



THE BBC'S FUTURE

CHARTER RENEWAL AND BEYOND

ESSAYS

Edited by Mathew Lawrence
and Nigel Warner

November 2015
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Institute for Public Policy Research

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ABOUT THE EDITORS

Mathew Lawrence is a research fellow at IPPR.

Nigel Warner is a director at Lexington Communications, co-founder of media diversity charity Creative Access, and an associate fellow at IPPR. He previously served as a government adviser on policy for the media and creative industries.

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IPPR

4th Floor

14 Buckingham Street

London WC2N 6DF

T: +44 (0)20 7470 6100

E: info@ippr.org

www.ippr.org

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ABOUT THE AUTHORS

Tessa Jowell was secretary of state for culture, media and sport from 2001 to 2007, and was the MP for Dulwich and West Norwood from 1992 to 2015. She is a member of the House of Lords.

Nigel Warner is a director at Lexington Communications, co-founder of media diversity charity Creative Access, and an associate fellow at IPPR. He previously served as a government adviser on policy for the media and creative industries.

Massimo Marinelli is a director of Global Media and Communications Group for UBS Investment.

Patrick Barwise is emeritus professor of management and marketing at London Business School, a visiting senior fellow in media and communications at the LSE, and former chairman of Which?.

Toby Syfret is a television analyst at Enders Analysis, a research and advisory firm which specialises in the Telecommunications, Media and Technology sector. He has over 30 years of experience examining media consumption trends and audience measurement.

Enders Analysis is a research and advisory firm based in London. It specialises in media, entertainment, mobile and fixed telecoms, with a special focus on new technologies and media, covering all sides of the market, from consumers and leading companies to regulation. For more information go to www.endersanalysis.com or email info@endersanalysis.com.

Peter Salmon is director of BBC Studios, the BBC's new television production division. Peter is a widely experienced TV producer, having developed and run programmes such as *Crimewatch UK* and the Nature series for BBC Bristol, where he was executive producer of Oscar-winning Wallace and Gromit animation *The Wrong Trousers*. He was controller of factual at Channel 4 and director of programmes at Granada

Television, overseeing output from *Coronation Street* to *World in Action* before becoming controller of BBC One, where he commissioned the likes of *Clocking Off*, *Warriors*, *Dinnerladies*, *Holby City* and *Waking The Dead*. During his leadership of BBC Sport, he pioneered interactive television and Sport Online, and won back *Match of the Day*. Peter was founding director of BBC North, where he ran the UK's biggest production centre outside London.

David Pemsel is CEO of the Guardian Media Group. Before joining the *Guardian* in 2010, David was group marketing director for ITV.

Magnus Brooke is director of policy and regulatory affairs at ITV plc, with overall responsibility for ITV's policy and regulatory strategy and its interaction with UK and European regulators and government. Magnus is the chairman of the board of the Association of Commercial Television in Europe and also a non-executive director of a number of ITV subsidiaries and joint venture companies including SDN, Freesat and Digital UK. Magnus is also a non-executive director of the Broadcast Advertising Board of Finance (which raises the funds for the self regulation of broadcast advertising by the ASA). Prior to joining ITV in July 2006 he was head of the BBC director-general's office for three years, first for Greg Dyke and subsequently for Mark Thompson. Magnus began his career as a solicitor specialising in regulatory and competition law at city solicitors Ashursts, where he also trained.

Sir Peter Bazalgette is chair of Arts Council England and a non-executive director of ITV. He was an independent TV producer for 25 years and served previously on the boards of Channel 4 and DCMS.

Jonathan Thompson is chief executive of Digital UK, having taken up the role on 22 July 2013. Prior to joining Digital UK, Jonathan worked in the office of the chairman at DMGT plc, advising on group strategy. He is also a former director of strategy of both media regulator Ofcom and Channel 4, and represented the broadcaster on the board of Freeview.

Dinah Caine is CEO of Skillset, the sector skills council for the creative industries, and chair of the Creative Industries Council Skillset Skills Group. She previously worked in the film and video Workshop sector, the BFI and for ACTT.

Diane Coyle is a professor of economics at the University of Manchester. She was vice-chair of the BBC Trust until April 2015.

John McVay is chief executive of Pact. He has been involved in programme-making as a producer, consultant and trainer since 1986. John is a board member of Skillset, chairman of the Creative Diversity Network and a governor of the National Film and Television School. At Pact, John led the successful campaign that resulted in changes in the 2003 Communications Act which resulted in the UK having the world's most creative and commercially successful independent production sector.

Pact is the trade association which represents the commercial interests of the independent television, film and digital media production sector in the UK. It works on behalf of its members to ensure the best legal, regulatory and economic environment for growth in the sector.

David Puttnam is the chairman of Atticus Education, having been a successful film producer for over three decades. He is a member of the House of Lords.

Siobhan Kenny is the CEO of Radicocentre. Previously she was the group director of communications at HarperCollins UK and International.

Saurabh Kakkar has been head of comedy development at Big Talk since September 2014. Prior to that he was head of development and an executive producer at BBC Comedy Productions.

Steve Morrison is the former chief executive of Granada Plc, the cofounder and chairman of All3Media and currently the rector of Edinburgh University.

Colin Browne is chairman of the Voice of the Listener & Viewer. He was director, Corporate Affairs at the BBC from 1994–2000, having previously been director, Corporate Relations at BT. From 2000–2009 he was a partner and senior consultant at Maitland, one of the UK's leading financial and

corporate communications consultancies. He currently has his own company providing strategic communications advice, is a member of the Communications Consumer Panel, a non-executive director of the Centre for Effective Dispute Resolution (CEDR) and a trustee of Edinburgh UNESCO City of Literature.

Jon Zeff was previously director of the BBC Trust, and is a public policy expert specialising in media, telecoms and creative industries.

Richard Hooper is chairman of the Broadband Stakeholder Group and chairman of the Copyright Hub Foundation. He was founding deputy chairman of Ofcom 2002–2005 and chairman of the Content Board. He is writing this chapter in a personal capacity.

Gerry Hassan is a writer, commentator and researcher, and has written widely and extensively on a range of public policy issues, public debates and the role and limits of official politics. He is a research fellow in cultural policy at the University of the West of Scotland, and an associate fellow at IPPR Scotland.

Anthony Barnett is the founder of OpenDemocracy.

Nick Pearce is the incoming director of the the Institute for Policy Research at the University of Bath, having previously served as director of IPPR between 2010 and 2015, and before that as head of the Policy Unit at No. 10.

FOREWORD

TESSA JOWELL

For 88 years, the BBC has held a unique place in British public life. The BBC carries our national conversation and is frequently part of that conversation – sometimes for the wrong reasons, but often for the right ones.

The BBC is independent of government, but at times like this, when its charter comes up for renewal, it is also dependent on the wisdom, foresight and, to some extent, the goodwill of the government of the day.

A hostile government could shrink the BBC, weaken its capacity to inform and delight audiences, and compromise its independence. Politicians have a special responsibility at these times to tread carefully, to weigh up the evidence, to ask the right questions and work hard to find the right answers.

Simply carrying on as before is not always an option. The media world changes rapidly; new technologies disrupt existing business models and ways of working. We are part of a global audience and a global marketplace. So the politicians and the BBC have to face up to certain challenges.

How the BBC is governed; how it raises money when so much of its content is consumed online; how it makes and sells its programmes; how it contributes to the success of Britain's media more generally: these are important questions that will undoubtedly have a bearing on the future scale, scope and success of the BBC.

As parliament, government and the BBC go about finding answers to these questions it is vital to remember that the BBC is not *our* property, it is public property.

The investment that has gone into making the BBC the global brand it is today has been public investment. Its shareholders do not receive a cash dividend, so their reward must be in terms of the content and services the BBC provides, on television, on radio and online. These must continue to be of the highest standard, be available to all and be immune to political and, as far as possible, commercial influences.

That is what we pay for, all of us. And what this government, like its predecessors, has to respect. Ask anyone around the world: the BBC is a precious thing. Not to be preserved in aspic, but to be allowed to adapt and thrive in today's hyper-competitive media environment.

I welcome this collection of essays, and IPPR's contribution to this debate. The BBC has encountered many defining moments in its history, and this charter review is yet another.

So it is important that those who care about the BBC, and this country's successful broadcasting and creative industries, take part in the conversation and help find solutions to the challenges we face.

INTRODUCTION

THE POLITICS OF CHARTER RENEWAL

NIGEL WARNER

IPPR

'The BBC... is of special importance when more and more newspapers are disappearing every year, when the commercial programme contractors are to a large extent under the influence of Press magnates, and when the Government has scarcely shown much solicitude for the public service sector of a vital mass medium.'

Setting aside the language, this sentiment could be part of the charter review debate in 2015. In fact, it belongs to 1964 and to Anthony Greenwood, then Labour MP for Rossendale.

Fifty years ago, contemplating a new 12-year charter for the BBC, parliament wrestled with the place of the BBC in British broadcasting: its funding, its relationships with its suppliers and the ownership of its competitors.

Anthony (later Lord) Greenwood also said in that debate:

'One of the infuriating aspects of the competition between the B.B.C. and the I.T.A. [as was] has been the fact that both systems have competed by screening the same sort of programmes at the same time.'

Strictly versus *X Factor*, anyone? Or even the 10 O'clock news (*BBC News at Ten* versus *ITV News at Ten*)?

Plus ça change, plus c'est la même chose.

Despite the extraordinary changes that have taken place in the UK media landscape, perennial questions about the BBC remain.

And yet, this time round charter review *feels* different.

First, we have a Conservative government and a Conservative secretary of state with a history of scepticism and challenge towards the BBC.

Just a few months before the 2015 general election, the culture, media and sport select committee (of which the current culture secretary, John Whittingdale MP, was then chair) produced a detailed report looking into the future of the BBC.

When the report was published, John Whittingdale said:

‘The BBC has tried for too long to be all things to all people... this no longer works. The BBC should tailor its output to what it does best. It is pointless and wasteful having an organisation receiving that kind of public funding competing with – and potentially crowding out – other providers.’

He also said, on governance of the BBC, that:

‘The BBC Trust has failed to meet expectations and should be abolished.’

CMSC 2015

Safe to say, his views haven’t changed dramatically in the intervening few months.

Contrast, however, the BBC’s reaction to the committee’s January report (which it broadly welcomed [Mance 2015]) to its response to the green paper published for consultation in July, which the BBC management said ‘would appear to herald a much diminished, less popular, BBC’ and be ‘bad for Britain’.

So what changed?

Importantly, only a few days before the publication of the green paper, the BBC was obliged to accept a licence fee settlement that will require it to bear significant extra costs in future years.

These include the cost of providing free TV licences to households with a resident aged over 75. Analysts suggest this could cost as much as £750 million annually by 2020 (Martinson and Plunkett 2015) – a big chunk out of the BBC’s £3.7 billion licence fee income.

The quid pro quo is a reduction in some of the BBC's current obligations in relation to broadband rollout, the extension of the licence fee to cover iPlayer catch-up services, and a commitment to increase the licence fee each year in line with (CPI) inflation.

After a sustained period in which the level of the licence fee has declined in real terms, this annual uprating is undoubtedly welcome for the BBC. However, analysts forecast the net impact on BBC income of the package overall will be a reduction of around 10 per cent over the next five years. The BBC will need to plan for further reductions in some services alongside further efficiency gains in order to meet this cost pressure.

Also, the deal is contingent. The government has made clear that 'the conclusions of the Charter Review, in relation to the purposes and scope of the BBC' and further efficiency savings, will be taken into account in setting the overall licence fee level (DCMS 2015).

Money aside, does the BBC have other reasons to feel threatened? Certainly some on the Conservative backbenches believe the BBC is 'far too dominant' in some markets and 'crowds out commercial competition'.¹ Others go further:

'The protected and privileged status that the BBC has enjoyed for so long is not its saviour and salvation, but instead has allowed it to become distant and remote from, and in some cases despised by, the very people it is supposed to serve.'

Bridgen 2014

But it's also worth reminding ourselves of the language used by the last Labour culture secretary, Ben Bradshaw, in 2009 when he said, 'the BBC probably has reached the limits of reasonable expansion' and 'there may indeed be a case for a smaller licence fee'.

Even in pre-austerity 2006, Treasury-led pressures kept the licence fee pegged to fixed rates similar to those being imposed on government departments. This brought with it complaints from the BBC of a looming 'funding gap'.

1 Phillip Davies MP, BBC *Daily Politics* show, 12 May 2015

Throughout its history, the BBC has enjoyed periods of prickly relations with the government of the day. Publication of the Hutton report in 2004 and the resignation of BBC chair Gavyn Davies and director-general Greg Dyke was a particularly low point. That was under a Labour government.

The Conservatives under Margaret Thatcher in the 1980s opened the book on the BBC, but then closed it again, following publication of the Peacock report which arguably inspired more change for commercial public service broadcasting and the independent production sector than it did the BBC.

One thing is clear for most Conservative politicians: the presence of a significant public sector intervention in an otherwise successful commercial marketplace needs to be scrutinised and fully justified.

For many Conservatives – regardless of their views of the BBC, its staffing, its pay structures, its efficiency and its editorial line on the European Union – preference for private sector and markets over public sector and regulation is an article of faith. The CBC in Canada has faced similar challenges from Conservative politicians in recent years.

So it is not surprising that a Conservative secretary of state would ask searching questions of the BBC and want to satisfy himself that the intervention in the market is justified.

Furthermore, alongside the political pressures there are other forces of change at work, across the media marketplace.

Ironically, one upshot of this changing marketplace is a consensus across the UK broadcasting landscape (including among many of the BBC's competitors) that the level and method of funding for the BBC should stay largely unchanged.

This is partly because funding the BBC from the public purse limits the degree to which it cannibalises revenues from ad-funded and subscription services. And it is partly because many of those that compete with the BBC (at least in television) also supply some of its content and so want to see the quantum of spending on commissions maintained.

So where are the areas of debate? They are substantial and, in some cases profound. Some of this *is* political, but some is a necessary response to changes in the media marketplace, in part driven by changes at the BBC itself.

The BBC traditionally approaches the charter review with some clear aims in mind. These include:

- to demonstrate its popularity among all sections of the population
- to show the measures it has taken in the preceding charter period to improve its efficiency
- to underline the value it contributes to the wider creative economy
- to identify those areas where through partnership and cooperation it can support the activities of others in the marketplace
- to underline its centrality in the UK media and public life.

The BBC's pitch for this charter review has been no exception. What have surprised some commentators are the lengths to which the BBC has gone so early in the game to set out its stall. Speeches from the director-general have been complemented (mostly) by speeches from the chair of the trust. BBC statements and publications abound. Notable celebrities have lined up to voice their support. A number of 'Save Our BBC' campaigns have taken off in earnest.

But at the same time, the BBC itself has raised a number of questions that need to be addressed.

- Changes to the governance arrangements. The chair of the BBC Trust has talked about transferring its 'responsibilities for regulation and accountability to an external regulator.' But who: Ofcom? OfBeeb? A unitary board? Some combination of all three?
- What is the future of BBC production (now BBC Studios), the balance of in-house and independent production, the role of wider BBC commercial operations? How will this affect the BBC's programme-making capacity? What will be its impact on the thriving UK production market?
- How can the licence fee concept stretch to include online and on-demand services like the iPlayer? How will the

BBC collect payments for catch-up services enjoyed exclusively online, perhaps in households where no one owns a television? This in itself is a significant departure from nearly 70 years of practice in the UK (PA 2005).

Because these questions are being asked and require answers, whatever happens, this charter review will conclude with some significant changes being proposed.

Much of this will go on under the bonnet, and audiences may not notice it too much. Nevertheless, the public is certainly being asked for its views. The opportunities for the public, industry and other stakeholders to participate in the debate are legion: the green paper consultation; the BBC Trust's consultations; the governance review by David Clementi; several reviews of detailed policy areas; and inquiries by two parliamentary select committees.

There is an understandable caution on all sides to shelter behind widespread consultation. And it is right that the public – who, after all, underwrite everything the BBC does – should have their say. And with over 190,000 received responses to the government consultation, it seems the appetite to contribute is strong.

But in the end, as on every occasion since 1927, the final decisions will be political ones.

The government may have rather put the cart before the horse in settling already on a new funding formula – but there is much still to debate.

It would be wonderful to imagine that the gathering of evidence and a thorough assessment of the views of licence fee payers could resolve all of this.

But ultimately, this Conservative government – like governments of all stripes during previous charter reviews – will have to take decisions that are controversial and far reaching. The 'special importance' of the BBC only serves to make those decisions more difficult.

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1.1

THE CHANGING GLOBAL MEDIA LANDSCAPE

MASSIMO MARINELLI
UBS

Introduction

An incredible amount of change has taken place in the global media landscape over the last decade. New trends and changes in consumer preferences have caused many corporates to struggle to adjust to the new post-internet environment, and the scale of changes has only accelerated in recent years.

Convergence has finally become a reality, both in developed markets (for example, in the UK, it is absolutely possible to buy video, telephony, internet and mobile access from a single provider) and in emerging economies (for instance in Poland, Brazil or the Caribbean). We have also seen consumers develop a strong preference for quality drama in content consumption: TV shows like *Breaking Bad*, *Game of Thrones* and *House of Cards* have captured audiences to a greater degree than comedy shows in recent decades. At the UBS Global Media and Communications conference in December 2014, the importance of drama was highlighted by the likes of Jeff Bewkes, CEO of Time Warner; Les Moonves, CEO of CBS; James Murdoch, now co-CEO of 21st Century Fox; and Ted Sarandos, chief content officer of Netflix. In fact, there is a new set of companies promoting the commissioning of new original dramas and generally competing for new ‘must-have’ content creations: alongside the large traditional media groups, new digital/OTT-focussed businesses¹ like Netflix or Amazon have invested significant funds in proprietary shows.

1 OTT (‘over-the-top’) applications are any app or service that provides a product over the internet and bypasses traditional distribution.

A perhaps surprising fact is that today, Netflix spends more on content than either the BBC, Discovery and HBO.

In addition, the perception of more locally produced content is changing, as new players are commissioning significantly more expensive drama in order to capture global audiences – which can be up to three times more expensive on a per-hour basis relative to conventional UK commissions. As viewers gain an appetite for watching such theatrical epics as *Game of Thrones*, we may well come to feel differently about other drama on national TV channels. This development is in turn leading to a migration of talent towards new platforms, which now means that key elements of the traditional broadcast and national value chain, including channel-defining genres and talent, are of interest for well-funded global players.

It goes without saying that the impact of digital and the internet has been a key driving force of all these changes. Media companies are effectively caught in the middle of a very competitive environment and juggling to capture customers where the incumbent distributors (i.e. telecom players or Pay-TV companies) are increasingly being disrupted by new technology global players, including social media companies and OTT players. Any media group needs to determine a strategy that enables it to harness the power of technology and the multiple avenues of distribution that have developed over the last decade or so, in order to leverage their brands and existing relationships with their various stakeholders; a multi-platform strategy is required to attract audiences across different media devices, technology and habits.

Another key factor in the changing media landscape has been the increasing globalisation of any content produced worldwide. Local newspapers can now be read anywhere in the world; any sports match can be watched not just in its home market but wherever a fan wants to watch it. This means that not only the large media groups but also new entrants can *theoretically* target a global consumer base. It is not easy, however, as there can be restrictions – for example around rights exploitation – which may not make it possible for the consumer to access content where they want. In addition, just having an available digital outlet is no guarantee that an interested party will be able to find it

across the billion or so websites available (NetCraft 2015). Furthermore, language remains a strong barrier in some cases; although the strengthening of the English language may have reduced this impediment over time. Consequently, there have been clear examples of cross-border acquisitions such as Nikkei acquiring the *Financial Times* or Axel Springer acquiring the digital news group Business Insider.

How have media groups reacted to these rapid developments? For a start, they have looked to develop scale: since 2004 the total amount of mergers and acquisitions has amounted to over US\$1,800 billion (Dealogic 2015).

It is virtually impossible to classify the amount of mergers and acquisitions over the last decade or so, but there have been three core trends during the recent wave of consolidation:

1. Vertical integration: increased content ownership
2. Digital diversification, and
3. 'In-market' transactions.

Vertical integration: increased content ownership

The first trend, vertical integration, has impacted heavily on the UK media landscape. Just in the last couple of years, for example, the super-indie All3Media has been acquired by Liberty Global and Discovery. Historically, these two groups have primarily focussed on content distribution, but recently have been raising their stake in direct content ownership. Similarly, ITV has been increasing its exposure to content production with a significant number of investments both in its home territory (for example, Twofour group and Big Talk Productions) and further afield (including Talpa and Leftfield Productions), which has boosted its share of content revenues by well over 30 per cent (as of the first six months of 2015).

Digital diversification

The second key driver of corporate activity has been digital diversification. Media players have sought to increase diversification to lower their exposure to the traditional revenue streams – such as TV or print advertising – by acquiring multi-channel networks (MCNs) that aggregate, build and monetise audiences across a variety of OTT video outlets,

such as YouTube (Ampere Analysis). RTL Group, for example, has acquired BroadbandTV (the largest global MCN) and the huge fashion and lifestyle MCN Stylehaul. Others, such as ProSiebenSat.1, have not only acquired MCNs (its own Studio 71 merged with Collective Digital Studios to form Collective Studio 71) but they have also focussed on expanding new digital media or e-commerce activities (for example ProSiebenSat.1's recent acquisition of online travel agency eTraveli). Beyond television, some media groups have sought to change their focus significantly and have made efforts to capture new trends, one example being outdoor advertiser Stroer Media Group's investment in Ad-tech and its 15 acquisitions in the last two years.

In-market transactions

The third trend dominating the changing media terrain is in-market transactions. The definition of 'market' here is not necessarily restricted to a specific geography, but is instead focussed on the sector of activity. Scale is important, which is why we have seen Sky evolving into a multi-territory player with the acquisitions of Sky Italy and Sky Deutschland, or the significant consolidation of cinema chains – for example, Vue's expansion in the Netherlands with JT Bioscopen, and its acquisition of Italy's leading cinema chain Space Cinemas. US media groups have likewise been capturing additional content outlets in the UK, such as last year's acquisition of Channel 5 by Viacom or Sony's acquisition of CSC Media, a group of 16 ad-supported channels operating in the UK.

These deals have significantly reduced the size of the independent content production market. It is in fact important to point out that we are seeing a significant amount of integration between owned production and owned distribution. In the US for example, Time Warner, 21st Century Fox, CBS, Discovery and AMC Networks have all made statements about wanting to continue to invest in their own content assets. Similarly, in the UK Viacom has announced its intention to boost Channel 5's move into entertainment by leveraging MTV's capabilities.

The increased size of many players has also resulted in the opportunity to look at pan-regional deals for rights acquisition. Sky's deals with Sky Italy and Sky Deutschland

give the company the ability to look at pan-European rights acquisition deals, as demonstrated recently with the extension of its HBO deal for the UK and Ireland to Italy, Germany and Austria. Similarly, Discovery's acquisition of Eurosport, and its subsequent winning of all TV and multi-platform broadcast rights in Europe for 2018–2024 Olympic Games, is a perfect example of the capabilities of larger players versus more nationally focussed players. Discovery has also committed to sub-licence a portion of these rights in many markets across Europe,² but it has no doubt secured a very important right to grow the Eurosport franchise.

Interestingly, many of the transactions highlighted above put the UK media landscape at the centre of mergers and acquisitions activity, with inbound investments made by US or Japanese groups into UK content either through direct producers or through well-known channels like Channel 5. Similarly, UK-headquartered businesses such as ITV and Sky have expanded their activities in new markets and geographies. This is a testament to the strength of the UK's creative industries and their global recognition across major players in the sector.

Further trends shaping the new media terrain

No simple desktop analysis of the recent changes in the media landscape can exclude the impact of changes in advertising spend, one of the most important sources of revenues in the sector. The key trend here is that spending in digital advertising is increasing as audiences are shifting to mobile devices or other internet-enabled devices and away from traditional media sources like newspapers or magazines. Looking at the US market, eMarketer estimates that while newspapers and magazines currently capture a combined 18 per cent of the total advertising spend, they only account for roughly 3 per cent of total time spent in media consumption. However, mobile advertising is 17 per cent of total advertising spend versus 24 per cent of time spent by US consumers on mobile devices. TV could also be perceived to be under some pressure. Looking at the same US statistics from eMarketer, TV advertising spend

2 In the UK, for example, the Olympics are listed by Ofcom as category A, which requires live coverage on free-to-air channels, which is currently provided by the BBC.

currently accounts for approximately 40 per cent of the total versus a total share of time spent of around 36 per cent. Media experts are, however, mostly concerned about the decline in traditional – or linear – TV viewing. The recent viewing trends have been a key reason for the negative share price performance of large US media groups over the past summer, with investors concerned about the ability of traditional media players to react to the rise of OTT, subscription video on demand, or general availability of online content.

