Funding Public Service Broadcasting

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Public Service Broadcasting in the UK

- The **BBC** is the cornerstone of the PSB system, funded by the licence fee of £139.50 per annum. This funds television, radio and online activities.

- **Channel 4** has a remit to appeal to young and minority audiences.
  - The channel is publicly owned, but commercially funded.

- The two main commercial PSBs providing specific PSB obligations in return for privileged access to spectrum and other benefits:
  - **ITV** focuses on regional programming and commissioning UK content.
  - The ITV network includes three independent companies (for Scotland, Northern Ireland and the Channel islands) which have similar obligations.
  - **Five's** obligations are based around UK origination.

- In addition, the system supports two indigenous language broadcasters for Gaelic and Welsh:
  - Welsh language programming is substantially larger and has a long standing dedicated channel (S4C).
  - Both are publicly owned and receive direct state funding.
Funding of the BBC

Commercial Activities (may not receive any public funding)

Licence Fee (£139.50/year)

Foreign Office

£3.4 billion

£225m (Grant-in-aid)

BBC Worldwide

Cash flow to the BBC £117m

BBC Home Services (No Advertising)

BBC World Service (No Advertising)
The Charter and Agreement set six public purposes for the BBC:

- sustaining citizenship and civil society
- promoting education and learning
- stimulating creativity and cultural excellence
- representing the UK, its nations, regions and communities
- bringing the UK to the world and the world to the UK
- in promoting its other purposes, 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.
The BBC Trust: the independent supervisory body for the BBC

- Established to act as independent guardian of the licence fee and of the public interest

- Represent the interests of licence fee payers, ensure that the independence of the BBC is maintained, exercise stewardship over public money, have regard to the competitive impact of the BBC’s activities on the wider market, ensure the BBC is open and transparent

- Trust has a role in setting strategy, approving new services/activities and holding the BBC to account with compliance with regulatory requirements and the law (including competition and state aid)

- Fulfils regulatory remit as set out in Charter and Agreement, working with Ofcom on some matters.
The regulatory and performance framework for services

- Charter & Agreement
  - Major review every 5 years
  - Purpose Remits
  - Service Licences
    - Major review after 5 years
  - Regular service monitoring
    - SoPPs
  - Public Value Test
Purpose remits

- One of the Trust's obligations is to set purpose remits for each public purpose. These define the Trust's priorities for the Executive Board and explain how it will judge the Executive's performance against them.

- As part of the process of developing the remits the Trust consulted publicly.
What the BBC will do

- “Portray and celebrate the range of cultures and communities across the UK”
- “Provide a range of output… designed to meet the needs of the nations, regions and communities of the UK”
- “Broadcast individual programmes that bring together a very wide range of people”
- “Give… an accurate picture of the many communities that make up the UK and…provide forums in which these communities can debate among themselves and with other UK communities.”
- “Give people opportunities to understand the beliefs of others”
- “Provide output in minority languages”
Service licences

• The Trust uses the service licences to help judge performance and hold the BBC to account on behalf of the public.

• The Trust consulted publicly on the contents of all service licences.

• The Trust will carry out a full review of each service licence at least once every five years. These reviews will include public consultations.

• Significant changes to the BBC’s services cannot be made without the Trust considering the application of a public value test, which includes public consultation.
Service licences

✓ Remit
✓ Scope
✓ Budget
✓ Aims and Objectives
✓ Contribution to the promotion of the BBC’s Public Purposes
✓ Performance assessment
The Public Value Test Model

Public Value Test (PVT)
- Fit with Purposes
- Quality & Distinctiveness
- Impact
- Reach
- Cost and VFM

Market Impact Assessment (MIA)
- Agreed methodology
- Competition based
- Economic effects
The PVT process

BBC Management submit formal application (plus supporting evidence)

Public Value Assessment (BBC Trust Unit)  
Market Impact Assessment (Ofcom)

Public Representations

Public Value Test (BBC Trust)

Trust consults on preliminary conclusions (28 days)

Final decision
Ofcom’s PSB Review

- Ofcom’s PSB review phase 1 published 11th April
- Consultation closed 16th June
- Ofcom’s PSB review phase 2 published 25th September
- Consultation closes 4th December
- Ofcom statement early in the new year
- DCMS takes final decision 2009, with possible legislation to follow
  - Convergence Think Tank
  - Digital Britain
Ofcom’s PSB review phase 2: preparing for the digital future

