic climate, funding is more than usually limited. The rolling out of broadband and increasing take-up, and the development of IFNCs – both of which initiatives would benefit local TV – are currently a higher priority for that funding than local TV. We will keep the issue of local TV under review in the light of Ofcom’s further economic analysis and review of local media.

LIBERALISING THE CHANNEL 3 AND CHANNEL 5 LICENSEES

95. In its second PSB Review, Ofcom noted that the value of the existing public service Channel 3 licences will decline further between now and the completion of Digital Switchover and that the regulatory obligations attached to the licences would therefore require further review over the period. The Government accepts Ofcom’s analysis. We consider that there is a strong case for the progressive liberalisation of the Channel 3 licensees so that they can move towards becoming fully commercial networks, serving the interests of their shareholders whilst continuing to delivering a focused, sustainable public service commitment centred on original productions and news. This would allow, ITV for example, to provide highly valued popular entertainment, alongside a range of other programming and national and international news in a way which is consistent with both proportionate regulatory obligations and its own commercial incentives.
96. We expect the regulatory regime for Channel 5 to follow a similar path, although we note Ofcom’s view that its current, more limited regulatory obligations are likely to be sustainable up to and beyond digital switchover.
97. Liberalisation should be the clear direction of travel. But the Government does not believe that it would be in the public interest to enable complete liberalisation at one step.
98. Regional news has been at the heart of ITV’s historic privileges and obligations but it is also by far the most costly element of its current public service commitment. We welcome the Partnership memorandum with the BBC which offers some reduction in ITV’s costs over the next few years. Beyond that, we have set out in this Chapter the Government’s proposals to pilot a new means of funding and delivering news for the Nations and Regions, via IFNCs, with a view to full roll-out across the UK from around 2012. This promises to progressively relieve ITV of the costs of delivering these obligations, while sustaining plural provision of news at Regional and National level. **The Government proposes to work with Ofcom to enable any appropriate amendments to the relevant Channel 3 Licensees’ regional news obligations in order to allow for the development of IFNCs.**



99. **Beyond regional news, the Government recognises that Ofcom may need to adjust ITV's other public service obligations up to and beyond the completion of digital switchover, in line with the diminishing value of the licences. The Government is willing to consider legislative change if adjustments beyond Ofcom's current powers are considered necessary.** However we note that there are two obligations in particular which currently carry little, if any actual or opportunity cost and which we believe will continue to be important elements of ITV's public service contribution, at least in the medium term. The first is an out of London production obligation. While ITV plc retains its Granada production business in Manchester, it is more than able to meet the licence obligations that Ofcom imposes. The Government would, of course, need to revisit the position were ITV plc to separate structurally its broadcasting and production businesses. The second is the Independent Quota and Terms of Trade. It is right that plurality of commissioning, production, ownership and distribution is implicit in any public service content privilege. But in practice an ITV that seeks to maximise audience reach and share will also be an ITV that commissions more than a quarter of its output from independent producers, as it does today. And, as discussed earlier in this Chapter, the Terms of Trade have benefited both broadcaster and producer: they recognise the producer's ownership of the creative property but also oblige the broadcaster to pay only for that element they actually wish to use – a feature that has reduced by more than a quarter the previous production costs to broadcasters.
100. Ofcom's analysis suggests however that the change in the market since ITV plc's (and Five's) remaining analogue licences were last valued means that ITV plc may be paying more than the value of those licences in the remaining three years of their life, impacting on the funds available to meet public service commitments. **The Government is therefore prepared to bring into force Sections 272 and 273 of the Communications Act 2003. This has two effects: firstly it ensures that ITV's (and Five's) programming remains available on all specified platforms for the remaining duration of their public service licences; secondly that Ofcom can bring forward by a year the re-valuation of their remaining analogue licences.**
101. **The Government also notes that Ofcom intends to have a further consultation of the different provisions applying to the Channel 3 and Channel 5 Licensees on advertising minutage and the current requirement to sell-out all minutage.** Ofcom's recently concluded review of its rules proposed retaining them, at least until 2010, in recognition both of the uncertainty in the market ahead of the Competition Commission's consideration of the Contract Rights Renewal (CRR) Remedy; and given the current cyclical state of the wider television advertising market the likely impact of a sudden addition of advertising inventory.
102. ITV plc has also argued for relief from obligations it entered into when the Carlton-Granada merger occurred. These are essentially the CRR (currently



referred by the OFT to the Competition Commission, which referral recognises the significant changes in the market since 2003) and the specific obligations in relation to the minority Channel 3 Licensees: SMG plc, UTV plc and Channel Television Ltd. These are matters for the independent competition authorities. In relation to the minority Channel 3 Licensees, the Government sees no public policy case in isolation to argue for a change to the status quo; to the extent that the parties mutually require it, greater flexibility can be built in via changes by Ofcom to the networking arrangements, which statutorily Ofcom must approve.

103. As for the CRR this is again a matter for the competition authorities. The Government notes, however, that the OFT, on 29 May, advised the Competition Commission to look at both the definition of ITV1 – due to changes in the way that it delivers its programme schedule, as well as considering whether it was possible to find a new, more proportionate remedy, which creates less costs and distortions than CRR but which would still address any remaining detrimental effects of the Carlton/Granada merger arising from ITV1's unique position in the supply of mass audiences and likely future changes in the market.

CASE STUDY

Small Business: Frances Matthews

County Garden Services, a small landscaping company in rural Derbyshire, has begun to get inquiries via its website.

The family-run business, on the outskirts of Ashbourne, has only recently embraced online marketing. But Frances Matthews, whose husband Steve runs the company, is seeing a quiet revolution in the way the company operates.

Garden suppliers now respond to queries by email. Plants and equipment are ordered online, and customers pay electronically – helping to improve payment days and cash generation. Arguably the biggest upheaval has been in accounting and salaries.

Frances no longer has to withdraw cash each Friday for the company's four-full time gardeners, and tax returns are now filed over the Internet. But there have been teething problems. "We have had major problems this year with online PAYE returns, and at one stage we had to revert back to the old paper system."

Even so, most issues have been resolved online, either in email dialogue with County Garden's accountants or using the Inland Revenue help desks.

To minimise the risks of a data breakdown and adverse impact on the business, the company relies on a software system – Sage – to provide technical support for small companies. Frances expresses frustration that the technical support staff will not always help with older operating systems, or sometimes try to sell an upgrade. But overall, she sees no going back. "It has transformed record keeping and payments, but the biggest bonus is the security it brings."