It is important to continue to guarantee viable revenue models for quality content. However, it goes without saying that a strategy to ensure successful digital delivery models has to be part of any successful content owner and producer. This is true for news content as well as drama or comedy TV shows, or even Hollywood movies. Forecasting remains difficult and one would expect social media to become a more stable source of content not just for young demographics. Today, many readers – or certainly their children – rely on their Twitter, Facebook, Instagram or perhaps Snapchat accounts as sources of news and content updates, certainly from their friends or family but increasingly from various media outlets. As a result, we shouldn't be surprised to see more of the larger technology titans get into direct content production or at least aligning themselves more fully with content owners.

In the meantime, many content owners have launched or are developing direct-to-consumer offerings: HBO Now or CBS All Access are two well-known examples of the traditional media players launching their own product to target consumers directly rather than through traditional Pay TV players; Disney has just announced a similar product offering for the UK market; while sports and entertainment platforms such as WWE (World Wrestling Entertainment) have also got on board. Similarly, the UK-headquartered Perform Group – the leading digital sports content and media group – has announced targeted OTT products in selected markets. These are not simple product offerings to implement given that it would require the development of new capabilities for organisations that historically did not need to develop sales forces or customer care and marketing functions focussed on consumers.

With new technology, content owners can also develop more sophisticated ways to track consumer preferences, such as the ability to capture an incredible amount of data on who is watching what, how, for how long and from where. Many analysts believe this is a key competitive advantage for Netflix, which can use their users' preferences in a more precise way to determine where to spend their content budget and which new format to commission. Others believe that data availability could change the way content budgets are allocated among content owners since a direct-to-consumer or OTT business could remunerate its content producers on the basis of the actual audience delivered rather than committing certain sums upfront (that is pay-per-consumption). Ultimately, it can create additional revenue streams that can allow the owners of the data to monetise their existing customer relationships via selling additional products more broadly through e-commerce.

Although many of the changes in the global media landscape highlighted in this chapter have originated in North America, Europe or Asia, the emerging markets are not far behind in adopting new trends or creating new or local versions of new media and entertainment businesses. In China, for example, businesses investing in content and distribution include the likes of Alibaba, Tencent, Wanda and LeTV. Entertainment company LeTV (Leshi Internet Information & Technology) is a very good example of vertical integration in technology, media and telecommunications, since the company produces its own smart TV (as well as smart phones) and owns a significant amount of exclusive content which it distributes directly through its own OTT product.

The global media landscape is set to continue to be ever-evolving and fluid, with a large proliferation of content and delivery methods. Every player in the market needs to be focussed on retaining their relevance through scale, creativity and innovation for the ultimate benefit of consumers. The BBC will need to continue to pursue these objectives, keeping in mind its ethos and heritage. Embracing emerging communications technologies and services is also a must for the corporation if it is to maintain its relevance throughout the next charter period and beyond.

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1.2

POPULAR ENTERTAINMENT, THE GREEN PAPER AND THE BBC'S MARKET IMPACT

PATRICK BARWISE
London Business School

'The BBC should tailor its output to what it does best, and not stray into areas that can and should be left to commercial providers to do well. It is pointless and wasteful having an organisation receiving that kind of public funding competing with – and potentially crowding out – other providers'.

John Whittingdale (CMSC 2015)

The green paper's mistaken premise

The BBC's market impact is the biggest issue running through the DCMS green paper on charter renewal, implicitly or explicitly accounting for 11 of the 19 consultation questions.¹ Consider Q4:

'Is the expansion of the BBC's services justified in the context of increased choice for audiences? Is the BBC crowding out commercial competition and, if so, is this justified?'

DCMS 2015: 11

As background, page 24 of the consultation paper shows the BBC's significant, although not huge, expansion between 1994–95 and 2014–15. However – as DCMS obviously knows – almost all this expansion happened under the *previous* charter for 1996–2006, when the BBC agreed to introduce new digital

1 Questions 1, 2, 4, 5, 6, 8, 9, 10, 14, 15 and 16.

services to help drive the take-up of digital terrestrial television (DTT), digital audio broadcasting (DAB) and the internet. DTT and internet adoption have been a triumph, supported by the BBC in line with its charter commitments. DAB has developed more slowly but the BBC, the main investor in both content and distribution, fully met its obligations under the previous charter.

Since 2010, the BBC's scale has in reality been *reduced* by the funding cuts imposed by the Coalition government. Budgets and headcount are down, BBC Two no longer shows first-run daytime programmes and BBC Three is about to close as a broadcast channel. The July 2015 funding settlement will force further, deeper cuts over the next six years (Barwise 2015).

The green paper's basic premise is therefore mistaken. It is true that with fast-changing markets and technologies, the BBC must always adapt and necessarily expand in some areas to stay relevant. But, overall, the corporation is – for the first time ever – getting significantly smaller due to the 2010 and 2015 funding settlements.

Further, as Q4 says, this is in a context of greatly 'increased choice for audiences': the BBC's share of income, services and consumption has been declining for decades. The exception is radio: commercial radio has consolidated but its growth (based on advertising, with no subscriptions) has been limited and its investment in original content remains much less than the BBC's. In contrast, for television, one estimate suggests that BBC TV's revenue share will collapse from 22 per cent in 2010 to 17 per cent in 2016, and is set to be just 12 per cent in 2026 – and even this assumes that the licence fee (LF) is still inflation-indexed after 2021 (Syfret 2015). For BBC Online, the market definition is fuzzy, but its revenue share is, likewise, clearly declining.

The green paper starts from the position that (a) the BBC is relentlessly expanding and (b) its negative market impact is a serious problem requiring major changes on top of those already forced by the funding cuts. As just discussed, (a) is demonstrably untrue for the BBC as a whole. The rest of this essay is therefore about (b) and focuses mainly on BBC TV, although I also briefly touch on BBC Radio. The framework is generic and could also be applied to BBC Online, but this raises other issues beyond the scope of the essay.

Asking the right question

Despite the cuts, the BBC is still a big player – and the largest UK content investor – in the TV and radio markets and parts of the online content market. To decide what its scale, scope and spending priorities should be, we should indeed consider its impacts on these markets, which may indirectly affect the content provided by other suppliers and, therefore, the extent to which the market as a whole delivers range, quality, value for money, and other public service objectives. BBC content also impacts on the media marketplace in a range of other ways, most notably on technology adoption.

From a rational policy perspective, these indirect impacts on the public are the only reason why market impact matters. The fact that commercial players could profitably supply a particular type of content need not mean that the BBC should not compete against them: *the question is whether the public will be better served if it does so*, after allowing for both the cost of the BBC content and the indirect effects on the public of its positive and negative market impacts.

Crowding out and net public value

To develop a rational policy we need to understand how the BBC's negative market impact – 'crowding out' – might actually work in practice. There are two potential mechanisms.

- *Revenue-based*: by providing content attractive to consumers, the BBC reduces the commercial players'
 - audience/consumption, and therefore
 - their revenue, and therefore
 - their content investment.
- *Cost-based*: by competing for scarce content or resources, the BBC
 - raises their price, and therefore
 - increases the commercial players' costs, and therefore
 - reduces their ability to invest in (other) content.

Intervention to stop the BBC competing in a market is justified only if its *net* public value is negative, based on the following three elements:

1. There is evidence of revenue- and/or cost-based crowding out of commercial players' content investment (or other consumer value creation) *and* the resulting consumer detriment is greater than the combination of:
2. The BBC content's direct consumer value, net of its cost, *and*
3. The indirect public value of its positive market impacts.

An example: popular TV programmes

It is sometimes suggested that BBC TV shouldn't show popular entertainment programmes that might have been profitably shown by a commercial player. How could we use the above framework to test this proposition?

To establish a *prima facie* case, those proposing it would first have to provide evidence of at least some revenue- or cost-based crowding out of commercial content investment. They would then have to show that the resulting consumer detriment outweighed the combination of:

- the *direct value to viewers* of the BBC's popular entertainment programmes (relative to their cost), and
- the *indirect public value* of the programmes' positive market impacts.

I now discuss each of the three net public value elements in turn.

Do BBC TV's popular programmes 'crowd out' commercial provision?

The green paper offers no evidence that the BBC's popular programmes crowd out content investment by commercial broadcasters. In fact, international comparisons show little, if any, negative relationship between the per capita revenue (and content investment) of public versus private broadcasters (Barwise and Picard 2014: 46–47). Any negative market impact is roughly cancelled out by the public broadcasters forcing commercial players to invest more to 'compete on quality'.

Nevertheless, in our Reuters Institute study of crowding out in the TV market, our ‘base case’ optimistically assumed that, if there had been *no* BBC TV in 2012:

- the commercial players’ revenue would have been higher: 6 per cent for the public service broadcasters (PSBs) (ITV, C4, C5 and S4C, including their portfolio channels, mainly funded by advertising) and 22 per cent for the non-PSBs (all other commercial channels and platforms, mainly funded – as a group – by subscriptions), *and*
- their investment in both total and original UK content would have been higher by the same proportions (6 per cent and 22 per cent, respectively) (ibid: 23, 29).

Despite these optimistic assumptions, the base case projected that total industry revenue would have been 9 per cent lower without BBC TV’s share of LF revenue, while the absolute increase in content investment by the commercial broadcasters would have been far less than the lost BBC investment: +£670 million for their total content investment (versus -£1.61 billion lost from BBC TV) and +£190 million for their first-run UK content investment (versus -£1.52 billion lost from BBC TV) (ibid 31–2).²

It is unclear whether BBC TV, on balance (that is, after allowing for its impact on creative competition) crowds out *any* content investment by commercial players. But, even if it does, the resulting reduction is likely to be much less than BBC TV’s investment, especially for first-run UK content. If this is true for BBC TV as a whole, it is hard to see how it might not be true for its popular entertainment programmes.

What is the direct consumer value of BBC TV’s popular programmes?

Little needs to be said on this second element. BBC TV’s high-rating programmes are freely chosen by UK viewers millions of times a day, in a highly competitive market, with engaged, well-informed, highly satisfied consumers and zero switching costs. They obviously create huge consumer

² The crowding out figures would be even lower today, because BBC TV’s revenue share is lower due to the 2010 funding cut and the rapid growth of commercial TV revenue.

value. Popular entertainment TV is certainly part of what the BBC ‘does best’.

It is also extremely good value for money. The licence fee is overall seen as good value by a growing majority of households, partly because it costs so much less than pay TV. Further, in a recent study of the 30 per cent whose initial response was that it was not good value, after nine days without the BBC, *two-thirds* changed their minds: they found that they relied on it far more than they’d realised and were astonished that it cost their household only £2.80 per week (Taylor and Bryson 2015).

The BBC’s most popular programmes, mainly on BBC One, have the lowest cost per viewer-hour of any TV programme and are clearly seen by most viewers as even better value than the LF as a whole. BBC One is the most popular UK channel, still accounting for over 20 per cent of viewing. It is hard to see how butchering it by preventing it from showing popular entertainment could possibly benefit the public.

What is the indirect public value of BBC TV’s positive market impacts?

Our investigation of the third element identified BBC TV’s main positive market impact as its investment in original UK production. As already discussed, this is much more than any possible crowding out of commercial content investment: our (cautious) Reuters Institute base case implies that *every £1 reduction in BBC TV funding leads to a net reduction of 49p in total first-run UK programme investment* (Barwise and Enders 2015: 7).

The BBC is still at the heart of our successful broadcasting ecology or ‘innovation cluster’, but indirect market impacts are notoriously hard to quantify. Its own estimate is that its total direct and indirect impact on UK Gross Value Added (GVA) is over £8 billion per annum (BBC 2013). More recently, Frontier Economics estimated the BBC’s total UK investment at £3.7 billion: £2.2 billion in the creative industries and £1.5 billion in the wider economy. Frontier also described two other indirect positive market impacts.

- *The discovery, nurture and exposure of new musical talent:* BBC Radio plays a big role in supporting the UK music industry's £3.8 billion GVA, £2.2 billion exports and 110,000 jobs.
- *The development of the iPlayer:* as a market leader, BBC iPlayer has helped create a situation where, 'out of Europe's top five economies, the UK has both the largest free-to-air catch-up viewing and the strongest commercial revenues – more than two-and-a-half times greater than the next biggest market' (Frontier Economics 2015).

The iPlayer is part of a very long-term pattern. The BBC was first set up in 1922 to drive radio adoption and has repeatedly played the same role with other new technologies.

For instance, ITV Digital³ was the world's first DTT service, launched in November 1998 as a pay TV service. Competing against Sky, it lost over £1 billion and went into administration in March 2002. Freeview, a joint venture between the BBC, ITV, C4 and Arqiva, stepped in, launching a free-to-air DTT service that October. Supported by the BBC-funded Help Scheme, DTT took off and analogue switch off was achieved, on time and well below budget, in October 2012.

Despite intense competition from pay TV, Freeview remains the biggest UK platform, with 43 per cent DTT-only and 72 per cent total DTT household penetration.⁴ Its unexpected success creates huge public value, especially for poorer households. The BBC is a key partner.

The net public value of popular entertainment on BBC TV

The *overall* net public value of popular entertainment programmes on BBC TV is massively positive.

It is doubtful whether the BBC, on balance, crowds out *any* commercial TV content investment. But even if it does, such crowding out is much less than its own investment, especially in new UK programmes. Its top-rating programmes are extremely popular in terms of both viewing and audience

3 Originally ONdigital, rebranded as ITV Digital in 2001.

4 See figure 1.3.5, this volume

appreciation. They typically have the lowest cost per viewer-hour on British television. Losing them would create huge consumer detriment. The suggestion that, in the interests of ‘distinctiveness’, BBC TV should not compete in this market is clearly against viewers’ interests.

This conclusion becomes even stronger if we include other factors such as the *economic* benefits of the BBC’s investment in UK production and the creative industries, and its recurrent role over almost a century driving consumer adoption of new communication technologies.

An exception to the rule

I can think of only one exception to the general rule that the BBC should compete freely in the entertainment TV market (as well as, of course, providing content that commercial players cannot profitably provide at scale): it is against the public interest for the BBC to bid up the price of scarce content and talent.

In principle, the challenge is where to draw the line: the BBC needs to be able to compete for these resources, but not too much. But in practice, because of rights inflation and BBC funding cuts, this is now a marginal issue. BBC TV can no longer afford to bid aggressively for sport, movie and US TV programme rights and already invests about 95 per cent of its content budget (much more than the commercial players) in UK originations. It may even be unable to afford future seasons of *The Great British Bake Off*. There will always be contested cases – arguably, it should not have competed for the format rights of *The Voice* – but it would be absurd to say that it should *never* pay for programme rights, given its track record of ‘discovering’ great bought-in programmes such as *Mad Men*.⁵

Arguably a second possible exception is scheduling, especially BBC One versus ITV1 on Saturday evenings and the broadcasters’ rival *News at Ten* offerings on weekdays. This, to me, is a borderline case from a public interest perspective (although, politically, the BBC should be doing whatever it can to win ITV’s support).

5 *Mad Men*’s cost per viewer-hour increased at least threefold when it transferred from BBC Four to Sky Atlantic (Barwise and Picard 2014: 50–51).

- If BBC One's Saturday evening line-up reduces commercial viewing, any impact on total advertising revenue is negligible because of the 'price elasticity' of commercial airtime (Barwise and Picard 2014: appendix A). Whether it marginally shifts revenue from ITV1 to other commercial channels or vice versa is unclear.⁶ What is clear is that any economic effects are minimal.
- There is an argument that scheduling the most popular programmes simultaneously reduces viewer choice in the remaining, mostly poorer, homes still without timeshifting technology. But if BBC One 'vacated the field' for the benefit of ITV, that would reduce its audience share, which would also have negative consequences (discussed later). The issue is not straightforward.
- Having the main BBC One and ITV1 evening news at 10pm enables both channels to programme flexibly during weekday prime time. If BBC One lost this flexibility, ITV would benefit – to the disadvantage of its ad-funded competitors (again due to airtime price elasticity) as well as the BBC. It is unclear why, on balance, the public would benefit.

'Softer' sources of public value

BBC TV's most popular shows also create public value in other, 'softer', ways.

- *Fairness*: the licence fee is paid by all households (with no member aged 75-plus) so the BBC should provide something for everyone.
- *Maintaining support for the LF-funded BBC*: these programmes are a big part of why most households value the BBC.
- *Developing viewers' preferences for minority programmes*: even today, the audience flow of the BBC's popular programmes still allows it to deliver the Reithian benefit of introducing viewers to less familiar or more challenging content.
- *Social cohesion*: the BBC's and other PSBs' popular programmes are themselves 'major unifying events' that provide universally available shared experiences that cut across social, economic, regional and ethnic

⁶ Clive Jones told me that, as head of the ITV network, he argued that strong BBC programming on Saturday evenings *benefited* ITV – but not all his colleagues agreed.

differences. They are a force for social cohesion, which is under threat from multiple forces.

- *Soft power*: the BBC's main contribution to the UK's world-leading soft power is through the World Service (McClory 2015). But exporting popular shows and formats also helps, especially in developed economies (and, of course, it benefits the economy).

Finally, the suggestion that the BBC should not show popular entertainment programmes raises serious questions of *practicality*: the distinction between 'popular entertainment' and other programmes is fuzzy and unpredictable. Who should judge – in advance of any popularity – which programmes BBC TV should show? How should they decide?

BBC Radio

The above framework applies equally to BBC Radio. Those who dislike the BBC offering content that might have been provided by commercial broadcasters focus on Radio 1 (R1) and, especially, Radio 2 (R2). Because these stations attract almost 25 per cent of listening (as well as doing far more to develop new acts than any commercial station) closing them down is not a serious option. The alternative, presumably favoured by HM Treasury, is privatisation. This could raise several hundred millions but would also:

- be unpopular with R1 and R2 listeners, forcing them to listen to more commercials
- reduce the value of the LF, especially for younger consumers
- severely damage the existing commercial players – total opportunities to hear commercials (OTH) would increase by roughly 50 per cent, reducing the incumbents' revenue by over 25 per cent, which would be a disaster in a largely fixed-cost business⁷

7 Current listening shares are about 25 per cent for R1 and R2 and 45 per cent for commercial radio. Suppose these became 20 per cent and 47.5 per cent, respectively, with no reduction in total radio listening. Total OTH would increase by $(20 + 47.5 / 45) - 1 = 50$ per cent, reducing the average cost of airtime by, say, 30 per cent. Even allowing for a 5–6 per cent increase in their OTH, the incumbents' net advertising revenue would be reduced by over 25 per cent. Assuming an efficient auction, so that the buyer paid a full price, the net impact would be strongly negative even on an incumbent that bought one or both of the stations.

- reduce the indirect public value of R1 and R2, analogous to that of BBC TV, but on a smaller scale.

Why is the BBC's public funding an issue?

A recurrent theme for those seeking to reduce the BBC is that, in John Whittingdale's words, there are areas that should be 'left to commercial providers' because 'it is pointless and wasteful having an organisation *receiving that kind of public funding* competing with – and potentially crowding out – other providers' [emphasis added].

As I have shown, from a rational, public interest perspective, it is certainly not 'pointless and wasteful' for the BBC to show popular entertainment programmes in competition with commercial broadcasters. It is highly beneficial.

The BBC's 'public funding', however, is clearly an issue for Whittingdale and many others. As far as I know, none of them has ever explained *why* it means that the BBC shouldn't compete with commercial players, beyond saying that such competition is 'unfair' because, unlike commercial broadcasters (even the publicly owned C4), the BBC does not have to 'earn its keep'. There are several reasons to challenge this view.

1. The BBC's 'public funding' does not come out of general taxation. The LF is a compulsory hypothecated tax paid by its customers.⁸ It is seen as good value for money by most households – rising to a large majority (around 90 per cent) once they have tried living without the BBC – despite the fact that it also funds the World Service, rural broadband, S4C and other services of no direct consumer benefit to most LF payers.
2. The BBC is not like, say, a car manufacturer *unable* to survive without public subsidy because it is too inefficient to compete against the private sector. It is *not allowed* to compete for advertising or subscription income. It is no coincidence that ITV opposes advertising and Sky opposes subscriptions as alternative BBC funding sources. UK broadcasting's ability to draw on three complementary funding sources is widely seen as a key strength.

8 Sic: 99 per cent of households that pay the *annual* LF consume BBC services *each week*.

3. Likewise, the idea that the BBC ‘does not have to earn its keep’ is ludicrous. The main reason why it has managed to survive in such competitive markets and such a hostile media and political environment is its continuing success in meeting the needs of viewers, listeners and online users. It is freely chosen by the UK public roughly *160 million times a day* – far more often than any other brand. It is precisely this success that leads to so much hostility.
4. Finally, even if the BBC’s LF funding is in some sense ‘unfair’, so what? The only rational policy criterion is the public interest. Those arguing for limits to BBC competition, to benefit commercial players, have offered no evidence that this would also benefit the public. As this chapter shows, the opposite is overwhelmingly the case, apart from one or perhaps two limited exceptions.

Unless I have missed something, there is no rational basis for the view that the BBC’s public funding means that it should not be allowed to compete across the board.

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1.3 RIDING TWO HORSES

THE BBC IN A CHANGING VIEWERSCAPE

TOBY SYFRET
Enders Analysis

Assumptions about present and future audience behaviour underpin every charter review, perhaps this one more than ever.

The culture secretary's foreword to the DCMS green paper on charter renewal highlights the massive change in the media landscape during the present charter and the explosion in the use of the internet and mobile devices. Nevertheless, John Whittingdale also observes that, 'most people still want to watch television when it is broadcast, still rely on radio and still want to read newspapers' (DCMS 2015: 1).

How long will this last, in a world of universal access to superfast broadband and panoply of streaming and on-demand online offerings with low barriers to entry via smart TVs and mobile screens?

As the green paper identifies: 'These trends raise questions around the continued relevance of public service broadcasting in a modern media age' (ibid: 14). The issues are partly about content provision, but they also include access/distribution, with the consultation paper noting that 95 per cent of UK homes will have access to superfast broadband by as early as 2017.

The growing importance of the internet and mobile devices is certainly not lost on the BBC, as was made abundantly clear in the speech delivered by the director-general Tony Hall on 7 September, which presented the BBC vision of the challenges and opportunities under the next charter.

'Indeed it is perfectly possible that by the middle of the next decade that becomes the main route to what the BBC does. So for the next 10 years, we will need to ride two horses – serving those who have adopted the internet and mobile media, while at the same time making sure that those who want to carry on watching and listening to traditional channels continue to be properly served too.'

Hall 2015

So, for just how long will the BBC need to ride two horses and what are the implications for future public service policy?

Background to viewing trends

The central proposition of this chapter is that, for all the hype that we hear about the impact of the internet and mobile devices on television viewing, the fact remains it is heavily skewed towards the younger age groups, especially those aged between four and 24. By contrast, we have seen very little effect on the over-55s. This is not to say that the over-55s have stayed still – on the contrary, their viewing habits are also changing. But what we see is increasing divergence between them and the younger age groups. This divergence is also very conspicuous when we examine trends in television viewing.

For almost as long as anyone can remember, BARB (the Broadcasters' Audience Research Board) has been the main source of television viewing data in the UK. For the past 30 years BARB has employed peplemeter methodology to measure television audiences in the home; as part of the Dovetail project, it is now in the process of extending its measurement to other, non-television screens. BARB is very much the industry gold standard; however, we also have abundant information from other sources, including Ofcom and the BBC iPlayer, which can shed light on the trends.

For the purpose of understanding television viewing trends it is vital to stress that the current BARB-reported measure of total television viewing simply relates to all live and consolidated timeshift/catch-up viewing within seven days of broadcast on linear channels that are measured by matching meter audio

records collected from each home in the BARB sample with central reference records for all the channels being measured.

As a result, we are left with two BARB measures. One is the standard reported measure of total TV viewing. The other is total video consumption on the TV set, which covers just about everything else (games, DVD/Blu-ray, archive VOD, OTT, and so on), including 8–28-day timeshift/catch-up for the reference TV channels, which can be broken out separately as part of the standard analyses.

In essence, BARB measures and reports what we may call ‘flexilinear’ viewing. By this we mean viewing to TV services that is based on a central linear channel schedule, but whose programmes can be watched at different times of the viewer’s own choosing from the main linear channel broadcast by means of DVR timeshift recording or catch-up services via cable or the internet. This definition of television viewing, does not, it must be stressed, include the likes of Netflix and Amazon Instant Prime Video.

Examination of BARB viewing trends over the last five years, as well as data from other sources, provides many insights. In what follows, we present five ‘take-outs’, including those that relate to the question of just how long we will need to hold on to the broadcast horse.

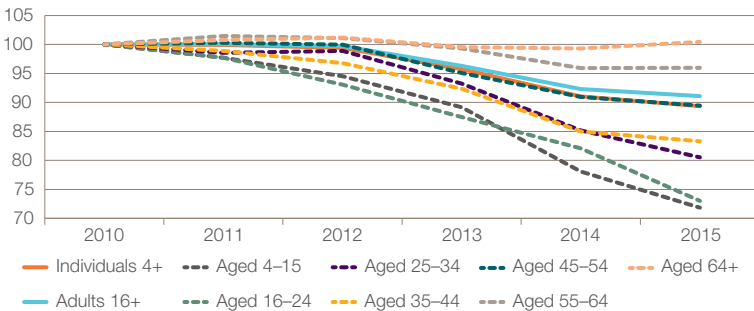
Take-out 1: Slow-down and divergence in TV viewing decline

Total viewing to the TV set, as measured by BARB, fell by 8.9 per cent between 2010 and 2014, with particularly large drops occurring in 2013 (3.6 per cent) and 2014 (4.7 per cent). 2014 was the really big year if we take into account other factors, such as the London Olympics in 2012, in the absence of which the decline seen in 2013 would have been roughly one percentage point lower. Undoubtedly, the main cause of the decline has been the extraordinarily rapid growth in ownership of smartphones (now increasingly 4G) and, to a lesser extent, the launch of new SVOD services such as Netflix and Amazon Prime Instant Video, along with the growing online connectivity of TV sets.