- Published 25th September
- 10 weeks of consultation
- Main questions
  - Future models for PSB
  - Long term provision in the nations and regions
  - Funding
  - Short term changes to commercial licences

http://www.ofcom.org.uk/consult/condocs/psb2_phase2/
There is consensus that this system is under threat

- Ofcom estimates that current provision of PSB on the main commercial channels will become unviable between now and digital switchover in 2012
  - Higher competition arising from the end of analogue broadcasting means that the main broadcasters will no longer have a financial advantage
  - As a result, they will be less inclined to commit to less profitable public service broadcasting

- Certain types of programming are considered particularly at risk
  - Regional news
  - Other regional programming
  - Children’s programming
  - Current affairs
  - A lesser risk to serious documentaries, UK Drama and comedy and national news

- Ofcom estimates the system will need between £330m and £420m in 2012 per annum. This level is contested, and varies depending on views of the advertising market and likely market evolution
Ofcom’s review reveals support for further funding, though the extent is uncertain

- As the existing model breaks down, Ofcom has investigated to what extent consumers are willing to pay to support PSB

- A general consensus – backed up by other research – that audiences are willing to pay a higher price for the BBC than the licence fee. Ofcom estimates £13.87 per month.

- Ofcom’s research suggested there was extensive willingness to pay for provision beyond the BBC
  - Ofcom believes 75% of households are willing to pay £3.50 per month for PSB beyond the BBC
  - This represents a total of £800m

- The implications of this research is unclear
  - The survey was taken before the credit crunch and recession
  - Some methodological concerns about what is included and what elements attract most willingness to pay
  - The required level to support PSB is lower than this value
Ofcom has proposed three models for PSB delivery in future

1. Evolution:
   - Based on the existing system, this would keep all the commercial PSBs
   - Some changes to regulatory arrangements and remit: Channel 4 would have a new remit, ITV a simplified structure and a focus on regional news
   - Both ITV and Channel 4 would need further funding. Five remains a PSB, but unlikely to need further funding

2. BBC / C4 + limited contestable funding:
   - Focuses on institutional PSB
   - Channel 4 (with expended remit to include online) becomes the main counterpart to the BBC. ITV and five would have no PSB status or assets, which would be allocated to Channel 4
   - Some contestable funding for N&R

3. Broad contestability:
   - Channel 4 would retain its existing assets; others would not
   - All would be able to bid for funding for elements of PSB
The need for funding for PSB may mean the licence fee is spread more widely

- Ofcom has proposed a number of funding options: direct government funding, regulatory assets; BBC assets or licence fee and industry levy

- Around £185m per annum will be filled by regulatory assets such as spectrum

- Ofcom has focused its research on the licence fee
  - Ofcom argues that there is thus little direct link between audiences and the licence fee. We believe the same data shows a strong link
  - Ofcom has targeted what it considers to be a ‘surplus’ licence fee, currently used to pay for the digital help scheme. However, Ofcom’s research suggests that licence fee payers would prefer this money to be returned in 2012

- We believe splitting the licence fee would be damaging to the BBC and to others
  - Undermining BBC (DSO supported a public purpose; top-slicing would not)
  - Greater bureaucracy and lower efficiency; ‘arts council of the air’
  - Risk of funding content that would have been made anyway & blunting/blurring remits
  - Mixing public & ad money for first time at national level
We have proposed a more sustainable solution built on partnership

- The BBC believes the opportunity for PSB is greater than Ofcom have articulated
  - There may be more grounds for optimism in what commercial PSBs might provide, particularly around UK origination
  - New technology offer us an opportunity to increase our impact more efficiently

- However, the real problem remains. We believe the best way to ensure sustainable PSB is through partnership. Their aim is to ensure the BBC uses its scale and secure funding to benefit the sector as a whole to:
  - Enhance the PSBs financial position in the short term
  - Enable the PSBs to face the challenge of digital transition
  - Drive the long term success of PSBs in the future market environment

- We have proposed win-win partnerships. For example:
  - Future-proofing PSB’s main platforms to drive greater visibility and ad revenue
  - Exploring if BBC Worldwide (our commercial arm) can further support the sector
  - Sharing some benefits of the BBC's investment in digital technology where possible
  - Exploring if there is scope to help keep Regional News sustainable beyond the BBC.
Everywhere, technology effects a transfer of power from service providers, broadcasters and regulators to individuals

Every European country is discussing the proper role, scope and scale of PSB in the fast changing, increasingly hard-to-define media sector

The EU develops its own approach to the same issue, based on state aid law

Markets fail…