This is not to say that other factors, including rising employment, have not contributed to the recent sharp decline. However, we would above all single out the smartphone, which has opened up so many pathways among the younger age groups from secondary school upwards in terms of social messaging, communication and meeting others.

If the smartphone is really as important as we believe it to be, then we should now be starting to see the decline ease – which is indeed what is happening this year. So far in 2015 there has been an overall year-on-year TV viewing decline across all individuals aged four and above of about 1.7 per cent. What is most interesting about the current stats is that, whereas we have seen a notable slow-down among the 25–64s, and even a small increase among the over-65s, there has been no abatement of downward trends among the under 25s (see figure 1.3.1). This growing divergence is probably down to the continuing evolution and expansion of apps, and our current view, based on all the evidence from BARB and other sources, is that we will see a marked slowdown over the next two years in the TV viewing decline among younger audiences.

Figure 1.3.1
Daily average viewing time, 2010–2015 (2010=100)



Note: All data in the figures in this chapter (unless specified otherwise) is supplied by Enders Analysis using Broadcasters' Audience Research Board (BARB)/InfoSys+ and Office for National Statistics data, and Ofcom's Digital Day research.¹

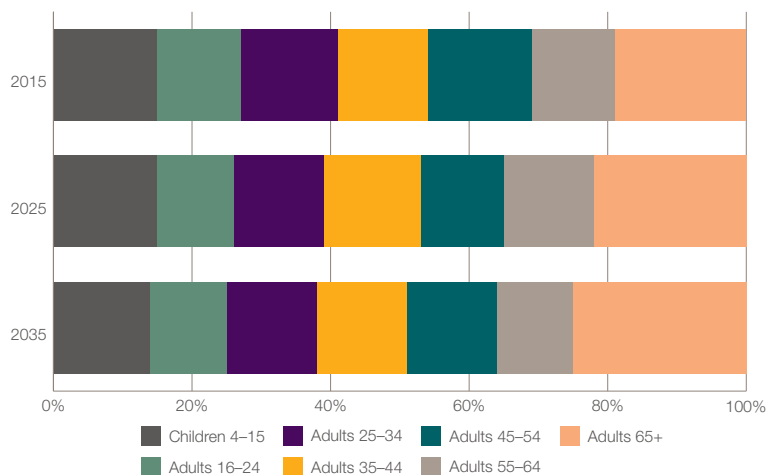
1 <http://stakeholders.ofcom.org.uk/market-data-research/other/cross-media/digital-day/>

Take-out 2: A rising older adult audience

Older adults aged 55+, who have shown least change in TV viewing levels during the last five years, today make up no less than 31 per cent of the UK population of individuals aged four and over according to the Office of National Statistics (ONS), and this is projected to rise to 36 per cent by 2035 (see figure 1.3.2).

Figure 1.3.2

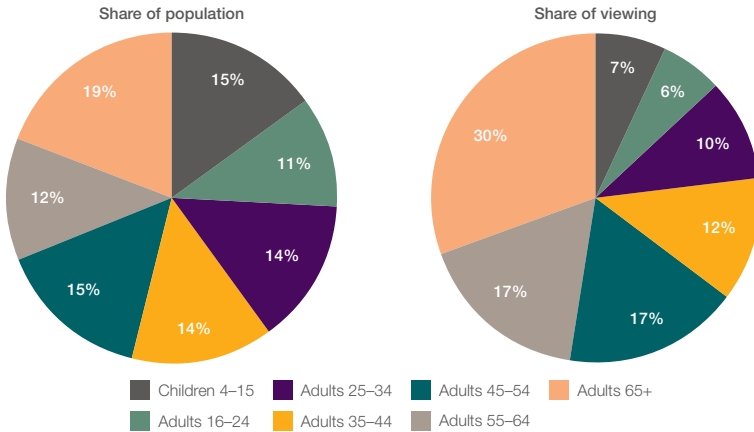
Share of UK population (%) by age group, 2015, 2025 and 2035



Not only do the over-55s make up a significant and growing chunk of the UK population, but they account for an even higher 47 per cent share of the audience according to BARB estimates (see figure 1.3.3) and this could well reach closer to 60 per cent by 2035 when we take into account ONS population projections and the ongoing divergence in viewing levels between younger and older age groups.

Figure 1.3.3

Share of UK TV population and viewing, by age group, H1 2015



In short, however much we may talk of transformational change of viewing habits in the internet age, there is a large proportion of the public which has changed very little at all in its total TV viewing consumption in the last five years. And, even if we allow for possible cohort effects, which may conceivably depress total viewing slightly as they climb the age ladder, today's over-55s will be over-75s in 2035 and still number close to 10 million, or 14 per cent of the total population of individuals aged four and above in 2035, and probably closer to 25 per cent in terms of viewing.

Take-out 3: The rise of flexilinear TV viewing across all ages

Although total viewing to linear broadcast channels among the older age groups has barely changed in the last five years, all age groups – the older as well as, if not more so, than the younger ones – are increasingly watching programmes outside the scheduled transmissions. This has happened as a result of the growing population of DVR and connected devices that can offer catch-up services, which has enabled greater flexibility in when people watch programmes on linear channel schedules.

Table 1.3.1

Daily average total, live, timeshift (TS) and catch-up (CU)
TV viewing: 2010 versus H1 2015

Age group	2010				H1 2015			
	Total mins	Live mins	TS/CU	TS/CU share of total (%)	Total mins	Live mins	TS/CU	TS/CU share of total (%)
4–15	151	140	11	7.2%	108	93	16	14.8%
16–24	169	155	14	8.2%	123	103	20	16.2%
25–34	199	178	20	10.0%	160	129	31	19.3%
35–44	234	214	20	8.5%	195	164	32	16.4%
45–54	269	251	18	6.6%	241	207	33	13.6%
55–64	311	290	21	6.7%	299	263	36	12.0%
65+	343	326	17	4.9%	344	315	29	8.4%

Take-out 4: The enduring importance of the big screen for long-form video

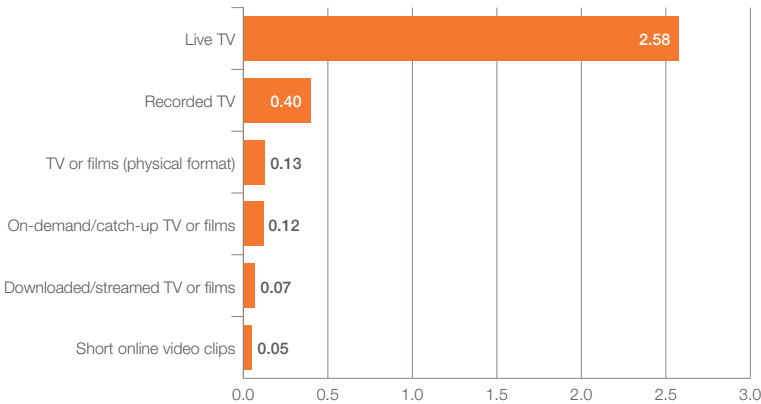
One of the most frequently asked questions is whether the changes we now see in viewing habits among the younger age groups will lead to permanent change in the future, or will they revert to the traditional model as they get older? The view we have taken in our modelling of long-term trends is that substantial reversion will take place due to a combination of factors that can be viewed in three categories.

First, there is the enduring importance of the TV screen for long-form video content. The data we are starting to see from BARB's Dovetail project suggests that little viewing of long-form broadcast content (less than 5 per cent) occurs on smaller screens, in particular on smartphones. The general preference among all age groups for watching long-form content is the big TV screen, provided that one is available and that the viewer can make the choice about what he/she wants to watch. Netflix, for example, is a notably popular online service among younger age groups that offers long-form video content; but according to figures we have seen from GfK, more than half the viewing is on connected TV screens, and doubtless the figure would be higher were more TV screens connected.

Second, however, it is not just a question, however, of a preference for watching long-form content on bigger screens. Data from the Ofcom Digital Day 7-day diary further suggests that downloaded or streamed TV or paid-for films and short video clips similarly consume a small 5 per cent share of watching activities (see figure 1.3.4). It is significantly higher at 14 per cent for adults 16–24, where the bigger component is short-form video clips (8 per cent); yet still more than 70 per cent of their watching time is live, timeshift and catch-up broadcast programming according to the Ofcom data.

Figure 1.3.4

Average time spent on each activity per day (hours:minutes)



Note: Base = all adults aged 16+ (1,644)

Third, and most important, is the question of life-stage, where we see interests and habits changing as younger persons by and large enter into more long-term relationships, settle down into full-time employment, become the main money earners, acquire their own properties and purchase their own TV sets, over which they have more or less full control. And with ageing eyesight, the big TV screen is yet further to be desired.

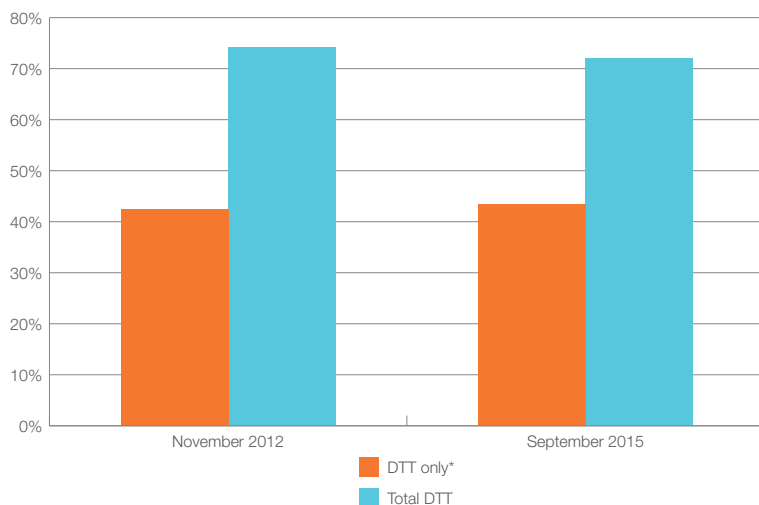
Take-out 5: Importance of the DTT spectrum

If the preceding take-outs are anything to go by, the BBC will need to ride two horses well beyond the next charter. Yet whether it will be able to do so depends on future

government broadcast policy concerning the DTT spectrum. The issue is never far from the surface of the DCMS green paper on charter renewal, despite never being specified. Today, the DTT spectrum is under intense clearance pressure from the international mobile sector. This, combined with the very rapid development of online, raises the question of whether it is only a matter of time before DTT disappears.

Accordingly, the fifth and final take-out underlines the importance of DTT to the delivery of broadcast audiences.

Figure 1.3.5
DTT household penetration post switchover and today (%)



Source: BARB/RSMB

*Note: 'DTT only' refers to households in which DTT is the only digital TV platform in the home.

The three main digital broadcast distribution and retransmission platforms are satellite, cable and terrestrial. By the completion of analogue switch-off and digital switchover in 2012, over 40 per cent of TV homes were equipped with terrestrial reception on its own, but this rises to nearer three-quarters of the total population when we include satellite and cable households with digital. With satellite and cable pay TV penetration appearing to have hit the ceiling in terms of maturation, we cannot see the

proportion of UK homes with DTT reception on its own falling below the 40 per cent level in the foreseeable future. If anything, we expect its penetration to increase. Quite simply, DTT is a major distribution platform and this is not going to change at any point in the near future, except through regulatory intervention.

Conclusions and policy ramifications

For all the DCMS green paper focuses on the explosion of choice and transformation of the audiovisual landscape in the internet age, and the dramatic decline in viewing among younger age groups notwithstanding, the underlying pace of change appears much slower.

Younger viewers may watch much less long-form content on the TV set than they did just three years ago, but when they do watch long-form there appears to be strong preference for the TV screen if one is available, while the bulk of their viewing is flexilinear, with live linear broadcast schedules at the core.

One area that we have not explored in this chapter is why the live linear model is so successful – not only in commercial terms, where we may question the long-term revenue potential of the on-demand pay (for example Netflix) and advertising (for example Google) models compared with what the linear broadcast model has built up over the years – but also in consumption terms. Here we believe that the current live broadcast schedule model possesses many strong points by way of making it simple, quick and easy for viewers to find what's new and choose what to watch from a limited selection of their favourite channel feeds.

Taking all the above into account, we think the need for the DTT spectrum will remain until far into the future.

Theoretically, we may be able to imagine an IP equivalent of the DTT spectrum in the internet space, though it is hard to see it as a long-term practical and stable reality. When it comes to the BBC, the message is that it should be looking to ride its two horses, internet and broadcast, well beyond 2026.

However, it does not end there. The move from broadcast to online is not just a matter of switching horses. They are also very different breeds, where the most notable difference

is that broadcasting is all about one-way mass delivery, whereas online is about interactive two-way delivery and communications, which opens the door to a wide range of personalised services.

Now, it is one thing for the commercial media – including publicly owned Channel 4, with its public service remit to reach out to specific minority audiences – to follow the personalisation route. But for the BBC to do so would, however, at once raise questions about the universality of its service, and by extension the potential impartiality of its online offerings, as they become more tailored to individual tastes. Shutting off the BBC Three broadcasts and moving it online may already be seen as a step down this path, which, once followed, leads to questions about the future universality of BBC funding and replacement of the licence fee – or other universal payment mechanism such as the household levy – with consumption-based and pay-as-you-go systems.

In short, all the evidence from TV viewing trends points to the need for the BBC to remain in the broadcast space for many years to come. However, it is not purely a question of when online may replace broadcast. It is also a matter of how we define the scope of the BBC as a public service, and in particular, how we define the principle of universality at its core.

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1.4 REGENERATING BBC STUDIOS

PETER SALMON
BBC

Like *Doctor Who*'s famous Time Lord, BBC production must regenerate if it is to win through against some powerful forces causing profound disruption throughout the broadcasting universe.

The BBC's in-house television production unit has been the maker of many of the BBC's best-loved programmes for over 50 years. As we look ahead to the next charter, what matters most to the BBC – what has always mattered most – is providing the most creative, original, distinctive programmes to our audience. To do that we need to change the way we make and source our content for a new age. The BBC's plan to transform its in-house production units into BBC Studios is a key proposal for charter review and if approved it would be a bold change for the corporation. Though it is certainly far-fetched to talk of extinction, these are perilous times for investment in UK culture and it will take more than a sonic screwdriver to fix it.

Even before *Doctor Who* first emerged, the UK was building strong foundations for programme-making, developing an ecosystem of production bases, diverse voices and talent, structured investment and a dynamic broadcasting policy. Now the market is more global, more digital and even more competitive, and audience expectations are increasing as they navigate through a wealth of content choices. These days the UK production sector is intimately linked to the global market and in particular the US, through ownership of our companies and investment in our talent and ideas. These changes bring challenge and opportunity: there

is much to be gained from greater creative ambition, new investment and new international markets; but we must also safeguard the UK's unique environment for programme-making.

All this raises fundamental questions for the BBC: how can we make sure we provide the best content to our audiences in all genres – not just those that are most commercially attractive? How can we remain one of the world's great programme-makers ourselves, while also drawing on the breadth and depth of the independent sector? How can we help that sector respond to global demand, while meeting the expectations of a devolving United Kingdom too? And, how do we ensure that the British public gets the best possible return on the money it invests in the BBC through the licence fee?

Adventures in space, time and new markets

The market for television content has changed dramatically since British audiences first crowded round the set to watch William Hartnell emerge from the TARDIS in 1963. The twin forces of globalisation and new distribution technologies are rapidly growing the demand for English-language programming. Shows like *Game of Thrones* and *Doctor Who* are eagerly watched from Milton Keynes to Miami to Melbourne. And because of the way programme rights are sold, each new territory and platform is a new customer opportunity for content makers. Access to the most desirable programming and ownership of intellectual property rights are now vital strategic assets for companies as they seek to set themselves apart and capture value. We've seen the effects of this in the prices paid for content, such as the reported £100 million budget for Netflix's forthcoming series *The Crown*. We have also seen it in the eagerness of companies in adjacent markets to move into the content game to win new customers – with BT investing billions in sports rights (and now drama too), or Amazon buying up the *Top Gear* team for its online video offer. Great TV programmes – unlike broadband or retail platforms – are valuable because they are unique.

The content market is reshaping itself for this new landscape. Global reach and access to rights are the priorities. A long-term trend of consolidation has accelerated in recent years as production companies buy one another to build scale, acquire talent and formats, and defray risk across a bigger portfolio. This process has reached a new peak with the mergers of super-indies such as Shine and Endemol or Zodiak and Banijay, and shows little sign of slowing. There has also been a marked increase in the number of broadcasters vertically integrating by buying production companies to secure access to desirable content in a more competitive market – the likes of Discovery and Sky. In 2014 over half the UK independent sector's revenues were generated by companies now owned by broadcasters.

International investment is vital to the success of the UK creative industries, and has supported British companies in their next stage of growth. But it also means that the quality and variety of content that UK audiences enjoy is ever more subject to global forces, and there are legitimate concerns about how the shifting tectonic plates might settle. More than one industry commentator has highlighted the risk of the UK simply becoming a hunting ground for the richest bidders for talent and ideas. Moreover, while certain genres such as drama, entertainment and factual entertainment are at the forefront of this changing landscape, other more domestic genres with less commercial potential, such as arts, religious or music programming, risk a lack of focus and investment. Given the BBC's priority is to serve British audiences with the widest range of programmes – from award-winning dramas to explorations of poetry – this new world presents great challenges.

Time travelling, BBC-style

The BBC has been making programmes for TV and radio for over 90 years and its teams continue to be the creators of a wide range of output that each and every evening forms part of our national conversation. BBC production has made many of our best-loved programmes: *EastEnders*, *Top Gear*, *Strictly Come Dancing*, *The Office*, *Big Blue Live*, *Children in Need*, *Panorama* and many, many more. In making these programmes, it has helped train the industry and given

opportunities to some of the most talented producers, writers and directors in the country, many of whom have gone on to work in other related sectors. *EastEnders* marked the directorial debuts of Tom Hooper, who went on to direct *The King's Speech*, and SJ Clarkson, who has since directed *Dexter*, *House* and *Orange Is the New Black*. BBC production's range of programming has also provided the nursery slopes for generations of new performing talent. Kate Winslet, Martin Freeman and Minnie Driver have all been discovered and diagnosed in the wards of *Casualty*, which itself is now a stablemate of *Doctor Who* in our Cardiff drama base. It is the rich heritage of creative people making great programmes that has helped make the BBC what it is today.

BBC production's success and the role it has played in the development of the industry stems from many things: its public service values, with quality for audiences always the primary concern; its broad range, which allows talented people to cross boundaries until they find new seams of innovation; and a presence across the UK, which enables creativity to flourish in all corners of our nation.

Having a strong production arm within the group is also an asset to licence fee payers that cannot be fully replicated by a successful production sector outside the BBC. The fact that huge hits such as *Doctor Who*, *Strictly Come Dancing* and *Top Gear* were made in-house gives the BBC, together with BBC Worldwide, the greatest flexibility in managing and promoting them in the UK and around the world, and ensures that all the value returns to the BBC. Content from BBC production is responsible for well over half of BBC Worldwide's revenues, and the BBC retains 100 per cent of the net profit on in-house programmes, compared to typically just 15 per cent where our programmes are made and exploited by other suppliers. This income is returned to the BBC and is reinvested in content and services for licence fee payers: the licence fee would be £10 higher without the sustainable returns generated by BBC Worldwide. The BBC also holds the rights to in-house programmes in perpetuity, creating a critical mass of intellectual property that provides the foundation for new audience propositions such as the world-acclaimed BBC iPlayer and newcomer BBC Store.

All these are strengths and benefits that the BBC wants to preserve. But to do that we must change thoughtfully as well. As the market has rapidly become more commercial and more global, BBC production has been less able to evolve at the same pace. Its unique set-up, with a level of guaranteed business, has protected areas of specialism but also made it slower to seek new opportunities than some of its peers. It is finding it harder to attract and retain the very best talent, who sometimes feel that the independent sector offers them more creative opportunities (including the opportunity to work for commissioners outside the UK and the BBC) and a bigger share of the financial rewards for success.

With the currents of change rushing around us, our ambition is to keep the BBC moving forward, not idling in a protected backwater. To reinvent BBC production, we are proposing to establish it as BBC Studios, a wholly-owned commercial subsidiary of the BBC, committed to supporting the BBC's public mission. It would have no guarantee of business from the BBC, and will need to be commercially efficient to survive in the market. It will seek to become a thriving, sustainable production company creating programmes we are proud to have the BBC name on, at great value for money, enabling better commercial exploitation of intellectual property to reinvest in the BBC's UK channels. BBC Studios will have the values and quality of the BBC – and a mission to inspire audiences at home and around the world with bold British creativity. A distinct presence in the market, it will delight in range and specialism, making the full range of genres, not just those with the most commercial appeal. It will make programmes right across the UK, upholding the high standards of production craft that BBC production is known for today. It will find and nurture the next generation of British onscreen and backstage talent in drama, comedy, science, natural history – and much more.

If the proposal to enable BBC Studios to operate in the market is approved, we are also proposing to remove the overall 50 per cent in-house guarantee for the genres included in the plans. This would make up to 80 per cent of our total television schedule open to competition from external suppliers in a typical year, compared to 50 per cent today. We believe the dynamic of competition these proposals involve will drive quality both in BBC Studios and in the independent sector as

the new system beds in. The best ideas will win – meaning audiences will win too.

If approved, BBC Studios will be among the largest UK-based suppliers of TV programmes, with a market share of approximately 15 per cent of UK commissioning spend at launch. It is without question that we will need to set up BBC Studios fairly, and we are committed to ensuring that our proposals fit with EU state aid and competition law and that our ongoing operation is regularly and independently reviewed. These issues will be explored in detail as part of the BBC Trust review of these proposals that is now under way.

The journey continues

BBC Studios is not the whole story. It is just one part of the way we reposition the BBC for a new age. Our ambition is that BBC Studios will take its place in a vibrant and growing UK production market – and strengthen it further. The BBC also relies today on the independent sector for many of our best-loved programmes, and will continue to do so. Our mixed approach to supply has ensured diversity and plurality of ideas, stimulated innovation, and acted as a catalyst to the entrepreneurship of the industry.

Reinventing BBC Studios may be my new charge but I am looking forward to the results of work from other colleagues who are thinking more widely about the digital content our audiences will need in future as well as new measures the BBC will put in place to support smaller players in the sector. That's the ecology we are all seeking to preserve.

The current policy debate that is raging – whether about the BBC's charter, the future of Channel 4 or the statutory terms of trade – is pivotal to our sector. Policymaking in support of our creative industries is about getting the right business and market conditions to allow creativity to flourish and translate into growth. I am confident that with sensitive, nuanced policymaking, the right and proper conditions to safeguard what is unique in our British setup can be achieved. I am also confident that BBC Studios has the potential to undergo a creative transformation and that innovation will flow as a result.

I am looking forward to the next generation of global hits being made by the BBC and shown on the BBC. Global hits are rare by definition: they stand out and break through and leave the crowd behind – from *Strictly* to *Frozen Planet*. There will only ever be so many, and it's possible that BBC Studios' own hits will come from the edges, from the spaces in between, from the twisting and turning creativity of our programme-makers in specialisms like natural history or science, from bases from Bristol to Salford. BBC production has a long history of risk-taking and sticking with talent and ideas when others can't. So with both a rich heritage and a flair for the new, I am sure we will find a way to creatively zig when others zag in our increasingly competitive world.

There will be lots of production companies active in the UK in future. But only one of them is guaranteed to be owned in this country and operated on behalf of the British public; focused on reflecting and representing different cultures, needs and interests; and fostering local creative economies, committed to returning full value for reinvestment in the UK creative economy. You don't have to be a Time Lord to think that is a thrilling and important mission.

1.5

THE BBC IN THE WORLD

DAVID PEMSEL
Guardian Media Group

The value of UK media to the world

The UK media – across print, television, radio and online – is part of a grand tradition of creating stories that challenge power wherever its origins in the world. The disruptive impact of the global internet, combined with the advent of digital communications devices with more processing power than the supercomputers that put man on the moon, have radically changed the way in which news brands communicate and distribute those stories, and have exponentially enlarged the potential audience for them.

The BBC plays a fundamental role in promoting the UK's soft power, an increasingly vital tool in Britain's influence abroad. Together with other large media organisations such as the *Financial Times* and the *Economist*, the *Guardian's* international reach complements the BBC's role in bringing British opinion, values and culture to a global audience.

The international context has changed, with two trends emerging: first, the hyper-connectivity of the networked world, with governments now unable to control the flow of information; and second, the rising influence of non-western countries, leading to a diffusion of power on the global stage.

Research by the British Council on how international culture can build trust found that individuals living abroad had more respect for the UK's people and government when they had engaged with the UK culturally (British Council 2013). Like the BBC, the *Guardian* website – with over 120 million unique monthly browsers around the world (40 million of

whom originate from outside the UK, the US and Australia) – has the reach to play an active role. Global connectivity has enabled the *Guardian* to evolve to become one of the world's leading digital, international news brands.

Digital news brands operate in an increasingly complex and dynamic digital economy in which radical changes to the devices on which consumers access content are challenging even recently adopted digital business models.

Consumer access to news through global search and social platforms brings huge opportunities for growth. But there are challenges too around how news brands make money and how they retain their identity in a crowded and noisy field.

In these uncertain times, independent news brands free of state funding, free of commercial interference, free to challenge the world as it is, are more important than ever.

Through its unique ownership structure, the *Guardian* has been able to combine its core editorial values of openness, transparency and independence with new technological possibilities to create content for global audiences. Our networks focusing on the post-Soviet world and North Korea are just two demonstrations of the strides we're making into territory that was unimaginable before the advent of the global internet.

Guardian journalism is now global and influences audiences and policymakers across the world. Often the biggest stories involve reporting that spans the globe. The *Guardian's* Pulitzer prize-winning coverage of the Edward Snowden story, for instance, tracked a developing narrative about surveillance practices involving the German, American, Brazilian, Australian, Indonesian, Chinese, French, Russian and British governments. Furthermore, *Guardian* journalists have uncovered truths about overseas corruption and injustice from Thailand to Qatar and the US, and continue to raise the issue of global climate change through the Keep it in the Ground campaign.

Media brands which have no ties and sit proudly independent of governments, shareholders and proprietors can be brave, take bold decisions and pursue powerful investigative journalism on a global stage.

The *Guardian* is almost unique in the fact that the Scott family had the generosity and foresight to bequeath the *Guardian* to a trust, with the sole purpose of securing the financial and editorial independence of the *Guardian* in perpetuity.

Yet the BBC provides a reality check.

The *Guardian*'s endowment fund is relatively small in comparison to the guaranteed £3.7 billion of annual public funding from which the BBC benefits. To put that into context, the totality of our endowment fund represents just over two and a half months of the BBC's current guaranteed income in any given year.

In such uncertain and dynamic times for the news media ecosystem, it is important to recognise the huge privilege that almost £4 billion of annual guaranteed public funding represents. Charter review offers the opportunity to enter a conversation about what legal, moral and practical obligations should flow from that privilege.

From a Guardian Media Group perspective it is in Britain's interests to ensure that there is not just a plurality of trusted, independent news brands operating in the UK, but a plurality of British news brands – not just the BBC – acting on a global stage too.

The value of the BBC

Guardian Media Group has huge respect for the BBC World Service and the role that it has played in promoting British values abroad. By the end of 1945, the BBC World Service was broadcasting in 45 languages and was the biggest international broadcasting organisation in the world (BBC World Service 2007).

The World Service played a crucial role in the war, broadcasting key speeches from wartime leaders, as well as delivering secret, apparently meaningless messages to freedom fighters in resistance movements across the world. In short, since its

inception in 1932, the Empire Service and latterly the World Service has been an important pillar of British soft power.

We support the values of the World Service and of the BBC more broadly as well as the service it provides licence fee payers. In terms of its UK service, we support a universal service funded through a universal fee, at least for the next charter period, but with some strong caveats vis-a-vis the need for significant specific obligations built directly into the royal charter around the way the BBC collaborates with partners in the public and private sectors.

However, our greatest concern and focus for reform of the BBC relates to the recent changes to the way the BBC funds its international commercial news operations.

As with so many aspects of modern life, digital technology has radically changed this dynamic. The advent of the internet means we now live in a world of superabundant distribution channels, via news websites, social media, search engines, aggregators, video sharing and more. There are no signs that the pace of change will slow.

The world of digital distribution means the BBC no longer has a monopoly on promoting Britain and her values abroad. Nor does it have an exclusive claim on independence, quality and trust, either at home or internationally.

The fact that vibrant competition for viewers, listeners and readers outside of the UK comes from a range of credible British news brands is something to be celebrated. The BBC continues to contribute enormously to Britain's soft power: through *Sherlock* and *Doctor Who* as much as the Empire Service. Given the competitive investment in global news brands, however, the challenge for charter review is to ensure that the funding structure of the BBC does not undermine commercial investment in British news brands thriving on a world stage.

The exam question for charter review, therefore, is how can we create a structure which ensures that the rich and plural tapestry of UK news media brands – some licence fee-funded, the majority commercially funded – can be encouraged to grow and to fly the flag for the UK globally?

Peaceful coexistence

The *Guardian* is not asking for special favours or a reduced, diminished BBC. But we do need a level playing field. The BBC is not the same beast it was when the Empire Service was created in 1932. The BBC's commercial news subsidiaries now compete directly for advertising and sponsorship with the *Guardian* and the broader commercial market.

Since the government's decision in 2014 to end public funding for the BBC World Service through the Foreign Office, the BBC has commercialised its news content published outside the UK through advertising and sponsorship. This means that, for the first time, commercially funded news operators, who don't benefit from public funding and whose business models rely in large part on advertising and sponsorship to survive, now compete for that revenue with BBC Global News Ltd – the BBC's commercial news subsidiary. Competition with BBC Global News Ltd is only likely to get fiercer.

In the BBC's response to charter review, the BBC outlined plans to 'aggressively commercialise' its global news service (BBC 2015a). BBC Global News Ltd is now acting on a global stage as a market competitor to the *Guardian*, pursuing the same advertising and sponsorship dollars, not in Pyongyang or Mogadishu, but in Perth and Miami.

The BBC's global ambition means that it is now looking to take on established 'global media brands' with a stated aim of turning its existing infrastructure and global presence into a platform which reaches 500 million users per month (ibid). This level of commercial aggression demands a new level of regulatory scrutiny.

Such regulatory scrutiny must examine how the BBC moves money, people, intellectual property and other assets from the publicly funded side of its operations to its commercial news subsidiaries. Such transparency is a basic obligation of state aid law, and should be complied with.

The existing royal charter agreement is clear on this point, stating that commercial services operated by the BBC should comply with four key principles, one of which is 'commercial efficiency' (DCMS 2006: clause 69). The BBC Trust's fair trading policy sets out requirements for the BBC to ensure there is 'financial,

operational and structural separation,' 'transparency and accountability,' and 'fair transfer pricing' between licence fee-funded and commercial arms (BBC Trust 2011).

So how does the BBC's Global News Ltd division fare on these requirements?

In terms of commercial efficiency, BBC Global News' accounts show it is making a loss, and that these losses are growing sharply. In 2014/2015, Global News Ltd made a loss of £33 million, rising more than 50 per cent from an almost £20 million loss in 2013/2014. The shortfall was filled by a loan from another BBC subsidiary (BBC 2015b). Were BBC Global News Ltd not able to call on this loan from another BBC subsidiary, it is difficult to see how BBC Global News Ltd would be sustainable. The lack of separation between licence fee-funded and commercial news arms could, however, mean that, in reality, the actual losses accrued by Global News Ltd are much higher.

Speaking about her visit to see the merged BBC News, BBC World News and BBC Global News Ltd under one roof in Broadcasting House, the chair of the BBC Trust said she was, 'struck by the benefits of the changed approach. Co-locating World Service, Foreign Language Services, the UK TV newsroom and the talents of the BBC's multi-skilled journalists has allowed it to operate with lower costs and enhanced authenticity' (Fairhead 2015). But for competitors, that co-location also raises big questions about the degree to which there is genuine operational separation between licence fee-funded and commercial subsidiaries.

Take commissioning: if commissioning roles and salaries are split between licence fee-funded and BBC Global News Ltd, when commissioning a piece of news content for BBC News in the UK to what extent does the commercial sale of that content impact on that commissioning decision?

A recent independent report, commissioned by the BBC Trust as part of its three-yearly fair trading policy review, raised just this point. The report stated that:

'BBC Global News is the most integrated with the Public Service. It is not clear the Trust would be comfortable with the same degree of integration with BBC Worldwide, although the policy applies equally to all commercial subsidiaries. Nor has the Trust explicitly set out whether and why BBC Global News should be treated differently.'

BBC Trust 2015a: 36

The report also raised questions about the level of information published about 'transfer pricing arrangements' and the lack of information about directors whose roles appear to be split between licence fee-funded BBC News and BBC Global News Ltd. Despite the seriousness of these findings, the BBC Trust's 2015 fair trading policy review consultation document ignores these findings almost entirely (BBC Trust 2015b).

As the BBC competes more aggressively with the commercial sector, it must be subject to a much more thorough oversight and transparency regime than it is today. While we recognise the BBC's heritage and support its future as a trusted global news brand, it is essential that the charter review process does not provide the BBC with a free pass in regulatory terms.

The BBC as a positive platform for growth

Beyond the arcane but important world of accounting, we think that there is enormous scope for the BBC to develop positive relationships with commercial news brands, while also potentially generating new revenues from underused BBC assets for reinvestment in new BBC content.

Media companies and news brands across the world are all coming to terms with what new patterns of digital consumption mean for high-quality content businesses. In the context of a fast-changing digital, increasingly mobile world, the BBC's unique funding model means that it is one of the few organisations in Britain – possibly the world – with the resources to research and develop how new technology can be used to optimise content distribution across new digital delivery platforms. From FM radio, through to NICAM audio, to teletext and Freeview, the BBC has a proud history of its research and development innovations being shared more broadly with wider industry. In its initial response to charter review, the BBC set out plans to 'put

our technology and digital capabilities at the service of the wider industry' (BBC 2015a). If the BBC not only made its knowledge and understanding of digital content distribution available to the wider market, but made its digital tools and infrastructure available too, this could be hugely beneficial for British news brands operating in a global, digital world.

In the context of the BBC's heritage in publicly funded audiovisual content, the BBC stands incredibly well placed to support UK news brands by opening up the BBC archive to enable commercial news brands and public institutions to create new audiovisual content. Such a policy would see commercial rivals pay a fee or revenue share to access the BBC archive in line with the rate card fees already paid by the BBC's commercial news arm to access that same archive. This proposal would unlock access to material that might otherwise never again see the light of day; enable commercial news organisations to create valuable new content; and provide the BBC with a lucrative new revenue stream.

This idea is not new: in a 2012 speech on the concept of a digital public space, the BBC's Controller of Archive Development, Tony Ageh, said that:

'The BBC, more than any other single organisation in the UK, sits on the North Sea Oil of the digital world in terms of its wealth of archival assets... [The BBC] can only exploit those assets if it works in partnership with others, both those who have assets of their own and those who don't but have other things that the public sector can't deliver.'

Ageh 2012

These sorts of open approaches to partnership would demonstrate that the BBC is interested in fostering genuine partnerships with organisations in the public and private sectors. Such partnerships have been promised over successive charter reviews but never delivered.

Conclusion

A strong, confident, properly resourced BBC is vital to a successful and plural UK news media. But the BBC is no longer the clear and simple proposition it once was.

In the UK, the BBC seeks to provide news products and services that are attractive and relevant for licence fee payers, both today and in the future. Overseas, the BBC is now a commercial product. It is essential that regulation and oversight of the BBC are fit for purpose and, where necessary, keep the BBC in check.

The disruptive effect of the global internet means that the market for news, opinion and analysis is complex, global and plural. The BBC is no longer the only British news brand projecting British values on the world stage. This is a development that charter review should celebrate, a development which means that policymakers must not ignore the weaknesses in the current regulation and oversight of the BBC's commercial news services.

We're not asking for a leg up. But the royal charter process provides the opportunity to put in place a framework that, first, ensures the BBC's commercial news services do not distort the market and, second, recognises how opening up underused BBC assets such as the audiovisual archive could both bring benefits for commercial news brands and new revenue opportunities for the BBC.

The result will be a healthy UK media sector which punches above its weight in the world.

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2.1 PUBLIC FUNDING AND DISTINCTIVENESS

IS BBC TV DELIVERING SOMETHING DIFFERENT FOR THE LICENCE FEE PAYER?

MAGNUS BROOKE
ITV

Introduction

It is striking how recent debates about the BBC have created the impression that there must be a huge amount of substantive disagreement about what the BBC should deliver in return for its £3.7 billion of public funding.

Certainly, there is a lot of passion on all sides. However, if you examine carefully what has actually been said and written over the past year, it is arguably more striking how much consensus there is on key issues between the BBC, the government, licence fee payers, and the commercial sector.

Most agree that BBC television should be popular not just niche; that it should continue to receive substantial public funding to enable it to take risks; and that it should continue to be the cornerstone of the UK creative industries.

But this isn't all. The BBC has for some time agreed that it must become more distinctive, that it should be more open and a far better partner than it has been. These are not new themes. In the BBC's last manifesto for a new charter in 2005, *Building Public Value*, the BBC introduced its major 'Partnership Contract' initiative, candidly noting:

'We know that the BBC can at times be difficult to work with. From the outside, it is not always clear how to reach the right people within the organization, and the BBC can be slow to respond. Success criteria and objectives for partnerships are not always clear enough.'

BBC 2004

Fast forward a decade to the current charter review and the BBC has restated this commitment to become more distinctive and more open, as well as to become a better partner (BBC 2015a).

As yet no one has put it better than former BBC director-general Mark Thompson, who, as the then chief executive of Channel 4, said in 2003:

'The BBC in particular has a tendency to rediscover old-time religion once every 10 years as it enters the run-up to charter renewal. For them, perhaps for all of us, there's a temptation to reach out for the old ringing phrases again – and, if we're greeted with incomprehension, to behave like old-style English tourists and say it all again A BIT LOUDER to make sure that the message gets through.'

Thompson 2003

Aside from the heat and light, the core of the current debate about the BBC is perhaps more about assessing objectively (rather than by anecdote) what the BBC has actually *delivered* and to ensure in future that there are ways of steering that delivery (decisively where necessary) should it not meet the BBC's stated ambitions. To put it bluntly, a lot of the debate at present is really about what some perceive as the gap between what the BBC says it is and wants to be, and what it actually is and does.

There is perhaps no better example of this in practice than in relation to the issue of the distinctiveness of the BBC's services, particularly its mainstream TV channels such as BBC One.

Delivering distinctiveness across the BBC

There is a remarkable degree of consensus that each of the BBC's publicly funded services should be very clearly distinctive from the services offered by the market. This is a reasonable expectation. The significant amount of guaranteed public money received by the BBC must create an onus on it to do things differently, to live dangerously and not gravitate to the middle ground.

For the avoidance of doubt, this is not an argument for a narrowly focused, unpopular BBC concentrating on market failure genres only – few people are arguing for that – but for a BBC that does things differently to the market. There is little point in publicly funding services and content which the market can and does provide and, indeed, doing so could be actively harmful to the public interest by crowding out commercial investment.

What is most notable is that this is also the view of licence fee payers and the BBC Trust. As the trust has said:

'The BBC is the only publicly funded broadcaster in the UK and so carries a responsibility to be distinctive from commercial broadcasters.'

BBC Trust 2014: 6

And as the trust put it recently in its preliminary decision to refuse to consent to the launch of a BBC One+1 service:

'The Licence Fee is specifically designed to liberate the BBC from the need to operate in a way that maximizes share.'

BBC Trust 2015: 1.4.4

And the BBC stated in its recently published report, *British Bold Creative*:

'The licence fee gives us creative freedom. We have the privilege of being able to make good programmes, without also having to consider whether they will make a profit. That privilege should be felt in everything we do.'

BBC 2015a: 24

So the fact that the BBC's services should be distinctive is not disputed. And yet serious concerns around distinctiveness remain.

In particular, it is instructive to look at the BBC Trust's in-depth reviews of the BBC's television services over the past five years. The BBC Trust (on behalf of licence fee payers) has consistently expressed its concern about the distinctiveness of the BBC's main TV services. The issue has been explored, twice, in great detail, by the BBC Trust in the last two BBC TV service reviews.

In 2010, one of the key conclusions of the trust's service review of BBC One was that it wasn't fully meeting audience expectations and needed to take more creative risks in peak time, particularly by increasing the variety of programming before 9pm. More or less the same concern was repeated again by the trust in the next service review process four years later. Announcing the conclusions of that review, it said:

'We also found that some BBC One viewers find the channel over-reliant on familiar programmes and believe that it has a tendency to "play safe" in programming and scheduling. Our analysis of BBC One's peak time schedule shows why some viewers might think this: nearly two-thirds of the pre-watershed weekday schedule is composed of a small number of long-established programmes, shown year-round.'

BBC Trust 2014

The fact that this is a continuing issue on BBC One in particular is especially serious given that last year BBC One had a total budget of £1,433 million – not far off half of the entire BBC licence fee.

In addition, the BBC Trust has also expressed significant concerns about the corporation's daytime output. As the trust put it in its final report in the 2010 service review:

'Across a range of genres, some programming in daytime is rated well by audiences for being high quality and original. However, one of the strongest themes from our public consultation is that some viewers believe parts of the schedule on each channel lack quality and have become too weighted towards long-running factual entertainment strands with similar formats and covering similar subject areas, characterized as "collectables hunting" and property. Whilst these programmes are popular, audiences have told us that their quantity has made some parts of the BBC's daytime schedule seem too formulaic and derivative.'

BBC Trust 2010: 4

In its initial response to the government's current consultation on charter renewal the trust has continued to express similar concerns, on behalf of licence fee payers, about the distinctiveness of the BBC's main TV services.

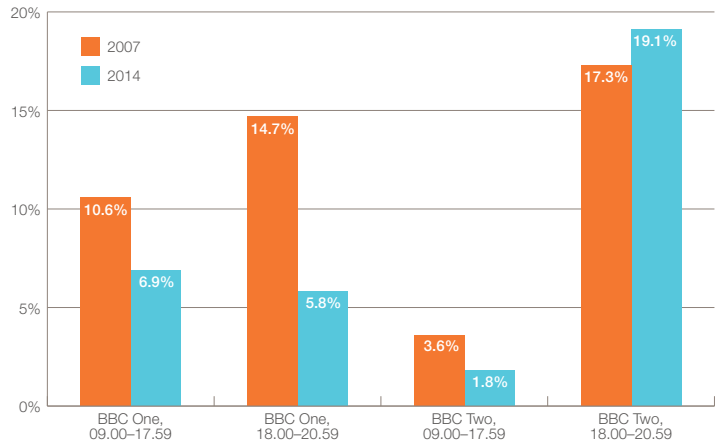
The trust's concerns are well founded and reflected in an analysis of the BBC One schedule. The following findings are evident when looking over time at BBC One in particular.

1. Any content on BBC One that will not maximise audience share has been reduced and marginalised. Specialist factual is down, new comedy is down, children's programming has disappeared from BBC One. Even more surprisingly, the number of hours of arts and music were down 20 per cent on BBC One (and down on the BBC's television channels as a whole) in 2014/15, the same year that the BBC said in its annual report it has 'set out to achieve a breakthrough in its confidence, commitment and investment in arts in 2014/15' (BBC 2015b).
2. BBC One increasingly relies on a smaller and smaller range of mostly long-running programmes in peak time. So for instance, as figure 2.1.1 illustrates, the percentage of new programming on BBC One (as opposed to repeats, returning series and spin-off programmes) has declined significantly

since 2007 in daytime and in the 6–9pm schedule, even excluding news from the calculation.

Figure 2.1.1

Percentage of hours of new programming on BBC One and BBC Two, 2007 vs 2014



Source: ITV analysis of BARB data

Note: The data is for the time periods 0900–1759 and 1800–2059, including all programmes that start or end within these timeframes and excluding all news programmes. In order to establish whether the programmes were new, programme data from previous years was examined to see if the relevant title appeared in these years. Any titles which appeared in previous years, or which were direct spin-offs of other titles (for example *The Great British Bake Off: An Extra Slice*), or which were repeats, were then categorised as not new.

3. The BBC One daytime schedule is indistinguishable from the market and still dominated by property and collectables programmes. It is hard to see the case to spend the licence fee on a 41st series of *Bargain Hunt*, the 17th series of *Homes Under the Hammer*, the 14th series of *Escape to the Country* or the 11th series of *Put Your Money Where Your Mouth Is*.
4. The BBC One peak-time schedule still includes acquired US films – most recently *Raiders of the Lost Ark* and *Indiana Jones and the Temple of Doom* playing on successive Saturday evenings in peak time in August.

Why have the BBC's TV services not become more distinctive?

So the key policy question is perhaps why – despite a decade-long commitment to ‘eliminating derivative programmes and ideas from BBC schedules’ as well as promising to ‘eliminate programmes that are tired and lacking in originality’ (BBC 2004: 68) backed by the active intervention of its regulator/governor – the BBC’s stated intentions have not resulted in more distinctive BBC TV services?

We believe that there are five key reasons for this.

First, a commitment to delivering clearly distinctive and innovative content across each service is not a clear objective/purpose of the BBC in the charter – ‘stimulating creativity and cultural excellence’ is not the same thing.

Second, the current framework does not make it an explicit obligation on each channel and its content to be distinctive from other offerings in the market. So, for instance, under the current BBC charter agreement it is the content of all the BBC public services ‘*taken as a whole*’ that must be ‘high quality, challenging, original, innovative and engaging’. There is nothing specific to any particular channel, and any individual programme need only exhibit *one* of these characteristics.

Third, the framework for defining and delivering the strategy of the BBC is bewildering and not fit for purpose. The regulatory infrastructure of ‘Purpose Remits’, ‘Purpose Priorities’, ‘Purpose Plans’, ‘Service Licences’ and the ‘Annual Work Plan and Statements of Programme Policies’ must be confusing to those in the BBC never mind those outside. By contrast, to establish what commercial PSBs must deliver, the Ofcom licence offers a clear and binding set of obligations.

Fourth, there are no clear metrics for each BBC service to drive the delivery of innovation, risk taking and distinctiveness against which delivery can be assessed. These need not be complex or even subjective – simply requiring a substantial minimum number of new programmes per year, a much more varied genre mix and clear obligations to create windows for new talent across the schedules of all of the BBC’s services would be a good start.

And fifth, where there are perceived failings in delivery – in this case of distinctiveness – there do not seem to be adequate means to ensure the delivery of changed approach, either through carrots or sticks. This weakness is reinforced by a governance system in which the dual regulatory and cheerleading role of the BBC Trust is unsustainable.

Conclusion

We need to refocus the debate on what really matters – ensuring that the BBC *delivers* what licence fee payers and the market believe the BBC should deliver.

None of the issues we have set out in this chapter are insoluble. It is not hard to see, for example, how a more demanding and binding set of numeric obligations for each main BBC TV channel (for instance requiring more new programmes, more use of new talent and a more diverse genre mix) could help to deliver more distinctive services. The job for government is to focus on creating the right future framework for the BBC that will ensure that the BBC delivers a recast remit successfully. Not only will this require a new regulatory regime for the BBC but it will also require an effective and well-resourced independent regulator (most plausibly Ofcom) to set *and* oversee the delivery of the BBC's obligation.

We believe this will be key in enabling the BBC to fulfil the UK's shared ambition for it to be a successful, distinctive and world-leading public service broadcaster.

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2.2

THE BBC'S WIDER ROLE

SUPPORTING THE UK BROADCASTING AND CREATIVE SECTOR

PETER BAZALGETTE
Arts Council England

Every 10 years Britain indulges in a national excitement known as BBC charter renewal. As I write it's that time again and we're mid-tournament. The level of the licence fee from 2017 has already been agreed amid a good deal of sabre-rattling. Interestingly, though little observed, this is an implicit guarantee of a new charter and of the continuance of the licence fee as the BBC's principle method of funding. Neither of these could have been taken for granted before the general election. So everyone who wants to see a strong and healthy BBC should muster at least two cheers at what is probably half-time in the contest.

While taking on the cost of licences for the over-75s, the BBC has also been given a measure of indexation, the return of monies previously deployed on broadband rollout and the opportunity to include its catch-up service (BBC i-Player) within the legal ambit of the licence fee. This, director-general Tony Hall says he agreed with the chancellor, George Osborne. But culture secretary John Whittingdale is insisting on a caveat: that if, on the completion of the review, it was decided materially to limit the BBC's scope or remit, the licence fee would shrink further. As this negotiation plays itself out, there's something we should all do: remind ourselves of the BBC's purpose, not least because it informs the more detailed horse trading as to its scope and financing. Acres of newsprint devoted to Jimmy Savile, *Newsnight* and Lord McAlpine, the excesses of Jonathan Ross, the over-the-top salaries and pay-offs of senior management, and the failure of an expensive digital technology scheme have tended to obscure this critical subject. So, what's the purpose of the BBC?

What's the BBC for?

There's more than a whiff of motherhood and apple pie to the wording of the current charter. Don't look for specific outcomes because you won't find them (with the exception of the switchover to digital, which is otiose since it's now been completed). So the things I treasure the BBC for are, at best, only hinted at.

First and foremost, for me, comes the corporation as a source of trusted news and information. In the digital age, where the internet often resembles nothing more than a Tower of Babel – teeming with rumour, gossip and paranoia – we need BBC News more than ever before. It's instructive to note that the news services of the BBC, ITV, Channel 4, Sky, the *Times*, the *Guardian* and the *Independent* are all subsidised in different ways and would be unlikely to survive on purely commercial terms. Together they're a critical part of our democracy. So that's the context. We will always need serious strategies to foster a plurality of news services for the common good. And I also think that the fact we have a publicly funded news service that's free to scrutinise (indeed, *required* to scrutinise) our government is evidence of a healthy, mature democracy. One final point about BBC News: there's much opposition to its online services from newspapers trying to establish commercial subscription services. They understandably regard a free service as unwelcome competition. But you have to balance that against the value of BBC News and the fact that a modern service is unthinkable without an online iteration. Its ambit is quite another question and that will be looked at closely. But it must exist.

The second critical purpose of the BBC is to make a massive investment in original programming, the largest of any British broadcaster or platform. Programmes made by us, about us, help define our culture and enrich our national conversation. Money put into original content by public service broadcasters (PSBs) declined between 2008 and 2013, from £2.6 billion to £2.4 billion. True, other channel owners such as Sky and Discovery increased their spend during this period. But here's a telling comparison: while the PSB spending went into decline, Premier League football TV rights rocketed in price. So much so that, from now on, fees for televising these fixtures will extraordinarily represent around a quarter of all

the money spent on TV content in the UK every year. And this live football coverage attracts only 0.6 per cent of the annual audience, residing as it does on pay TV channels. Maybe we should applaud the Premier League for its acumen. But can we allow the PSB investment to slip in this way? And should not the next charter demand a minimum BBC commitment to original content, particularly to challenging new ideas unlikely to appear elsewhere?

My third crucial purpose of the licence fee is the BBC's investment in new talent. The licence fee (currently exceeding £3.7 billion) represents the single largest intervention in the creative industries. The corporation's curating of the next generation of creatives – directors, producers, actors, composers, designers, writers – lays a foundation for the continued growth of the sector (5 per cent of the total economy and counting). It would be good if the new charter tied these outputs down more specifically. To which can be added the important role the BBC plays in promoting education and in promulgating Britain's reputation around the world. Only Shakespeare and the English language itself have greater power internationally.

On the question of governance

Quis custodet ipsos custodes? There's much heat and little light around the vexed issue of BBC governance. The BBC Trust, itself a rather weak compromise by the last Labour government, is discredited. I've served as a Channel 4 trustee in the past and their unitary board reporting to the media regulator, Ofcom, works very well. While Ofcom already oversees elements of the BBC's activities, it is clearly loath to become its overall regulator. This is partly a question of resources – 250,000 complaints about the BBC annually compared to 25,000 for all the other broadcasters put together. But I suspect Ofcom also sees little upside in such an onerous, controversial and high-profile task. As a result of this reluctance some are talking of a tripartite system: Ofcom, a unitary BBC board and an 'Ofbeeb' to pick up the pieces in between. I do hope not – in such baroque setups confusion creeps in and accountability suffers. The answer must be to abolish the BBC Trust, certainly, and then twist Ofcom's arm to play the senior role. A new, single BBC board with a non-

executive chair and trustees can cover the rest. If properly defined, and based on a well-laid out charter, this should work well.

The case for publicly funding the BBC

As the current chair of Arts Council England, we have done a lot of work in the past three years redefining why we invest public money into arts and culture. We call it the ‘holistic case’ and it revolves around four key areas: **intrinsic** benefits, the enrichment of **society**, **education** and the **economy**. Through this lens we can likewise scrutinise the BBC.

The *intrinsic* refers to personal identity, national identity and collective memory, and the promotion of empathetic citizens. You can’t measure these sorts of things and nor should we allow the dismal economists to try. This is more of a statement of philosophy and focusing on it in this context reminds us of the remarkable social glue that the BBC is, reaching more than 90 per cent of the population every week. The enrichment of *society* – health and wellbeing, entertainment, engagement and access – is something you see delivered by the BBC’s orchestras, by its network of local speech stations and its public campaigns. *Education...* where do I begin? From Radio 4’s *In Our Time* to the *Bitesize* online site to the enduring partnership with the Open University, we look to Aunty to instruct us, whatever our age. And finally, the *economy*, which I’ve already alluded to. The British Council has conducted some interesting research that shows that those who come into contact with British culture are more likely to trade with Britain and send their next generation to study in our universities (British Council 2013). The BBC World Service, now funded by the licence fee, is an example of this international advocacy. The BBC also puts seedcorn investments into our film industry, trained most of our independent producers (I was one of them) and, as I’ve already said, is our biggest investor in original content and new talent. It is a massive market intervention but one that pays economic dividends. So, before we descend into the detail of charter renewal, let us remember the ‘big picture’ first.

Conclusion

So is this a rose-tinted love letter to the BBC? No: I am a critical friend. I agree with its director-general that it still has too many layers of management. I agree with the BBC Trust that its programming could be more distinctive. It should certainly still make popular entertainment (particularly while the licence fee remains compulsory), but this should always strive to be fresher and more original than what's available elsewhere. The BBC I joined as a news trainee in 1977 may have been arrogant and unaccountable in comparison to today's corporation. But it still has a long way to go. Again, Tony Hall has called on it to be a better partner in future. Yes, yes, yes. A BBC sharing its cultural and economic capital with the nation is, as I have observed before (Bazalgette 2014), an idea that would have appalled that old autocrat, Lord Reith. But that is what is now required. How many of its staff are listening to Lord Hall and fully understand what he is demanding, in terms of a change of culture? As the digital disruption of our times continues to rip through the media with all the force of an unspent typhoon, there are many changes to come for the BBC. It will do more things with fewer staff. It must forge even more multilateral partnerships with our civil institutions. It will become more of a distributor as well as a producer – a 'ringmaster' for wonderful content made by others such as the arts and science organisations (enabled, as they are, by this new century's ubiquitous technology).

Since the credit crunch and the beginning of austerity, many sectors which relied on public funds have had to reinvent themselves. This also applies to the BBC, and I believe its leadership understands this.

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2.3

MAINTAINING A UNIVERSAL BBC SERVICE

OPTIONS FOR THE FUTURE

JONATHAN THOMPSON

Digital UK

Many fine minds have spent many long hours debating and defining the purpose of public service broadcasting in this country. Historically this thinking has been focused on the *nature* of the content that those broadcasters fund and distribute. Questions about whether public service content is purely there to fill the gaps that the market won't provide, or deliver more lofty Reithian goals of informing, educating and entertaining have been with us for years. These debates will no doubt continue through the current period of soul-searching on the future of the BBC.

But if we take Reith's definition as if not the best then certainly the simplest, it is worth noting that he missed one important aspect of broadcasting in this country – *universality*. This is a simple notion: the content made or funded by public broadcasters should be available to every home in this country free at the point of consumption.

In an analogue world we rather took this concept for granted. Once the terrestrial television network was established in the 1950s almost every home in the country had access to a reliable terrestrial signal to receive the public service channels.

But in the mid-1990s, as soon as we began contemplating a digital world of increased bandwidth and greater choice, the concept of what we mean by universality came under the spotlight for the first time (particularly for Channel 5, which at this point only reached 70 per cent of the country).

Universality: the cornerstone of public service broadcasting

This development required commercial and policy decisions to be made – including three important decisions that have shaped the notion of broadcasting in this country as we know it today.

The first decision was to replicate analogue coverage in digital form. This was a significant intervention, and one that brought extra costs for the broadcasters, but it meant that the principle of universal access to free-to-air television was maintained.

Second, regulators also hardwired the principle of universality into the framework of public service broadcasting delivery in this country. Broadcasters were placed under obligations about the availability of their services – and requirements were placed on platforms as to the basis on which channels were carried. These rules lie at the heart of the debate about retransmission fees that is very live today.

The third decision was to ensure the extension of universality from *availability* to *discovery*. As electronic programme guides developed, policymakers recognised the need for public service content to have relative prominence to ensure viewers not only had access, but could also find it easily.

This is how the notion of universality continues to be a cornerstone of how our system of public service broadcasting works today.

Challenging times for universalism

However, we now face a new challenge. A world which once divided neatly into discrete segments – those who received TV over an aerial, cable or satellite dish; those who chose to pay for premium content and those who did not – is now far more blurred. Access to television content is not restricted to a handful of major broadcast platforms, but open to anyone with a television, mobile or tablet and access to the internet. Paying for television doesn't necessarily mean an annual subscription to Sky; it could just as easily be about paying a few pounds a month to Netflix, or even less to download and own a programme from Apple.

Proliferation of high-speed access to the internet *and* increasingly affordable devices on which content can be received and enjoyed were a predictable outcome of the convergence of content and networks. It has arrived later than many expected. But now it is here, while it undoubtedly delivers great benefits for consumers, it also raises profound and rather difficult questions for policymakers. What does the notion of ‘universality’ mean in this world of everything, everywhere, anytime?

The challenge for policymakers faced with these changes is the classic ‘baby and bath water’ conundrum. If policymakers are too slow in adjusting the rules that govern the system then they risk stifling innovation, choice and growth in the market. But if they are too radical, there is a risk of throwing away many of the constructs that underpin our system of broadcasting – and the quality and utility it provides to both ‘consumers’ and ‘citizens – without really knowing what will replace them, and what the consequences will be for viewers and society as a whole.

This is also a strategic question for all public service broadcasters who face obligations on their availability and the increasing costs of distribution in a multiplatform world. Every pound spent on getting content to a consumer is one less pound spent on the content itself. But in a world of greater availability of content from a myriad of providers, the importance of ensuring your own content is accessible as simply as possible, in as many places as possible, and over as many devices as possible, just grows.

And for the BBC this is particularly significant. The notion of universality is in the BBC’s DNA, not least because of its intrinsic link with the universal licence fee.

The reported growth in those avoiding paying the licence fee because they claim only to watch BBC content timeshifted via the iPlayer is seen by some as the first breaking wave of a tsunami that they believe will soon sweep away traditional broadcasting. These observers tend to conclude that the whole system is already broken, and that many of the foundations of public service broadcasting in the UK – a licence fee linked to device ownership, universal availability of channels, and

prominence in electronic programme guides (EPGs) – are now defunct. We need to rip up the system and start again, they cry.

When you see cracks appearing in the ceiling of your house it would be foolhardy to start excavating the foundations. It is equally wrong to think that changes in consumer behaviour resulting from technological innovation require the whole broadcasting system in the UK to be redrawn.

There are times for ideology in public policy – and broadcasting should not be exempt from this – but these moments are usually when there is a degree of consensus that a part of society or economy is fundamentally broken. Broadcasting in the UK is far from broken. If anything – looking at the quality of content available to British viewers, the role that UK-originated content is playing on the world stage, and the amount of choice and innovation occurring in the market from a multitude of players – it has rarely enjoyed a period of greater vitality.

Looking to the future: A twin-track approach

So as we stand in 2015, observing a broadcasting sector that is certainly going through change, we need a balanced policy approach that looks at the evidence rather than the hysteria, and one that seeks to build on the foundations of the system rather than look for a new blueprint.

Consumption of content over IP is growing, but it remains a small minority of viewing – well under 10 per cent of all television viewed, and still smaller than viewing over personal video recorders (PVRs) (and few looked at the emergence of the PVR and demanded the radical restructuring of broadcasting regulation). Live, broadcast television remains by far the most significant means of content consumption in this country. And recent research from Enders Analysis indicates that for a variety of factors – particularly the growing number of older (and hence heavy TV watching) viewers, this is likely to persist for many years to come.

Broadcast networks – terrestrial and satellite – by comparison to IP delivery, are also well-established, reliable and resilient. Think back to when you last saw a test card apologising for a lost TV signal. Compare that to the last time you saw the

spinning wheel of death when watching content over the internet. We are many years away from having a broadband network in this country that could easily, reliably and cost-effectively replace the broadcast infrastructure we have today.

Even as and when technology does allow such a switch, we need to be clear about what the policy implications, and the impact on viewers, would be. How is such a transition to be paid for? What does the notion of free-to-air television mean in a world where everyone would require a reliable broadband connection to receive their content? And what are the implications for the power and control this would put in the hands of a handful of international telecoms companies (whose goal is to maximise the monthly subscription from each household), or international VOD providers (whose commitment to UK content goes only as far as it meets the interests of their shareholders)?

The one thing guaranteed about trying to predict the future is that whatever that prediction, it will probably be wrong. This has been especially true of TV. The relentless predictions of the death of broadcast television that stretch back almost to the birth of the internet have yet to come to pass. And how many technology gurus were predicting that television's share of UK advertising spend would remain unchanged over the last 25 years? Not many.

Technology gives the current generation of consumers power and control that would have been unthinkable to any generation that has gone before, but how they will use this power, and its implications for the future of the broadcasting sector, are unknown.

In this context there is only one sensible or realistic choice for policymakers, and for the broadcasters themselves. This choice has already been articulated by the director-general in recent months – the need to ride two horses. In short, this means embracing the potential that IP offers to allow more and more of its audience greater choice, control and freedom in how they consume their content, while at the same time continuing to support and invest in the broadcast networks that underpin the majority of consumption. And this dual approach is to be delivered while continuing to deliver the

universality, scale, choice and free access that underpin the economic and cultural strength of our industry.

Conclusion

Broadcasting must remain central to the BBC's vision of its future for the next decade and beyond. The BBC can – and should – continue to deliver highly appealing content to mass audiences in a way that no other model of distribution can replicate. It is the ability to appeal to the whole nation in a single moment, as well as reach the viewer as an individual, that underpins its role in public life, in our broadcasting system, and justifies it as an intervention in the market.

And just as the BBC itself must evolve and develop this hybrid of broadcast and IP delivery – so must the free-to-air television platforms that deliver the broadcasters' content to their audiences. This is why Digital UK and Freeview recently launched Freeview Play, based on the fundamental belief that a strong free-to-air television platform must be hybrid in nature. Our ambition is to provide viewers with a simple, subscription-free route to the connected TV experience which crucially is available to all and not locked to a particular broadband provider or platform subscription.

However, the framework of policy and regulatory intervention in the UK broadcasting market does need to evolve. The government is already considering a number of important policy questions, including how the notion of public service prominence needs to adapt to a world where the ways in which viewers find the content they watch are becoming more sophisticated. It is also considering whether the obligations on channels and platforms with regards to carriage and availability of content are fit-for-purpose in the internet age.

Inevitably, the future of the licence fee is inextricably bound up in this debate. It is clear that a model of BBC funding linked to the ownership of a television set now needs to be re-evaluated. This could be done through closing the loopholes that allow avoidance, or rethinking the model of collection. Either choice carries complexity, but what is clear is that any future model needs to protect the notion of universal availability and inclusion that the current licence fee – for all its weaknesses – has enabled so effectively. A wholesale move to subscription

or advertising to fund the BBC crosses a line for which there is no clear case, and a significant risk of weakening the overall strength of the BBC, the sustainability of its PSB compact with the viewer, listener and user, and the health of our system.

The BBC is a profoundly positive force in the UK broadcasting system. As an industry we will continue to debate its impact at the margins, but a universally available and publicly funded broadcasting institution, which acts under the interest of neither political influence nor shareholder gain, relentlessly delivers for viewers and pushes all of the UK broadcasting market to compete that little bit harder. Any other country in the world looks with admiration and envy at our system of broadcasting and, I suspect, wonders in amazement at why we would even begin to consider changes that could undermine its value.

Every charter review feels unique – the moment when we face significant choices about the future of broadcasting. This period is no different. But the opportunity before us today is less about scale and scope than about making the right decisions to preserve the principles of universality, equality, openness and choice that have underpinned our system of broadcasting for decades, while also enabling levels of investment, innovation and competition that will deliver the best outcomes for consumers here in the UK, and for the overall health of UK broadcasting on the global stage.

2.4

DEVELOPING THE CREATIVE WORKFORCE

DINAH CAINE
Creative Skillset

The BBC is a driving force for the UK's wider creative economy and is, with over £3.5 billion per year of public funding, by far the biggest public investor in the sector. Historically the BBC has been seen as a key training ground for the industry – many of our most successful programme-makers and media executives began their careers at the corporation. The UK has a proud track record of producing people with skills and talent envied across the world, and the BBC has played a big part in that.

But we cannot simply assume that this will continue. The media industry has been going through enormous change, the pace of which is set to accelerate over the next 10 years. And it is change that has profound implications for skills development. If the UK is to retain its capability to produce great, world-class creative content, we have to move with the times. We have to make sure that our people have the skills and knowledge to take advantage of the opportunities – and, indeed, the imperative – to keep innovating in the new environment. And we need to keep training them throughout their careers, as audience demands and the boundaries of what's possible continue to shift.

This charter review offers a vital opportunity to embed training and skills development in the BBC's six public purposes over the next decade.¹ The prize is a BBC which has access to the

1 The six public purposes set out in the charter are: 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; delivering to the public the benefit of emerging communication technologies and services. See <http://www.bbc.co.uk/corporate2/insidethebbc/whoweare/publicpurposes>

skills and talent it needs to continue delivering fantastic content to audiences, which builds the skills base of the media industry and which helps the UK's whole creative sector to thrive.

The challenge: closing the skills gap

The creative industries make up a vital part of the UK economy, with great potential for growth. In total the sector contributed over £75 billion of GVA in 2013, accounting for around 5 per cent of the total UK economy, and at a rate of growth well above the UK average (DCMS estimates, published by the Creative Industries Council [DCMS 2015]). The CBI has cited the UK's creative sector as one with particularly high growth potential (CBI 2014).

Skills have long been recognised as a key driver for growth. There is a broad consensus that high skill levels benefit individuals, employers and the economy as a whole. The UK is in a strong position – the global demand for our film studios, our music and our TV output is testament to that. But to stay competitive, creative businesses need to keep attracting and training high-calibre new entrants, and to keep developing their existing workforce. They should be helped in doing the former by the government's drive to expand apprenticeships across the economy, although it will need coordination to make sure that the places and training provided are of real quality. Beyond this, however, there is clear evidence of existing and future skills gaps which will need addressing over the next few years.

In Creative Skillset's most recent workforce survey, well over half of employees in the creative media industries reported that they experience barriers to getting training, citing issues such as cost, time pressure and quality of supply. This rises to 74 per cent for freelancers, who make up one-third of the workforce (Creative Skillset 2014). In a survey of employers in the TV industry, 79 per cent of companies reported gaps between the skills they had and those they needed. Two strong themes which emerged were the need to understand the demands of making content for a multiplatform environment, and the increasing need for multiskilling in the digital world. Nearly all of the high-end production companies interviewed reported that they were already seeing shortages in some of the specialist skills needed to crew their productions, due in

part to the growth in production levels flowing from the UK's success in attracting investment (Creative Skillset 2015a). This highlights the need for training provision to keep pace with the increasing demand in both quantity and substance.

Training is also key to achieving greater diversity in the industry. We know that the gaps are more acute outside London. The continued use of informal recruitment methods and unpaid work experience as routes of entry restricts opportunities for those without existing contacts or a means of self-support, as opposed to formal apprenticeship schemes that recruit on merit. Women, disabled people and those from black, Asian and minority ethnic communities are still underrepresented in the industry, particularly at senior levels. Investing in an open, merits-based and high-quality approach to skills development is not the whole answer to that problem but it is an essential part of it.

The BBC's role as commissioner and producer

The BBC clearly has a direct interest in training and skills development. It relies on having access to the very best talent and skills in order to produce the journalism, drama and wealth of other content which audiences value so highly. The BBC has historically invested substantially in training its own staff and, in doing so, has been an incubator of talent for the wider creative industries. The importance of this role has been recognised at the BBC Trust, which recently published a report acknowledging the BBC's 'critical role in developing and supplying new talent to the media sector in the UK', and highlighting, for example, that '45 per cent of ITV's current talent role for factual, lifestyle, entertainment, and comedy had their first TV appearance on the BBC' (BBC Trust 2015a).

This track record is now at risk. In recent years the BBC's investment in training for its own staff has markedly declined. This is partly a consequence of the 2010 licence fee settlement, as a result of which the BBC has had to find substantial savings across all of its activities. However, the BBC Academy, its in-house training centre, has borne greater cuts in licence fee investment, having fallen by some 35 per cent since 2010, from £25.6 million to £17.3 million. Spending on the academy was more than double this in 2008

– £44.5 million. These cuts are far in excess of the savings run-rate imposed on its key service areas – TV, for example, has been set a 22 per cent target over the licence fee period.

This suggests that training is being treated as an overhead – an element of the cost base which needs to be squeezed as tightly as possible – rather than as an integral part of the BBC’s public services, which needs to be planned and funded strategically to meet identified needs. It has already resulted in the complete loss of a number of training programmes which were meeting identified gaps, such as for writers, designers and series producers. The problem with this approach is that up-to-date, high-quality skills are critical to maintaining the excellent quality of TV, radio and online services which licence fee payers want from the BBC. So cutting back disproportionately on training represents a real risk to future quality and value for money.

The BBC has an equally strong vested interest in developing people who work outside the corporation. The proportion of BBC content which is made by organisations other than the BBC has increased dramatically since the introduction of the Window of Creative Competition in the current charter: in 2013/14, for example, some 45 per cent of total TV hours and 22 per cent of eligible radio hours were made by independent producers (BBC Trust 2015b). The BBC plans to open up its commissioning still further with the creation of BBC Studios and removal of the current in-house guarantee. The BBC is therefore increasingly reliant on an external skills base for its supply of content – and is committed to sourcing a significant proportion of its productions from Scotland, Wales and Northern Ireland, and from outside the M25 in England. This is a tremendous source of opportunity for creative businesses throughout the UK, provided those businesses have the skills and talent to deliver. The BBC has a strong interest in making sure they do.

The BBC has placed a welcome priority on improving diversity, both on air and behind the scenes. It recognises that this is critical not just to finding the widest possible range of talent, but also to ensuring it properly reflects the audiences it is there to serve. The corporation is not alone in this – the Creative Diversity Network (CDN) has brought together broadcasters, producers and others

to promote diversity across the television industry. Training plays a key role in this: the CDN and Creative Skillset have been working with the BBC and others on a range of programmes aimed at improving diversity in commissioning, production and on-screen talent. Initiatives such as the BAME TV Writers' Boot Camp, the Directors UK Drama Mentoring Scheme and entry-level programmes such as Creative Access have had tangible success in boosting the careers of participants (see for example Creative Skillset 2015b). But these are still early days: the commitment both to the principle of diversity and to the activities that support it must be maintained for the long term if the industry is to become truly open and representative.

The BBC as cornerstone of our creative industries

The BBC has a critical role to play in supporting the UK's creative industries. According to Frontier Economics, the corporation directly invests well over £2 billion per year in the creative sector, but 'the "ripple effects" from the BBC's investments in content and technology go far and wide in the creative economy' (Frontier Economics 2015). Indeed, the BBC Trust has proposed that 'growing the creative industries' should be incorporated into the BBC's public purposes for the next charter (BBC Trust 2015c).

The BBC has described itself as 'Britain's creative partner', in recognition of the enormous benefits to be gained for both audiences and the economy from working in partnership with others for the benefit of the whole creative sector (BBC 2015). Partnership is particularly important when it comes to planning and funding for skills development. With over 80 per cent of businesses in the creative media industries having fewer than 10 employees and with one-third of the workforce being freelance, this raises a real prospect of market failure, since many working in the industry do not have employers able to invest in their development. The way to overcome this is for the industry to work collectively to ensure that skills gaps are identified and addressed.

The industry has a good track record of partnership in this area. Through Creative Skillset, the sector has established voluntary levies which fund high-quality training in high-end

and children's TV, animation, visual effects, film and video games. It also invests in research, planning, quality assurance and guidance to identify needs and ensure that what is provided meets them.

There are opportunities to strengthen this collective approach. The government is committed to expanding apprenticeships across the economy and to giving employers greater control over the funding for them. If implemented effectively, this could allow the creative sector to work still more closely together on finding and bringing in the talent of the future. Separately, the government has initiated a review of the statutory terms of trade which govern the relationship between the public service broadcasters and producers. There will no doubt be a heated debate about the economics of this. But it is also a chance for all sides of the industry to make firm their commitment to ending illegal unpaid work placements and to ensure that job opportunities on productions are offered openly and on merit, and are supported by appropriate training.

However, there is still further to go if current and emerging skills gaps are to be filled. The creative media industries underinvest in training relative to other sectors of the economy – the sector ranks third from bottom in terms of spend per head (UKCES 2014). In this context, disproportionate reductions by the BBC are particularly damaging, not just because of the direct loss of provision but also because of the discouraging signal it sends to others in the industry.

The BBC has been a positive and supportive partner in Creative Skillset from the beginning, but there has been little mention of the corporation's role in skills development in its charter proposals so far. In its latest proposals for the commercialisation of in-house production under BBC Studios, the BBC acknowledges the importance of training in enabling programme-making, but has not yet addressed how the needs of the new model would be met (BBC 2015). If it really is to be an engine for growth in the creative economy over the next charter period, then the BBC needs to be putting its full weight behind the collective effort on training and galvanising others to do the same. The BBC's influence, expertise and investment will be critical to the future strength of the sector's workforce.

A seventh public purpose: training and development

The current BBC agreement contains an obligation to provide training, assessed annually by the BBC Trust. The trust's reports show that the BBC Academy continues to provide highly valued training to BBC staff and makes some provision available more widely to the supply chain. However, the existing obligation has drawn little scrutiny of the severe cuts to training made in recent years, nor has it been effective in strengthening the BBC's focus on the wider industry alongside its own staff.

The BBC has, of course, had to find substantial savings over the last few years. Director-general Tony Hall has been clear that further difficult funding decisions lie ahead. It would be wrong to expect training investment to be completely immune from the financial constraints facing the corporation, but investment in skills needs to be prioritised as an essential driver of the BBC's core business of creating and delivering content. It should not be viewed as an overhead that is first in line for cuts. The latter approach might offer short-term savings, but puts at risk the ability of the BBC to keep delivering for audiences in the medium and longer term.

Likewise, if the BBC is to fulfil its potential as a driving force for the growth of our creative industries, it needs to put skills development at the heart of its approach, as one of the fundamentals underpinning the health of the sector. What is needed for both the BBC and the sector as a whole is a strategic approach which prioritises investment according to evidence of need and measures success in terms of not just investment put in but also outcomes delivered. That means regularly assessing the extent to which key skills gaps are being addressed – in every part of the UK – and whether individuals are getting the training they need to make the most of the opportunities to develop their careers and the businesses they work for.

Parliament's culture, media and sport select committee recommended that the BBC's 'vital contribution to training and development of talent and skills in the UK's creative media industries' should be reflected in the corporation's core public purposes (CMSC 2015). The committee's then chairman is now, of course, the secretary of state responsible for setting

the charter, while the charter review consultations by both the government and the BBC Trust have also raised the possibility of a new purpose covering this area.

Including training as one of the BBC's purposes would place it firmly at the heart of the BBC's priorities and planning over the next decade to the benefit of its audiences, its staff, and a key sector of our economy. In order to be effective, I propose that it should be framed around three key principles.

First, it should encompass obligations both to bring in new entrants to the industry and to provide for the ongoing development of the existing workforce. The commitment which the director-general has made to offering more apprenticeships is welcome: they are key to bringing in new talent, particularly from groups who are underrepresented in today's workforce. But apprenticeships are only one part of the story: there needs to be equal priority given to development for existing staff, if the organisation is to keep getting the best out of those new entrants and their colleagues through their careers.

Second, the BBC should be required to focus both on the training of its own staff and on developing the industry-wide workforce, in collective partnership with the wider creative media sector. Both elements are equally critical to the BBC's core mission and its place in the wider economy.

And third, the new purpose needs to incorporate a transparent and robust accountability regime. The BBC Trust, or whatever replaces it, should be charged with making regular assessments based on clear success measures. Those should be designed to ensure that the corporation's investment in training is proportionate to its overall public service mission, but also that it is applying that investment strategically, meeting identified needs successfully and cost effectively, including for greater diversity.

Conclusion

The coming decade is set to be a(nother) period of huge opportunity and challenge for the BBC, and the UK's creative industries more widely, as the seismic changes now under way gather pace. We need to make sure that our workforce is able to develop and adapt its skills for the demands of shifting audience expectations and consumption patterns, increasing

global competition and advancing technology. That will enable us to keep making the most of the huge talent which exists in the UK, keeping the BBC and the creative sector as a whole at the cutting edge of the world's creativity and continuing to produce a wealth of content which delights audiences in all parts of the UK and around the world. This charter review offers a one-off opportunity to secure the BBC's role in the development of creative skills and talent for the next decade. I urge the government and the BBC to take it.

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2.5

THE CREATIVE SUPPLY CHAIN IN THE CONTEXT OF DEVOLUTION

DIANE COYLE
BBC Trust

It is impossible to think of any other nation in the world whose government would deliberately weaken one of its leading corporations in one of the fastest-growing and most export-oriented sectors of the economy. All the more so if that corporation almost uniquely prioritises domestic suppliers based around the whole of the country, in a market increasingly dominated by overseas multinationals, and at a time when the government has a policy of devolving economic and political power and faces a strong pro-independence movement in one part of its existing boundaries.

This, however, appears to be the UK government's policy on the future of the BBC. The recently published green paper sets out a debate on charter renewal whose tilt is firmly towards reducing the scale and activities of the BBC, and follows the highly damaging recent Treasury raid of £750 million from its licence fee income. After more than eight years as a member of the BBC Trust – a period of intermittent crises and frequent exasperation on my part – I am certain that the BBC needs to be held firmly accountable to its licence fee payers, and needs to continue to demonstrate improvements in efficiency. However, I am equally certain that failing to safeguard the BBC's role in the creative economy will cause terrible collateral damage, particularly in the broadcast and online production clusters that have emerged around the UK, including Scotland.

The annual output of the UK's 'creative economy' was estimated by the Department for Culture, Media and Sport (DCMS) to be £76.9 billion in 2013, growing at about 10 per cent a year. The creative industries have been growing about three times faster than any other sector in the UK, while employment in the sector has been increasing in every nation and English region with nearly 60 per cent of these jobs being skilled to degree level, compared to 32 per cent for all jobs in the economy. This is a success story that is well worth sustaining.

The BBC's role in the success of the wider creative sector

As with any investment, the licence fee spend has a multiplier effect: the additional economic activity eventually generated by an initial increase. A recent PWC report for the BBC estimated that every additional £1 of licence fee generated an additional 60 pence in further activity in the wider economy (PWC 2015). This multiplier is larger than the usual estimates for government spending, reflecting the high productivity of the creative sector. If the government is serious about wanting to stimulate productivity and economic growth, the BBC is an efficient means of doing so.

Discussions about economic impact can sound very abstract, but this particular point came to life recently in an article by Alex Connock, managing director of the production company Shine North, which produces programmes for channels such as Discovery and National Geographic as well as the BBC and other UK broadcasters.

'The BBC has quite possibly been the only UK industrial entity that has consistently been in the global premier league in its field for over half a century... What the BBC brought to Manchester was critical mass. It brought strategic scale to a strategic industry. It was a world champion, championing a world class production economy. It worked.'

Connock 2015

As Connock argues, the location of a substantial part of the BBC in Salford is a demonstration of the importance of economic clusters of sufficient scale in any sector where ideas are all important, whether that be Silicon Valley or the creative industries in Manchester, Cardiff or Glasgow. The wider creative sector in the north-west of England is thriving, growing far faster than that in the north-east, which lacks that core large-scale BBC investment in the region.

One of the important characteristics of the creative sector is that there are large economies of scale, which are increasing with the transition to digital. The investment is largely upfront, and the incremental costs of production and especially distribution are far lower or even close to zero. This means that the bigger the organisation, the lower its costs as the fixed upfront portion can be spread over a larger market. Increasingly, global US-based titanic corporations are dominating the sector.

This brings many benefits to UK consumers, and creative producers. There is huge investment in high-quality drama, or games, or music, or sport by these US businesses, available nationally or globally on subscription. The islands of global quality are bigger and easier to access than used to be the case. But they are global. Only the UK's public service broadcasters commission specifically national or more local programmes, and only the BBC does so on any scale. Last year the BBC spent £1.2 billion on programmes made by the independent sector, of which £450 million was spent on small or micro businesses, which make up 86 per cent of its supplier base (Heath 2015).

To be specific: would a US commissioner working for Netflix or Amazon buy programmes like *Hinterland* or *Bannan*? Or have commissioned *Call the Midwife*, a series about working-class women's experiences giving birth in the postwar east end of London? Or – because this is not just about the BBC – would they have gone for the initial pitch for Channel 4's *Educating...* series? Or for that matter a pitch for a competitive baking programme – scones and shortbread? What about children's programmes? Serious spoken word radio? Hours of live classical music every day? Documentaries on the shaping of English character by Gothic literature? Sailing on canals?

Regional current affairs (the most-watched TV current affairs programme in the UK is the BBC's regional *Inside Out*)?

While the policy debate is framed by those who argue for a 'market failure' BBC serving niches that would not be profitable for the commercial sector, when you begin to consider the specifics, it turns out that the scope of 'market failure' is large and growing because of the global digital character of the markets. Anything that is not potentially global in its reach is sub-scale for these titans. 'The market' would provide a very narrow range of programmes compared to the diversity and range we currently enjoy across the UK (see Coyle and Siciliani 2013).

Consuming cultural content is an 'experience good': people do not know what they will enjoy until that have seen or heard it. In all the creative industries – music, publishing, films, TV, radio – many big successes take everyone by surprise, especially the executives who commissioned them. The phenomenon of a surprise hit – a book about a schoolboy wizard, a revival of an old-fashioned series about ballroom dancing – which then spawns many copycats is very familiar. An industrial structure particularly good at encouraging programmes or content that comes from left-field is likely to grow and export, delivering a high proportion of surprise successes. That is exactly what we have had in the UK with the important role of public service broadcasters, competing with each other over programme quality, and with a BBC of sufficient scale to ensure that left-field includes Yorkshire, the Highlands, Aberystwyth and Bristol. The BBC's scale provides those small independents it commissions with a huge platform, potentially into global markets.

Its scale matters in other ways too. People from this country tend to be unaware of the esteem in which the BBC is held overseas. For what such rankings are worth, surveys of global 'soft power' place the UK at or near the top, with the BBC's reputation an important component. One recent survey that placed the UK at the top cautioned:

'In soft power terms, the UK should be worried about maintaining the resources that generate its international influence. Cutting funds to the British Council, Foreign and Commonwealth Office,

BBC World Service, and others will prove a false economy in the future.'

McClory 2015

Soft power has economic consequences. In recent research Andrew Rose, professor of economics at the Haas School of Business at the University of California Berkeley, concluded that 'countries that are admired for their positive global influence export more, holding other things constant' (Rose 2015).

A 1 per cent net increase in soft power raises exports by around 0.8 per cent (ibid). It is impossible to distinguish the BBC's contribution, but it cannot be negligible.

Conclusion

I have written elsewhere about the role of a big-enough BBC as an unintended industrial strategy for the creative sector (Coyle 2015). The point here is to emphasise that scale has a geography. If the UK (or any other country other than the US) genuinely values not just its own cultural traditions and expressions but also its continuing ability to produce and export a wide range of programmes and content, this cannot be left to 'the market'. Large economies of scale increasingly make the global the most commercially viable.

The UK's press are vocal in blaming the BBC's website for their decline in readership and ad revenues; but it is the broader, global economic and technological forces that are shaping their markets. You only need to see the post-2000 figures for the US press to appreciate how cynical (or possibly stupid) this claim is (Barthel 2015). Indeed, it is an OECD-wide phenomenon, driven by the transition to digital, the arrival of online competition such as Vice, BuzzFeed and HuffPo, and the loss of advertising to competitors such as Rightmove or Gumtree, or their equivalents elsewhere. The newspaper industry's lobbying of the government to shrink and hobble the BBC is the equivalent of all those lame duck industries in the 1970s demanding government subsidies and protection. 'The market' as a whole is in a healthy state of vigorous competition, due to these new entrants, which some of the incumbents do not like at all.

It is a different story with the local and regional press, which are in danger of becoming a market failure category (and again in other countries too) because of the scale effects of digital. This is a real civic concern especially when political power is being further devolved. I agree that the BBC has a responsibility to help keep this market healthy, and hope its sometimes-fraught discussions on cooperation with the industry will be fruitful.

The wider crowding out argument made by commercial rivals who would love to see a smaller BBC is nonsense. It rests on an assumption that 'market' and 'public' are opposites; but the history of the success of the UK's creative sector is that public broadcasting, and especially the role of the BBC in the supply chain, is that the 'public' has been market-building. It is such nonsense that it's hard to believe it is the real motive of some large commercial corporations for prodding the government to constrain the BBC. This chapter has focused on some of the economic issues, but the issues of civic debate and political influence are even more vital, especially for the UK's component nations and regions.

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2.6 THE UK PRODUCTION SECTOR

COMPETITION AND COMMISSIONING AT THE BBC

John McVay
Pact

The UK independent television sector is one of the biggest and most successful in the world. More than 500 independent producers operate in the UK at the beating heart of this country's thriving creative industries.

Despite the economic downturn, the sector's growth over the last decade has been spectacular. Revenues have more than doubled in the last decade: from £1.3 billion in 2005 to approximately £2.9 billion in 2014 (Oliver & Ohlbaum Associates 2015a). International sales alone today are almost £1.3 billion.

The reasons for this success are numerous, including:

- the high level of competition for creative TV ideas in the UK market
- the volume of spending by UK broadcasters – particularly the public service broadcasters – on independently-produced content, which pump-primed the sector
- the legislative and regulatory environment that secures fair rewards for indies through a guaranteed share of the intellectual property rights, which indies successfully exploit at home and overseas
- the continuing and widespread appeal of UK-produced, English-language programming and TV formats in other countries.

A highly creative and productive television ecosystem has developed in the UK in the past 20 years. This is part organic – a development of the rich tradition of UK television stretching back to the beginnings of broadcasting – and part by design, through intelligent policy interventions in the market to foster competition and creativity at all levels.

But like all ecosystems, British television's success relies on a delicate balance between its constituent parts. A concern for those of us involved in the independent production sector is that the BBC's current proposals for the future development of its Studios business will dramatically upset that balance.

The BBC is a vitally important to the UK production sector. Commissions from the BBC account for nearly 30 per cent of all UK commissions. The BBC is the biggest buyer of content made by independent producers (Oliver & Ohlbaum Associates Ltd 2015b), spending £468 million on commissions from over 200 independent producers (BBC 2015a).

A strong, properly funded BBC is incredibly important. The mix of revenues in UK television broadcasting – part advertising, part subscription, part public funding – is another factor in its stability and success. This is why the licence fee remains the most appropriate means of funding the BBC.

In his wide-ranging speech in July 2014, BBC director general Tony Hall announced the BBC's intention to open up programming commissioning at the BBC to greater competition. This was, he said, an important symbol of change at the BBC.

Under current commissioning arrangements there is a guarantee that 50 per cent of BBC programmes are made by BBC in-house productions. Under legislation, 25 per cent of qualifying BBC programming must be made by independent producers. A further 25 per cent is open for competition between independent and in-house producers under an arrangement known as the Window of Creative Competition (WoCC)

In the context of charter review, the BBC is proposing to change these arrangements. Competition is to be opened up further by removing the in-house guarantee and enabling BBC producers and independent producers to compete

for all BBC commissions, with the exception of News and Current Affairs, Sport and Children's programming.

As part of this, it is proposed that the BBC's in-house TV production unit should operate commercially as a wholly owned subsidiary of the Corporation, named BBC Studios, and compete both for BBC commissions and for those from other broadcasters. In return, the BBC would remove the 50 per cent in-house guarantee.

Pact supports the BBC's ambition to become more competitive. The current framework is not sustainable in the long term. Indies are winning the vast majority of available (commissioned) hours within the WoCC (78 per cent last year). It is right that BBC programming spend is opened up to the very best ideas.

However, the BBC's proposals for BBC Studios raise significant concerns. The proposal is marred by a distinct lack of clarity, and may not be the great driver for competition that it is dressed up to be.

Exactly how proper separation between the BBC and BBC Studios would be achieved, and cross-subsidy avoided, is far from clear. This is crucially important, not least in terms of the proposal's compliance with EU state aid rules.

The proposal for the treatment of returning series is particularly difficult. The BBC's asserts that the creation of BBC Studios as a commercial entity will lead to an increase in competition for supply to the BBC to approximately 80 per cent of total network commissions.

This will not be possible if all long-running strands and returning series are simply transferred over to BBC Studios, as is currently proposed.

The BBC has repeatedly stated that all commissions (with the exception of the 20 per cent which it has stated would remain in-house) would be contestable. Yet it has also stated that, 'the BBC intends to transfer to BBC Studios the right to continue producing the series that it makes today'¹ (BBC 2015b).

1 http://downloads.bbc.co.uk/aboutthebbc/reports/pdf/bbc_studios_2015.pdf

We estimate that, if the BBC were to gift all long-running strands to BBC Studios, and if external producers continue to win approximately 45 per cent of eligible commissions as is the case at the moment, then the potential increase in competition as a result of the creation of BBC Studios would be limited to between 5 and 10 per cent. This is a small gain in competition in return for a huge disruption to the market.

If the BBC really wants to increase competition for the very best ideas, then all long-running strands of BBC programming should be put out to tender. And where returning series are transferred to or recommissioned by BBC Studios, the terms and prices should be subjected to transparent, externally conducted benchmarking.

Otherwise, from day one, the new BBC entity will be given a major commercial advantage, with an income of approximately £400 million in guaranteed work from a single supplier. With this secured, BBC Studios could go to the capital markets and raise additional investment, which would further advance its position in the UK TV production market. No one else in the market has the benefit of £400-million-worth of guaranteed work.

We therefore do not believe that the proposal, as currently drafted, would meet state aid and competition requirements, nor that it would deliver the best value to licence fee payers.

Furthermore, the 5–10 per cent increase in contestable opportunities does not, in our opinion, offer a big enough opportunity to compensate for the market upheaval that would come from the introduction of a £400 million production company into the UK production sector.

The establishment of BBC Studios has particularly high potential to distort the market if implemented without rigorous safeguards to ensure that it is on a level playing field with the wider production sector.

The BBC's current proposal offers no independent oversight of commissioning. The absence of such assurances raises concerns about the potential ability of BBC Studios to leverage its preferential links with the BBC public entity in order to give it an unfair advantage against its competitors.

The proposals suggest that the head of BBC's commissioning department, which sits at the heart of its public entity, would sit on a board alongside the heads of the BBC's commercially driven production and distribution arms. This poses serious competition concerns. It could generate opportunities for the BBC's wholly owned commercial businesses to undercut the market through preferential access to parts of the public entity, which its competitors would not have.

If this is to be avoided, there must be greater functional separation, set out clearly and monitored by the appropriate regulatory body. The rules of engagement for BBC Studios in pitching ideas to other broadcasters, competing against other British companies both at home and abroad, must also be clearly spelled out.

With the guarantee of £400 million's worth of business from a single buyer, BBC Studios is likely to be perceived not as a fully commercial company, but as one which is wholly owned by the BBC. In this context, could they really offer their best ideas to the highest bidders, potentially meaning that the BBC public entity could miss out? Could they co-produce work with other producers or commissioning broadcasters? Could they incorporate product placement? These and many other questions urgently need to be addressed.

The BBC has also not fully justified its decision for retaining sport, children's and current affairs programming in-house. There seems to us to be no reason why BBC Sport could not commission high-quality multiplatform sports coverage from external suppliers. The BBC's justification for retaining children's programming in-house is 'to preserve the BBC's offer to this critical audience', noting that 'BBC Children's is likely to undergo profound transformation in the next few years as it responds to changing media behaviours amongst young people' (BBC 2015b: 13).

Yet the independent sector has demonstrated its ability to respond equally successfully to the changing media behaviours of young people, by the range of leading, award-winning and innovative interactive content it has delivered to CBBC and CBeebies. Independently produced shows such *Horrible Histories*, *Shaun the Sheep*, *the Clangers*, *Operation Ouch!*,

Rough, Rough, Tweet and *Dave and Katie Morag* are highly popular on the BBC Children's slate.

Likewise current affairs programming: why must this be produced in-house? Channel 4's *Dispatches* is an award-winning current affairs programming which plays a hugely important role in British investigative journalism. Already on the BBC, *Question Time* is produced by Mentorn Media. Programmes made by external production companies have proven that they can employ just the same levels of high-quality journalism to produce content for the BBC.

If the plans go ahead, BBC Studios will require bespoke regulatory arrangements. It is not sufficient to rely on broad ex-post assurances from the fair trading guidelines, as currently proposed by the BBC.

If BBC Studios is to be established then it should be under a clear published framework, set out in the charter or agreement, including the following.

- Clarity on arrangements for securing full functional separation from BBC public services – including the prevention of privileged access to information about BBC commissioning strategies and audience data.
- Clear guiding principles for the relationship between BBC Studios and BBC Worldwide to ensure that any BBC Worldwide investment is made on a fair commercial basis, to include arrangements for subjecting a range of rights to 'open offer', with appropriate regulatory oversight.
- Arrangements for regular externally conducted benchmarking of pricing and terms given to BBC Studios compared to other suppliers, including for returning series.
- Detailed and externally validated transfer pricing arrangements, including appropriate accounting for overheads, access to BBC facilities and the value of the BBC brand; and the detailed terms for any transfer of returning series.
- A baseline requirement for commercial efficiency, based on external benchmarks (in line with the new commercial framework).

The BBC Trust (or other appropriate regulator) should have the power to conduct periodic reviews of the effectiveness and operation of the framework – for example, within 12 months of the launch of BBC Studios, and every two years thereafter.

The purpose of these reviews would be to externally audit compliance with benchmarking and transfer pricing obligations, and to provide a transparent assessment of the commercial performance of BBC Studios. Similar to the existing WoCC structure, we consider that these reviews should include a process of open consultation and their conclusions should be published.

Furthermore, we call for Ofcom to be given a role in the regulatory process by providing advice on the prospective market position of BBC Studios and its relationship with BBC Worldwide, and any competition implications.

As the BBC's proposals for the commercialisation of BBC Studios currently stand, Pact, and its members cannot support them without the following.

1. Clear, detailed assurances as to how these concerns will be addressed in structural, operational and financial terms.
2. A robust regulatory framework which sets clear rules upfront and provides for regular independent review and fast, effective complaints mechanism with clear timescales for resolution at both initial complaint and appeal stage.
3. Greater transparency about the relationships between BBC Studios, BBC Worldwide and the BBC public entity; mechanisms to test whether BBC Worldwide is paying a fair market rate; and thorough regulatory oversight under periodic review.
4. Finally, there should be a commitment to retain the 25 per cent independent quota and to retain the WoCC for any genres that are retained within BBC public service.

If these issues are not addressed as a matter of urgency (or indeed at all) then an alternative approach should be considered which increases competition by building on, rather than abandoning, current arrangements.

A credible means of promoting competition under the current framework with much less market disruption than the Studios proposal would be to reduce the in-house guarantee to 25 per cent; retain the 25 per cent independent production quota; and to increase the WoCC to 50 per cent.

It is also important that the BBC retain the commitment to support its targets of 50 per cent of network budgets outside of London, including 17 per cent in the three devolved nations. This is crucial to both retaining diversity of content for local and UK audiences and securing the sustainable future of production centres in the nations and regions into the future.

Extending the current system, with established checks and balances to ensure fairness and transparency, would relieve strain on the in-house guarantee by extending the contestable element of programming, without significantly disrupting the market.

To date, the BBC has failed to provide the necessary assurances that its proposals for commercialising BBC Studios will operate fairly within the marketplace and sufficiently increase competition for commissions from the BBC. The sector is rightly concerned.

The balance within the UK television sector has delivered great results in terms of growth, jobs and exports in recent years. It is an area in which the UK has a comparative advantage. We should only risk upsetting that balance if the rewards on offer are great. On the evidence of the BBC's current plans for revising its commissioning practices and commercialising its in-house production, they are not.

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3.1

WHERE NOW FOR THE BBC'S DUTY TO EDUCATE?

DAVID PUTTNAM

In his speech at the Science Museum in September 2015, BBC director-general Tony Hall acknowledged that the charter review presents the corporation with not only significant challenges, but also with opportunities to reflect and adapt to the digital world. In my view, nowhere are these opportunities greater than in education.

Over 70 years ago, Lord Reith famously made education one of the three pillars of the BBC: to inform, to entertain and to *educate*.

The BBC took Reith's mantra very seriously, and over the decades it has, for the most part, been an innovator in education. In 1942, the Corporation transmitted its very first radio broadcast to schoolchildren around the UK, and in the 50 years that followed the BBC successfully led the way in 'bringing education to the people' via BBC Broadcasting for Schools and Colleges on radio and television. In 1965 the BBC collaborated with the Open University, introducing 'distance learning' and transforming the very nature of higher education by allowing students access to inexpensive higher education at home. In 1980, David Allen and Robert Albury were sent from the BBC to 'go and see if there is anything in this microelectronics business' (Blyth 2012). The advent of the digital age provided the BBC with the opportunity to deliver education in radically new ways. Nonetheless, education can sometimes feel like the unloved child of the Reithian trinity.

Take the example of BBC Jam. In early 2007 the BBC Trust took the grievous decision to scrap the online education service.

Four years earlier the government had boldly announced the development of the world's first truly 'digital' curriculum – with the BBC committed to investing £150 million to deliver newly created material into just half of the subject areas.

It was designed to be a 'partnership' with industry, to the benefit of the learning opportunities of every child in the land – and eventually possibly even every child in every land. But despite its pioneering approach to developing a digital curriculum and hundreds of thousands visiting and registering on the platform, BBC Jam lasted little more than a year.

In times past the BBC found it difficult to be 'partner' with anyone and, as a result, probably overplayed its hand. Equally the commercial sector could justifiably be accused of deliberately delaying and frustrating the entire initiative.

Was every child in the country disadvantaged by the short-term and myopic manner in which, between them, the BBC and the commercial sector managed to wreck the entire scheme?

The answer to that is – unquestionably!

Eight years later our education landscape has broadened massively, and the BBC is no longer its sole audiovisual operator. Hundreds of companies including FutureLearn, the Pearson Group, TES, Goldsmiths, EF and the Consortium Education offer educational content for schoolchildren, university students, graduates and teachers. And there is a blossoming ecosystem of startups developing resources, often designed by entrepreneurial teachers themselves, such as Diagnostic Questions, Class Charts and Show My Homework.

Not only are there infinitely more providers than ever before, but also a far greater range of media through which to channel education. Independent learning is no longer limited to television and radio – today we are living in a hyper-connected world where people can study on their computers, laptops, iPads, tablets and mobiles, whenever and wherever they choose. The internet has paved the way for companies to collaborate with universities around the world to create massive open online courses, or MOOCs. This has encouraged the number of UK-based distance learners to jump by 50 per cent over

the last decade to over 260,000. The UK has also become a powerful hub for learning: FutureLearn has 2.5 million registered users, and TES.com, with over 7 million registered teachers from all over the world, is the first port of call for those seeking inspiration from its inventory of a million mainly teacher-generated resources, which are being downloaded almost 1.5 million times every day.

These transformations in education have certainly not rendered the BBC obsolete: 97 per cent of the population continues to use the BBC every week, with 46 million users relying upon it every day. According to the *Future of the BBC* report published earlier this year, 77 per cent of interviewees considered that 'providing education' should be a priority for the BBC (CMSC 2015).

The future of education is obviously online.

However, it is critical that we view the digital progression as something wholly transformative, not simply as a useful 'add on', but something that can change the nature of both media content and the way in which learners go about their daily lives. By increasing its investment in creativity and narrative learning, the BBC has a massive opportunity to advance the standards of online education on a global scale.

The future of education will inevitably involve a more flexible approach to learning as more and more people are able to access educational content on their mobile devices wherever and whenever they choose. In the *Future of the BBC* report, 56 per cent of participants viewed 'enabling people to adapt to new technologies' as a priority for the BBC (ibid). The BBC must play a key role in both creating and adopting these new technologies.

In his Science Museum speech, Tony Hall spoke about the BBC's future in the digital world and the importance of an 'open' BBC which will be instrumental in creating platforms to support other public institutions, 'helping them make the most of the digital age' (Hall 2015). I want to see this more 'open BBC' take responsibility in engaging with a wide range of other education providers to help them also make the most of the digital world.

But this absolutely requires investment – and the BBC’s investment in education has been heavily slashed in recent years.

I’ve been in politics quite a long time and I know there are two ways of looking at policy development. One is to say ‘this is our vision of how education should look in 2020–2025, because if the UK is going to be a seriously competitive nation we will need the skills to make that possible’.

The other way is to say ‘we’ve been talking to government about charter review and they’re very concerned that we save some money; so we’ll lower our expectations, and our vision, to the point they believe to be affordable. That way we won’t be embarrassed if we fail to deliver on our vision.’ Surely there’s only one way to look at what’s possible on behalf of the next generation, and then pull every lever we can to get them there.

The BBC is an instantly recognisable and trusted brand, and for more than 70 years it has delivered world-class services globally. The advent of online education provides any number of opportunities for the BBC to continue to adapt, improve and innovate in order to continue to deliver world-class education services. For all of us as citizens it must seize them.

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3.2

THE ROLE OF BBC RADIO IN THE UK MEDIA LANDSCAPE

SIOBHAN KENNY

RadioCentre

The BBC is an important part of UK radio. Inevitably, points of disagreement tend to be highlighted during the 10-yearly process of BBC charter renewal, but it is important to say at the outset that the radio industry transcends any individual player, no matter how big. The BBC and commercial radio have a common interest: it is the medium we all love and, despite all the new competition, still broadcasts to 90 per cent of the UK population. But there is no complacency. Against the backdrop of an expanding audio world where people can access audio content in many different ways, radio is proving remarkably resilient. Like the BBC, commercial radio continues to address the challenges ahead. There are many areas where we work happily together: we share talent with the BBC, with many people crossing back and forth between the sectors; there are many joint industry projects, including the brilliant Radioplayer – the gateway to all of UK radio in one place, whatever your device; and we collaborate creatively, as in the Jazz FM/ Radio 3 project at the London Jazz Festival.

It is fair to say that the commercial sector takes a different view to the BBC in three intimately related areas. First, the distinctiveness in peak times of some of the BBC's offering; second, the BBC's market share in UK radio; and third, the governance and regulation of the BBC. At the centre of this debate surely has to be licence fee payers and how they are best served by a complementary offer from the BBC and the commercial sector. Listeners should have a range of content to choose from, served when and how they want to listen. It cannot be in their interest for the publicly funded

broadcaster's repertoire to be too closely aligned with what the commercial sector provides. The BBC therefore has a serious responsibility to be the provider of choice and quality, at hours when most people are tuning in. Sometimes it can feel like that range of excellent, distinctive content languishes at the margins of the schedules.

Is BBC radio distinctive enough?

Much of BBC radio is indeed distinctive and the commercial sector can't compete with the expensive, high-end speech radio offered, for example, by Radio 4. The argument about distinctiveness centres round the definition of universality and the degree to which the BBC is bound, thanks to its method of funding, to produce 'something for everyone'. If that leads to an interpretation that the BBC should seek to provide everything it possibly can, without limit, then that is where the commercial sector has legitimate cause for concern. Surely the luxury of receiving £3.7 billion of guaranteed public funding every year should require greater experimentation and braver programming choices? Without bearing that constantly in mind, it is no surprise that the BBC becomes incentivised to grow audience share and becomes obsessed by ratings. There should be more and better ways to evaluate the success of the BBC. So, for example, encouraging growth of audience reach and share should be accompanied by a guarantee of distinctiveness and quality.

Some argue that the BBC should only produce what the market cannot. Others that the BBC can only hope to justify its funding by producing highly popular content, drawing in mass audiences. But there is surely a position between the two. That is that the BBC should, of course, produce popular content, but it can never be all things to everyone. The balance should be established in the service licences and the stated public purposes, and in proper adherence to them. Ambiguity in both these areas has allowed confusion to creep in. Most pertinent to commercial radio is the dominance of Radio 1 and Radio 2.

The consequences of poorly defined and policed service licences have led to a pretty big expansion in Radio 1 and Radio 2 over the last 15 years or so. In 1999, there was an almost equal split in terms of share between BBC radio and

commercial radio. The BBC now has a 54 per cent market share, largely due to expansion in these two services. It is true that the BBC's market share has fallen back from 55 to 54 per cent in recent years, thanks in part to the actions of the BBC Trust in holding it to account. But it has still consolidated its dominant position. Radio 1's audience got older, while Radio 2's share of the younger demographic grew, attracting away from the commercial sector the much sought after (in advertising terms) 25–44-year-olds. This had a big impact on commercial radio, which wasn't helped by the 2008 economic downturn, (the publicly funded broadcaster was clearly not affected in the same way).

No one disputes that the BBC broadcasts much distinctive content. But not sufficiently at weekday peak times, when its output, in both music and speech content, is often very close to what is available on commercial networks. The growth in audiences for BBC radio services risks weakening the commercial sector provision, which, of course, depends on audiences to raise advertising revenue and remain sustainable in an increasingly competitive world. Independent consultants Prospero Consulting have estimated the cost to commercial radio of this audience migration to the BBC as in the region of £50–60 million a year in lost revenue (Radiocentre 2014: appendix B). This is a significant sum which could have been reinvested in commercial radio, improving the diversity of radio provision available to listeners.

The most important litmus test is surely whether listeners judge what they hear on Radio 1 and Radio 2 to be very different from what is available on commercial networks. New independent research by Kantar Media commissioned by Radiocentre shows that listeners do not score either station very highly when asked about distinctiveness (see Radiocentre 2015: 15–17). In addition, the majority of the music played on these most popular BBC services, during peak hours during the day, has considerable crossover with commercial radio. The overlap between Radio 2 and commercial radio is 65 per cent during weekday, daytime hours, for example. The BBC's claim that its music output is highly distinctive is arrived at by taking the entire output over the whole schedule and using only one commercial service as a point of comparison (Radio 2 and Absolute, for example). This fails to address the highly salient point for advertisers about when the

majority of the BBC's impressively large audience is actually tuned in. We could continue comparing statistics and data, but the most important fact is that the BBC is a dominant player, benefits from cross-promotion across its multiple networks, crowds out commercial rivals and thereby stifles competition. It often feels more like a commercial rival than the public sector partner the commercial sector would welcome.

Ofcom or Ofbeeb: How to hold the BBC to account?

You cannot discuss the operation of individual stations without returning to the complex issue of regulation and governance. No one pretends that regulation of the BBC is easy. The BBC Trust has made progress in the years of its existence, but the consensus appears to be that a more arm's-length form of regulation is needed. Even the chairman of the trust has accepted that there are structural deficiencies inherent in the current system and is proposing a move towards more external regulation. An external independent regulator, probably alongside a BBC unitary board, could help achieve greater clarity about the role of the executive and the regulator. More clarity in defining the mission and public purposes of the BBC will assist in holding the organisation more rigorously to account. Ofcom may well be the correct body to undertake this role, or a new 'Ofbeeb' style regulator. Whichever one of those two options it might be, the attraction is the offer of a clear separation between the regulator and the BBC, with the emphasis on an organisation which is not part of the BBC. Many in our sector are drawn towards Ofcom as being the obvious choice, being a successful regulator already in operation, able to contend with the enormity of the task of regulating the BBC. There would be an attendant risk of an undue concentration of power, as well as the potential disruption to the work of Ofcom, given the nature of the task.

It is crucial to ensure that the right regulatory powers are available and clearly understood. While there is so much debate about the model of regulation, it is important to acknowledge that it only provides the framework. Regulatory powers such as service licences and public value tests are

among the real instruments which give the regulator teeth. Reform in that area and the development of new tools to maximise public service content and consider market impact effectively would make all the difference. Holding the BBC effectively to account is the key which also means that a range of meaningful sanctions should apply. It is equally clear that the division of responsibilities between any external regulator and the proposed BBC unitary board should be immediately apparent. The external regulator and not the unitary board should assume the primary role and key regulatory powers in future. Without that, any change risks actually reducing the level of external scrutiny and oversight of the BBC's activities, from arrangements currently in place with the BBC Trust.

Finally, on timing, there would appear to be a strong case for a charter period of less than 10 years on this occasion – or at least a commitment to a mid-term review of progress and performance. This would enable the BBC, government, stakeholders and a future regulator to at least have the opportunity to deal with any issues that arise in the interim, without waiting another 10 years for consideration.

Whatever the mechanism, clearly understood regulatory powers and sanctions are critical to a healthy, thriving broadcasting ecology. In terms of funding, the licence fee is a model which clearly has its limits in a digital world. It should stay in place for now but serious work should be done on examining viable alternatives. There is a lot of work to do and an ambitious timetable. Commercial radio stands ready to contribute to the vibrant debate about the future of the BBC.

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3.3 THE CHALLENGE OF ATTRACTING YOUNG AUDIENCES

WHAT DOES THE BBC OFFER?

SAURABH KAKKAR
Big Talk Productions

How seriously has the BBC taken its commitment to young audiences – particularly those in that golden slice of the population, the 16–24s? There is a clue in the identities of the various controllers of BBC Three since its inception: Stuart Murphy was until recently the overlord of all things non-sporting at Sky; Julian Bellamy now runs the indie-devouring behemoth that is ITV Studios; Danny Cohen has just left his position as BBC Television’s head-honcho and *Daily Mail* lightning rod for rumoured opportunities in the US; the highly regarded Zai Bennett is biding his time at Sky Atlantic, waiting for the inevitable high-powered job offer to come his way before he is brutally slain in an unexpected end-of-season twist; and the incumbent, Damian Kavanagh, was well-regarded when running both BBC Daytime and CBBC. These are heavyweight people, with heavyweight CVs. You could find a similar indicator in the expansion of and investment in BBC music radio aimed at young people – an entire extra station in Radio 1Xtra, a dedicated iPlayer channel for Radio 1, several music festivals and a furiously active social media presence.

All of which investment and executive talent has generated some superb and innovative programming. BBC Three has made a raft of terrific television programmes across a number of genres in its short lifespan – *Little Britain*, *Our War*, *Him and Her*, *Being Human*, *Stacey Dooley Investigates*, *Uncle*,

In The Flesh, Reggie Yates' *Extreme Russia*, Gavin and Stacey, *The Mighty Boosh*, *Small Teen*, *Big World*, *The Fades*, *Cuckoo*, *Murdered by My Boyfriend*, *My Brother The Islamist*, *Junior Doctors: Your Life in Their Hands*, and so on. This is an exceptional roster, one of which any of the US cable networks so fêted in Westminster would be proud. And on the radio side, the BBC has remained well ahead of the curve in its popularisation of all that's fresh and new in the music world. And to what end? BBC Three and Radio 1 are the sticks most often used to beat the BBC by its fiercest critics. The very existence of *Snog Marry Avoid* sends MPs and newspaper columnists into paroxysms of fury (though I doubt many actually watched it – it was a rather sweet, uplifting show).

Does the BBC need young audiences?

So why do it? Are younger audiences worth all that time, effort, money and trouble to the BBC? It's easier to understand why this happens in the commercial sector, which has long valued the ability to create brand loyalty in the malleable young consumer, amortising their branding expenses over decades. In an age where younger audiences just aren't watching TV in the way they used to – the internet generation is accustomed to watching what they want, when they want, and creating as commercial-free an environment as possible – the commercial sector in all creative industries appears to pump its resources into two areas.

First, large-scale, heavily marketed pop culture events that act as young-person black holes, their event-horizons spreading ever outwards, dragging in consumers keen to be able to participate in the conversations taking place across myriad social media platforms. Music festivals and huge live gigs drive music industry profits, the film business is reliant on its never-ending production line of superhero blockbusters, and television brings in its largest young audiences via time-sensitive experiences that can be discussed and shared with their peers – often via a second screen even as the show is transmitting. It's no shock to find that the largest 16–24 audiences of 2015 so far have been for *The Great British Bake Off*, the year's most talked-about show (Price 2015).

Second, niche audiences attractive to a particular advertising sector, is a particularly interesting area for discussion. Marketing circles know what an error it is to treat all youth as one age. In 2010, today's 16-year-olds were just starting secondary school, while today's 24-year-olds were able to drink, have sex and vote (though they probably weren't actually voting – but that's another story). It's foolish to expect those groups to think the same way. And it's not just age – young people spend an inordinate amount of their young lives trying to work out who they are, changing their friend groups, appearance and tastes with staggering regularity. In an era where seeking out those who feel the same, no matter how odd or arcane, can be done in a few taps of a screen, it's no wonder that the audience splinters. The 16–24 'age group' is a clutch of different markets with different tastes – 16-year-old K-Pop fanatics are unlikely to like the same things as 24-year-old Drenge aficionados. Until recently, however, that group could be penned in by a lack of choice – if there is only one radio station or TV channel then that's what everyone listens to or watches. Entertainment was a little like a long car journey – one stared out of the window because that was the only option available. On a recent driving holiday to France, however, there were at least four devices on the go in my car churning out entertainment – app games, Snapchat, movies and downloaded TV vied for my children's attention. This choice only serves to further subdivide that age group. When it's possible to seek out precisely the thing one wants, why consume something just because it's there?

This is well illustrated by the decline in TV viewing in the purely commercial marketplace that is the US – traditional TV viewing among 18–24-year-olds in Q1 2015 was down by more than 17 per cent year-on-year, comparable to Q4 2014's decline. Between 2011 and 2015, weekly viewing by this demographic has fallen by close to 32 per cent: in other words, in the space of four years, almost one-third of this age group's traditional TV viewing time has migrated to other activities (MarketingCharts 2015). What's important to note is that this doesn't mean that young audiences aren't consuming content, they're just finding it elsewhere. Not just from services that chiefly provide long-form video content such as Netflix (5 million subscribers in the UK already) and the iPlayer, but also from apps and websites where the content is embedded in a wider offering, such as Facebook or from platforms that deal in short-form, such as YouTube.

Digital viewing already represents 10 per cent of total viewing in the UK and that is thanks to young consumers (Guimaraes 2015). It's in these new-form offerings that we find the biggest hurdle facing old media – these platforms are interactive. This interactivity can be loose and subtle, as in the algorithm-driven suggestion of 'shows you might like to watch', or it could be as direct as the comments section below a YouTube video. It's no surprise that the most successful YouTubers are those that speak directly to camera and respond on-screen to comments and suggestions from their audience. The relationship between content provider and consumer becomes personal, something hugely attractive to any young person seeking to be understood by and communicate with the like-minded.

All of which makes seeking out that young, niche consumer with old, unresponsive media extremely tricky. One solution can be found in the production of content that deals with those universal themes that have always affected young people. Young adult novels are peppered with doomed romance or dystopian futures where all adults are dead or evil, the music industry churns out identikit handsome young men to croon about how special you are or kohl-eyed young women soundtracking heartbreak (it's only a matter of time before they 3D print them). But again, this is content designed to be consumed solo and speak directly to the young person in question. Television is a traditionally communal medium, watched with family or friends. But that hasn't stopped TV producers the world over trying to incorporate some level of interactivity in their shows, with generally poor results. The current vogue is for slicing a show into smaller, shareable, bite-sized bits, which works for a *Jimmy Fallon* or *Key and Peele* or *X Factor* but is less successful with longer narrative in whatever genre. It's also interesting to note what happens when commercial organisations attempt the opposite – to lift the stars of this new media out of context and insert them into an old media one. A slew of deeply average YouTuber movies can be ignored – the movie business has always sought out the newest, shiniest thing, exploited it and spat it out (Paris Hilton made a movie, remember?). But the disappointing ratings for YouTube superstar Grace Helbig's *E!* Show are interesting. The show itself is rather good, and Helbig herself is a charming, genial host. But perhaps that direct link that she had with her online audience is severed – she is not talking directly to the individual viewer, something vital for an audience used to watching by themselves on a laptop or phone.

Which leads me back to my initial question: why? The BBC has no commercial imperative to seek out younger audiences, so why, given how capricious and slippery the target, bother? Why, given the unappreciated sweat and effort and grief, spend so much time and executive talent on something that brings only brickbats, when it could be left to the commercial sector, which needs it so? The answer to this question lies, in my opinion, in the very heart of the overall theme of this chapter. The BBC needs young audiences for the same reason that forty-somethings listen to bleepy dance tracks on 6 Music – to stave off complacency, stodginess, middle age. I described BBC Three’s output above as innovative, and I believe that it’s in searching out those elusive young audiences that the BBC learns to be original, inventive, smart and exciting. This applies to both the creative and practical sides of programme-making – producing on low budgets and needing to embrace new technology and techniques has led to a number of industry-changing production innovations.

How well does the BBC serve its young audiences?

So, having established why it does it, the next question is ‘how successfully?’ This is not a straightforward question to answer. On the one hand, the BBC does well in pulling in those bulk audiences referred to above – *Strictly Come Dancing*, *Bake Off*, *The Voice*, *Sherlock*, *Doctor Who* and *EastEnders* all attract large numbers of young people in their mixed-age but huge audiences. For that reason alone the siren calls to strip the BBC of these populist shows should be resisted – without them, the average age of the BBC’s audience would rocket and a generation be lost. On the other, its attempts to bring in the niche tribes are suffering as the television audience fragments.

The BBC can’t possibly service every one of these tiny slivers of the young population, and somewhere in the vast rainforest of content available on other platforms is someone who can. The fact that fewer young people are watching the BBC shows designed for them doesn’t mean that the shows are bad, just that their intended targets are choosing to do one of the other three million things open to them at any time. In a subjective business, where the only sensible measures of the quality of

a show are ratings or awards (despite the flurry of spurious stats trotted out to justify or defend every decision), this makes television executives nervous. Despite all the evidence that trying to keep everyone happy is madness, that doesn't stop them trying. And when the results are watched by a small number of people, the temptation is to panic and revert to the tried and trusted. This attitude is the death of innovation, and its shadow hovers over all broadcasting, not just the BBC.

There are, happily, exceptions. The BBC Three comedies *People Just Do Nothing* and *Him and Her*, for example, are sharp, original and deal with a tranche of modern Britain generally ignored except by sneering tabloids or the new breed of 'let's laugh at the unfortunates' documentary. Their characters – young, blue-collar denizens of council estates who might uncharitably be described as wasters - are portrayed as warm, human and charming. And both are exceptionally made – *Him and Her* has a Bafta to show for that. Both shows reach an under-represented, hard-to-reach slice of that fragmented audience, and have a core of passionate, devoted viewers as a result. And both have found and nurtured significant new talent.

This, in essence, is the problem that one has in judging the success of the BBC in reaching young audiences. If one looks at bald ratings, other than the behemoths, it is suffering. But it is failing, in my opinion, because it's not possible to succeed. This is an audience that won't be told what to watch, that seeks out the obscure and inaccessible, that actively runs from convention. The BBC should be happy that it reaches them at all, and those small victories it earns should be celebrated qualitatively rather than quantitatively. The BBC fails when it tries to bluff young audiences by lumping all young people together and making 'yoof' television. Shows like 2008's *The Wall*, for example – a show made and commissioned by smart, talented people, by the way – reek of a cynical attempts to woo the kidz. They don't like them, because they don't feel authentic. They feel focus-grouped and market-researched.

That word 'authentic' looms large in all discussions about the BBC and young audiences. Young audiences smell cynicism, so the BBC succeeds when it finds ideas, and services them properly and authentically, having faith in its programme-makers to do so. Some of the BBC's documentaries about

mental health, racism and disability in the young, for example, have been exceptional *and* successful because of their honesty. Received wisdom would tell you that young people aren't interested in serious work like this, but they are when it speaks to them with this level of openness and without being patronising or preaching. Young people don't like being told how to think, as all parents know.

If there is a criticism here it is that the BBC's makeup does not allow for the level of authenticity it requires to achieve this in enough areas. That is in part because of the narrow demographic of those involved in making and commissioning those shows – too white, too middle class. Modern programme-making is not the unwieldy, labour-intensive enterprise it used to be – you can make broadcast quality output on an iPhone, for example – so should be accessible to people from a huge variety of backgrounds. The fact that this is not reflected in the makeup of either the BBC or the production companies that supply it is a source for concern, though (slightly belated) efforts are being made to address it.

It would be remiss here not to mention the impending move of BBC Three online, though I won't be looking at it in any depth. There's a reason for that – I have absolutely no idea whether it's a good or bad idea. I understand some of the BBC's rationale – so many young people watch content via the internet that it makes some sense to try and service them in this way, though the presumed cut in scope and budgets is disappointing. Where I am less convinced is in the BBC's argument that shows aimed at younger audiences will find those viewers in late slots on BBC One or BBC Two. Recent figures show that this isn't currently the case (Gannagé-Stewart 2015). This shouldn't come as much of a surprise: if one was marketing a line of clothing aimed at teenagers, the ideal launch pad would be one of those impossibly dark shops staffed by supermodels in Westfield, not hidden away at the back of Marks & Spencer.

Conclusion

In my opinion, the BBC does an excellent job in reaching young audiences. It should hold its creative nerve in making shows that feel authentic and innovative no matter how niche

the target. It should worry less about ratings, and trust that, in this market, a small, passionate audience is infinitely preferable to a larger, indifferent one. It should understand that to reach the farthest depths of this splintering demographic it needs to broaden the base of its own demographic – culturally and in terms of class and ethnic background – and to do so quickly, before that audience gives up on them. And it should celebrate the fact that it still produces event shows that bring the wider audience together, and carry on doing so.

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4.1

SHOULD THE GOVERNMENT STILL SET THE BBC LICENCE FEE?

STEVE MORRISON
All3Media

Nobody would describe the Voice of the Listener and Viewer (VLV) as a revolutionary organisation.

So it would have been a surprise when this October the VLV proposed the establishment of a 'licence fee body' to determine the level of future BBC licence fee settlements. They said this would help underpin the independence of the BBC, including protection from political decisions by the government of the day to 'top slice' the licence fee and divert it to fund other projects.

VLV chairman Colin Browne said:

'Our members were outraged by the recent funding agreement. We believe that independence (of the BBC) was severely compromised by the manner and nature of the last two licence fee negotiations, which were carried out in secret with no public consultation... This must not be allowed to happen again.'

VLV 2015

So let's look at the facts.

Reality check: the erosion of the BBC's licence fee income

Five years ago the Coalition government froze the BBC licence fee and top sliced their income by over £500 million a year. Of that, £250 million went to pay for the World Service, £150 million to help BT roll out broadband, £75 million to the Welsh language S4C, £20 million to local city television and £25 million to the monitoring unit at Caversham. In other words, over £500 million of government public expenditure costs were transferred to the BBC.

When you consider that the BBC's first-run British TV content spend was approximately £1.3 billion in 2012, half a billion pounds was an extraordinary cut, but the licence fee was also fixed flat for the whole charter period up to 2017 whereas over the previous 22 years it had gone up by inflation every year. Therefore by the end of 2016, top-slicing and inflation will have cost the BBC between 20 and 25 per cent of its licence fee income per annum.

Now roll on from that decision to July 2015. The new government rang the BBC to say that in a week they would announce in the summer budget statement that £650–£725 million of over-75s free licence fees subsidy would transfer from the government to the BBC, knocking a further 20 per cent (approximately) out of the BBC's licence fee. The BBC negotiated and managed to claw back some income, reducing in real terms the cut to around 10 per cent: through an agreement to modernise the licence fee to include BBC content watched on catch-up and electronic devices other than TVs; the agreement to stop funding broadband rollout; and a promise to restore annual inflation. So the reality is that in the last five years successive governments have cut about a third of the BBC's licence fee income.

The reaction to these measures has been significant cuts in original British content on the BBC and similarly on the commercial public service broadcasting (PSB) channels. For example, in 2004 Britain's PSBs – BBC, ITV, Channel 4 and Channel 5 – spent £3.3 billion on first-run British TV content and 10 years later in 2014, they spent £2.5 billion – an £800 million decrease, or a reduction of a quarter.

Between 2008 and 2014, the total level of investment in new UK-originated content by the PSB channels fell by just under £440 million in real terms.

According to Ofcom's annual reviews in the five years between 2009 and 2014, the spend on first-run British programme genres on public service channels fell as follows:

- news and current affairs – a decline of £34 million (10 per cent)
- arts and classical music – a decline of £13 million (24 per cent)
- religion and ethics – a decline of £5 million (12 per cent)
- education – a decline of £23 million (77 per cent)
- factual programmes – a decline of £39 million (7 per cent)
- spend on new UK comedy has fallen by 30 per cent in real terms since 2008 to £103 million
- first-run UK original drama spend in real terms by the PSBs fell by 44 per cent since 2008 – drama and soaps investment by the BBC fell by £41 million (21 per cent), and ITV reduced its hours of drama output by 65 per cent
- sport spend rose by £146 million – a 36 per cent increase – largely a one-off because 2014 was a very heavy sports competition year, with the Brazil Fifa World Cup and the Glasgow Commonwealth Games.
- between 2009 and 2014 the BBC cut BBC Two's annual budget by one quarter, £102 million.

There was some extra spend on other UK channels to counteract these falls. Ofcom reports that non-PSB channels such as Sky and other digital channels increased their investment between 2008 and 2013 – but their analysis shows that over 80 per cent was in Sports programming which requires payment to view. When sport is excluded, the same broadcasters spent £350 million on first-run originated UK programmes in 2013, up 43 per cent in real terms from £245 million in 2008. This accounted for around 15 per cent of the total investment in non-sport, first-run, UK-originated programmes in 2013. Multichannel investment outside sport remains relatively modest when compared to PSB channels' investment.

Spending cuts and their impact on original programming

So here's the £1 billion question: why is it that successive governments are loading costs on to the BBC which have effectively cut about a third of its licence fee income, when the BBC is the largest investor in the UK TV market for original British television programmes? This is particularly contradictory given that I have been invited to government-led trade missions to China and America where ministers have expressed justified pride in a UK TV production industry which invents over half the world's TV formats when we are only 7 per cent of the world market. We are the largest exporter of TV formats and the second largest of TV programmes, second only to America which has a much bigger home market. Interestingly, the fastest sectoral growth in the UK economy in Q3 2015 was motion picture, video, TV production and music: up by 5.9 per cent (ONS 2015).

However, the effect of cutting the BBC's income is to cut the UK home market – which is like taking a pin out of a grenade as the independent TV content industry needs the shop window of a home market to sell their programmes abroad. You can't sell a programme to the US or Australia if they ask why it hasn't been shown on British TV. This is why the knock-on effects of cutting the BBC's income can have such disproportionate effects especially as the BBC, which receives about 20 per cent of annual UK TV revenue, invests in over 40 per cent of UK originated programming.

As Ofcom says in this year's review of public service broadcasting in the internet age:

'Public service broadcasting continues to bring significant benefits to society in a number of ways. It ensures diversity in the media and plurality in news and creates programming which reflects and examines wider society. It also plays an important economic function in supporting the wider creative industries, particularly the Independent production sector.'

Ofcom 2015: 2

Armando Iannucci put it succinctly in his MacTaggart Lecture this year:

'If public service broadcasting was a car industry, our ministers would be out championing it overseas, trying to win contracts, boasting of the British jobs they would bring. And if the BBC were a weapons system, half the cabinet would be on a plane to Saudi Arabia to tell them how brilliant it was.'

Iannucci 2015

The problem is that the government doesn't see the BBC licence fee as an investment in our creative industries as it would, for instance, see a new building for the development of graphene being an investment in our science-based industries. Tax breaks for making films or high-value TV programmes are seen as primarily an incentive for inward investment to the UK.

But it's the BBC that provides half the platform for the British television production industry to grow, nationally and internationally. Reducing its licence fee is cutting the venture capital of Britain's production industry.

The regional impact of licence fee cuts

Then we have the regional creative industry impact of these cuts. The BBC is the major investor in the regional creative TV economies of England and the nations in Scotland, Wales and Northern Ireland. Without the BBC there would be no Media City in the north-west of England. The bold decision to bring five BBC departments to Salford with all the consequent jobs and investment and become the anchor tenant of a brand new regional setup was a brave one fought against much metropolitan snobbery and prejudice.

One billion pounds was invested to bring Media City into being – largely by a private developer on being given a guarantee of studio use by the BBC – and the BBC will invest almost another £1 billion over the next 20 years. There are about 3,000 BBC employees working there and job opportunities have opened up for media graduates and small production companies in the north. Across Media City there are now approximately 200 firms employing around 6,400 people. Nationally the BBC is a major investor in small and micro creative businesses, with around £450 million going to 2,200 small creative businesses of fewer than 49 employees.

Cat Lewis, chief executive of Nine Lives Media in Manchester, has highlighted the regional impact of cuts to the licence fee:

'The BBC is vital and when the government reduces the licence fee that has a direct and very negative impact on businesses like mine, essentially resulting in my employing fewer people. As a job creator it makes me feel very alienated from central government because I don't understand why they are making my job so difficult.'

Creative Industries Federation 2015

Before somebody reading this argues the BBC should tighten its belt on receiving these cuts, the reality is that it has. Thousands of people have been made redundant, while the corporation has reduced programme prices year after year, squeezing independent companies' margins and replacing dearer programme genres with cheaper ones. The result has been that independent producers have subsidised British PSB channel programmes making up the deficits between costs and home prices by selling them into international and secondary markets. However, there is only so much you can cut before you get to the bone and then you have to start cutting services. So the BBC, for instance, has cancelled its BBC Three channel in order to invest £30 million in more British drama.

Conclusion

The trial of the BBC is not over. We are in charter review and the government is asking whether the scope of the BBC should be more 'distinctive'; in other words, narrowed. They are worried that some of its programmes are distressingly popular and could be made by other channels. But the BBC is a universal service. It is not right for the government to decide which individual programmes the public should watch on the BBC and if they did reduce the BBC's scope it would likely trigger another argument for reducing the licence fee.

The fact is the £145 per annum licence fee is fantastic value. It works out at about 40p a day, around a quarter of what it costs to watch Sky (Mediatique 2015). There is no other entertainment you can get for that price and the reason why it's so cheap is that everyone is paying for it. If some of the

licence fee was converted into subscription then the costs per programme would go up as fewer people would pay. Imagine the government sending bailiffs round to the homes of the old and poor demanding that their TV sets be taken away and replaced by ones with a slot meter for subscription programmes. It just won't work.

We should note that of the 10 highest such fees in western countries, the British TV licence fee ranks only seventh: Norway and Denmark's citizens pay more than twice as much, and those of Austria, Switzerland and Germany all pay more.

The last two rushed settlements have shown that governments of any description are probably the wrong people to decide the size of the BBC licence fee. Governments are conflicted: either they want to reduce the scope of the BBC under commercial pressure, or they want to save money from their own public spending bill by exporting unrelated costs to the BBC that have got nothing to do with the programme services the corporation provides its licence fee payers.

So perhaps we do need an independent body to decide the size of the licence fee. Treasury purists might regard the licence fee as a tax initially raised under the Wireless Telegraphy Act in November 1923, but over the years its collection has become the responsibility of the BBC.

Isn't it time we found a neutral body to decide the size of the fee every 10 years, after comparing it to similar advanced societies' fees and hearing the case for investment by the BBC, and consulting the public? In 2014, research commissioned by the BBC Trust found that a majority of TV licence fee payers wanted an independent body, not the government, to set the level of the licence fee (ICM Unlimited 2014).

This body could be an industry regulator, or one like the Low Pay Commission that takes evidence and proposes a sensible level.

In that way the BBC fee stops being a political football and will be charged at a rate worthy of the services the BBC provides.

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4.2

TIME TO LISTEN

GIVING THE LICENCE FEE PAYER A VOICE

COLIN BROWNE

Voice of the Listener and Viewer

As a viewer and listener I believe that £2.80 a week is extraordinarily good value for money. By paying the licence fee, I can enjoy as much television and radio as I am able to physically consume without paying any extra charges. All for 40p a day, which is less than the price of a cup of tea.

As a country we have long enjoyed the benefits of a strong broadcasting sector, thanks in the main to the mixed ecology of strong publicly owned broadcasters, the BBC and Channel 4, and a vibrant commercial sector which has *chosen*, in the case of ITV, to retain its public service commitments and obligations. I do not believe it needs to be radically changed.

However, the government's green paper suggests that we now have so much choice that perhaps we don't need the BBC to continue to do all that it does.

I fundamentally disagree. The proliferation of media providers in the market today does not guarantee a range of content. It does not guarantee culturally specific UK content – after all, imports are sometimes a far more cost-effective way to fill schedules – and it does not guarantee high quality. While there is much out there which is great in the commercial sector and on our only other not-for-profit broadcaster, Channel 4, it is the BBC that keeps the bar high.

The Department for Culture, Media and Sport has up until now received 100,000 responses to its charter review consultation, which demonstrates that feeling about the BBC is strong among the public. There are a number of online campaigns that have gathered hundreds of thousands of signatories in support of

the BBC. All of this cannot be disregarded. There is generally a high level of support for the BBC among listeners and viewers and this must be taken into account in the government's current deliberations on the future of our public service broadcasting system. It shouldn't make dramatic changes to the BBC's scale and scope unless there is strong evidence that the public wants the BBC to change.

We are lucky to have some of the finest broadcasting in the world. Of course, the Americans may do some things better; the Scandinavians may produce some excellent drama; and by no means everything that we see on our screens would meet most definitions of quality. However, by and large we know that we enjoy a rich and diverse range of programming in all the main genres; and almost certainly uniquely good radio.

Of course there could always be improvements – the BBC must strive to remain relevant to younger audiences, it must ensure that pay for its staff is set at appropriate levels, its governance structure needs to be reformed so there is less confusion about who is ultimately responsible for BBC operations. It must curb its ambition to want to provide everything for everyone – the imperialistic charge is not entirely unfounded – but it certainly needs to do something for everyone.

Of course, the changes in technology and the market are having a profound effect; but Ofcom's latest figures show that the change in viewing habits is incremental and, as regards the move from terrestrial to online or mobile viewing, is happening more slowly than many would expect (Ofcom 2015). While forecasts are notoriously difficult in this area, free-to-air terrestrial viewing is likely to remain the main way in which UK citizens receive their television for the foreseeable future and probably for the period of the next BBC charter. We are therefore cautious about the apparent enthusiasm for the BBC to ride 'two horses' – one the traditional broadcasting model and the other the online model. While it is clearly sensible to ensure that it can provide content to audiences across a range of platforms to suit their needs, it must be remembered that the vast majority of audiences still enjoy their content live or recorded via a traditional TV or radio.

One of the real benefits of the current governance model is that licence fee payers now have the opportunity to feed into the debate through the BBC Trust's consultation processes. This marks a huge improvement in accountability and I believe it should be retained in whatever structure is instituted as a result of the current charter review, to ensure the BBC is more responsive to the needs of its audiences in future. If there is a feeling that the BBC isn't providing the best value for the licence fee, there should be a route to complain which is independent of the BBC.

Historically, the BBC has not always been very good at recognising who its real friends are, or at responding to their criticism.

Faced with a daunting range of potentially existential challenges over the year ahead, the BBC needs to recognise that its real friends are the people who pay the licence fee and who, by and large, enjoy its services and recognise the value for money they offer; and it needs to engage with these audiences more deeply and innovatively than ever before.

Let me be clear. I am absolutely not talking about some twitter/phone-in universe, where reflecting the opinions of the audience – or at least that part of the audience which has the time and inclination to have its views broadcast on air – is seen as a sufficient form of engagement. What I am talking about is the recognition that the audience has an important role to play in the debate about the kind of public service broadcaster we want – what do we want it to do more of, or less of, or differently from a purely commercial organisation?

For example, in an increasingly global and competitive media marketplace, do we want the UK public service broadcasters – and commissioners – to provide high-quality output that reflects the distinctive interests and culture of UK citizens and exploits to the maximum possible extent the huge wealth of talent that exists in the UK – both in creative originality and in technological innovation?

If we do want the UK's current broadcasting system to continue to thrive, the question is how can we ensure that the BBC is able to continue to play a leading role in it?

The previous licence fee settlement in 2010, conducted in secrecy over the course of a weekend, resulted in a shabby settlement which we believe was not in the interests of licence fee payers or, indeed, of the BBC itself. The agreement undermined the established principle that the licence fee should fund, almost uniquely, the BBC's services to viewers and listeners in the UK. Other pet political projects were thrown into the pot. 'Top slicing' of this kind has a greater long-term impact on the BBC's finances than the level of settlement; and it undermines the very clear relationship between the BBC and the people who fund it.

The VLV therefore welcomed calls from the BBC Trust and from the culture, media and sport select committee that there should be an open and inclusive debate about the BBC's future, including its funding. It was therefore shocking and disgraceful that the decision to make the BBC take over responsibility for funding free licences for the over-75s was taken with no public consultation of any kind.

Apart from the serious damage to the BBC's finances, the real concern is that decisions taken in this way undermine both the reality and perception of the BBC's independence, at home and abroad, and make it appear an arm of government.

The VLV has therefore proposed the establishment of an independent statutory body to determine the level of future settlements. VLV has sponsored the preparation of a draft bill to give effect to this proposal. It would ensure that the setting of the licence fee in future is conducted in a more democratically accountable manner, consulting with licence fee payers and others during the process, and it will protect the interests of licence fee payers, so that the money they are paying is not used for purposes other than the BBC.

So let the debate continue and let the BBC recognise that its most potent weapon in that debate might be the – sometimes critical – support of its listeners and viewers.

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5.1

WHAT NEXT FOR BBC GOVERNANCE?

JON ZEFF

Introduction

The BBC Trust and executive board were established in 2007, replacing a unitary governance structure in need of modernisation. Less than 10 years on, there already appears to be a consensus that the new structure has not worked and needs to be changed again. Even the trust itself has suggested that it should be replaced by an external regulator in the next charter (BBC Trust 2015).

It is inevitably easier to identify problems with the present structure than it is to come up with a solution which solves them. There is a tendency to leap straight into drawing new organisation charts without clearly articulating what they are supposed to achieve. This leads to people apparently advocating the same solution but from very different viewpoints. Some think that the Trust is not tough enough because it is too close to BBC management, while others believe that it interferes too much and a lighter touch is required.

The BBC is a large public body of huge national importance. It is rightly expected to be rigorously accountable for its spending and the standard of service it delivers. Creative freedom and operational agility are also essential if it is to deliver the quality that audiences expect. Getting the balance right is not easy.

Two points are immediately clear. First, there is no perfect solution waiting to be discovered – there will be tensions and trade-offs in any structure. Second, it is people, not structures, who make decisions – no system can eliminate

mistakes. Indeed there are bound to be mistakes and controversies at the BBC in the future, whatever form its governance takes. Having the right people in place working effectively together is at least as important as the design of the system.

There have clearly been problems since the Trust was created. But, before leaping for a solution, it is important to be clear about what the BBC's governance is actually for and what is systemically wrong with it at present. The risk otherwise is of simply replacing one set of problems with another.

How did we get here?

For its first 80 years, the BBC was overseen by a (non-executive) board of governors, in whom all the powers and duties of the corporation rested. The governors had no staff of their own and there was no external regulation of the BBC, although the government had a veto over new services and commercial ventures. By 2003 this model looked out of step with increasing expectations of accountability and transparency in both public and private sectors. Commercial operators became increasingly vocal about the lack of checks and balances on the BBC's apparently limitless ambitions for expansion in the digital era. Calls for reform were given unstoppable momentum by the fallout from the Hutton inquiry in 2004, in which the governors' lack of independence from the BBC's management was exposed as a major weakness (Lord Hutton 2004).

The government's solution was to impose structural separation between the executives running the BBC and the body charged with holding them to account on behalf of licence fee payers. The executive board and the Trust were established as separate entities within the BBC. Slightly confusingly, the former was augmented with non-executive members to act as 'critical friends' to the director-general, on the basis that this would help the Trust keep its distance. The role of approving new services was passed from government to the Trust.

This seemed a neat solution, strengthening both the BBC's independence and its accountability. But it was also a classic compromise. As such, it has had few out-and-out champions, coming under criticism both for placing excessive constraints

on management and for not being constraining enough. A system lacking in committed supporters is always going to come under fire when things go wrong. And, of course, some big things have gone wrong at the BBC in recent years.

The momentum towards further change now seems unstoppable. But to what extent has the current model really failed, and is there a better alternative?

What is BBC governance for?

To answer those questions, it is important first to have a clear view of what we should expect an effective BBC governance model to deliver.

Effective corporate governance is an important issue for any organisation of significant scale, whether public or private. Getting it right for the BBC is particularly tricky because of its unique nature and position. As a public sector body spending over £3.5 billion per year of licence fee payers' money, it is rightly expected to meet gold standards of transparency, value for money and public accountability. As a major public intervention operating in a highly commercial environment, rigorous checks are needed to ensure that it does not unduly crowd out commercial competition. As a major content and news provider, the BBC is expected to meet the highest editorial standards. And as a media organisation, its independence is fundamentally important, which means that its governance must be separate and independent from both government and parliament. That is a unique combination.

Through all of this, the BBC must be able to deliver its core role of serving audiences with great, distinctive content. In a world where both technology and consumption patterns are rapidly developing and diversifying, that means it must be able to evolve and adapt quickly.

In summary, an effective BBC system of governance and regulation will be one which:

- holds the BBC to account rigorously and publicly in the interests of licence fee payers: for its performance in serving audiences; in meeting its public purposes; and for the way it spends public money

- upholds the highest possible editorial standards, including the accuracy and impartiality of BBC journalism
- regulates its impact on the market transparently and objectively
- secures the BBC's independence is powerful in defending it
- enables the BBC to make and implement strategic decisions swiftly and effectively.

There are clear tensions here: designing a model which does all of this is not straightforward.

Has the trust model really failed?

The new dual board system has undoubtedly brought major improvements in governance. There is a much greater degree of transparency, consultation and open scrutiny around key decisions and performance issues than ever before. For the first time, each BBC service has a published remit, including parameters for both investment levels and content mix, against which performance is regularly and publicly reviewed. Public value tests have required the Trust to take an independent view of major new proposals, resulting in modifications to some, such as iPlayer, and outright rejection of others, such as local video news and (provisionally) BBC One+1. Commercial operators acknowledge, at least in private, that their concerns are now taken more seriously. The Trust has been an effective arbiter of editorial appeals, particularly on accuracy and impartiality where it holds the BBC to more detailed standards across a broader range of output, than those imposed via Ofcom on other broadcasters.

However the model has also received strong criticism, particularly following a series of crises at the BBC which hit the headlines in 2012 and 2013. The controversy around the dropping of a *Newsnight* investigation into Jimmy Savile, the airing of false allegations about Lord McAlpine, the write-off of some £150 million invested in the failed Digital Media Initiative (DMI) project, and the huge payoffs made to departing senior executives all exposed serious failings at the corporation.

The investigations into each of these cases exposed different, but serious, problems in the management of the BBC: the Pollard report on *Newsnight* demonstrated, in the Trust's words, 'serious

failings in editorial oversight and management control' (BBC Trust 2012); the PricewaterhouseCoopers report on DMI referred to 'weaknesses in DMI governance, risk management and reporting arrangements' (PwC 2013); the National Audit Office report on severance pay concluded, among other things, that the payments had 'been subject to insufficient challenge and oversight' (BBC Trust 2013). In each case changes were made to management processes and structures to address the issues raised.

It is clear that all of these cases exposed significant deficiencies within the BBC at the times they happened. These included failings of internal governance, particularly in relation to major projects and pay decisions. But it is not clear that they exposed fatal flaws with the BBC's governance model, or that a different system would have prevented them.

There is one key weakness with the trust model which may not have caused these failures but certainly made them more difficult to handle: the lack of clarity around the respective roles of the Trust and executive board. The charter makes clear that it is the executive's job to run the BBC and the Trust's job to hold it to account. This distinction is well defined when it comes to set pieces such as public value tests and complaints handling. But the Trust is also the sovereign body of the BBC which means that, in many areas, it sets its own boundaries. It has not always been clear, at least to the outside world, exactly who takes responsibility for what – particularly when things have gone wrong. For example, although decisions on severance payments were explicitly for the executive and not the Trust, there were conflicting accounts about whether the Trust had been consulted about them in advance.

Alongside its regulatory functions the charter gives the Trust responsibility for 'setting the overall strategic direction of the BBC' and approving 'high-level strategy and budgets' for its services (DCMS 2006). It is left to the Trust to define what this means. The effect is that, internally, many strategic decisions have to go through two layers of approval. Externally the lack of precise definition fuels the perception that the Trust is conflicted by both steering the BBC and sitting in judgment on it. That conflict may well be more a matter of perception rather than reality, but perception matters. A suspicion that the Trust may at times be too close to the management

– however thin the specifics – can be hard to dispel, and undermines confidence in the system.

The fact that the chairman of the Trust is also the chairman of the BBC does not help to convey a sense of separation, notwithstanding the charter's insistence that the latter title is 'honorary' only (ibid). In recent years the role of the non-executive members of the executive board has been bolstered, and their numbers increased, to strengthen corporate governance on the management side and to help reinforce the separation from the Trust. This has helped, but has not resolved the tension.

How should the model be changed?

One of the lessons of recent years is that, under any governance structure, the BBC needs a strong management capable of providing clear direction and managing risks effectively. In recent debates, many have argued for a 'unitary' BBC board, constituted along plc lines, with a majority of non-executive members including a non-executive chairman. Such a board, it is argued, could take full responsibility for strategy, budgeting, and internal corporate governance, removing the duplications of the dual board system.

An executive board with full strategic responsibility would streamline decision-making and enable the BBC to be more fleet of foot in responding to change. A strengthened non-executive presence would further increase the degree of external perspective and challenge brought into BBC management which should help to reduce the likelihood of DMI-type problems going unchecked. A non-executive chairman would be able to offer strong public support to the director-general, particularly in times of crisis, without the tensions caused by the distance that the Trust chairman has to maintain.

But a single board, however constituted, cannot provide the whole answer. In the commercial world, a unitary board is unambiguously 'responsible for the long-term success of the company' (FRC 2014). But the interests of the public – the licence fee payers – will not always be aligned with the corporate interests of the BBC and its management. The experience of the previous unitary system shows that a single

body cannot both run the BBC and be relied upon to secure the wider public interest.

So, whether or not the makeup of the executive board is changed, there will still be a need for something which is separate from the BBC's management and which can hold it to account in the interests of licence fee payers. This goes beyond the regulation which applies to other broadcasters: it includes, for example, making judgments on the public benefits and market impact of changes in services; assessing delivery of the BBC's public purposes; ensuring that value for money is secured; and maintaining editorial standards. And it is important that whoever has these functions also has the teeth to effect real change. These areas sit somewhere between governance and regulation – in practice there is no easy split between the two.

One proposal is to replace the BBC Trust with a bespoke external 'regulator'. This could be a way of retaining the most important functions of the Trust while avoiding the difficulties of having a supervisory body which is part of the BBC. 'Ofbeeb' would be driven unambiguously by the interests of licence fee payers, while being firmly independent of the BBC itself. This idea holds many attractions. The big question is whether a small, single-client regulator would have sufficient critical mass to make an impact. In the absence of a contestable licence fee (the wider case for which is, at best, weak), material leverage over the BBC would be limited. Would an isolated Ofbeeb be able to get sufficiently under the skin of the BBC's inner workings to offer real challenge, and would it be able to assert genuine authority over a powerful non-executive-led BBC board?

An obvious alternative would be to give Ofcom an expanded BBC remit. Ofcom has expertise in the sector, a successful track record and is unlikely to suffer from a lack of clout. It already has a substantial role in relation to the BBC, including around market impact, competition, and harm and offence. There are in any case arguments in favour of strengthening Ofcom's role in the economic sphere, for example on fair trading and ex-ante competition regulation. But holding the BBC to account for £3.7 billion of public spending would be a very different function from anything Ofcom currently does.

Even taking on full responsibility for editorial standards – where there is already overlap with the Trust – would involve breaking new ground, taking Ofcom into the territory of regulating online content for the first time, and bringing a vast new in-tray of complaints on accuracy and impartiality where audience expectations of the BBC are higher than of other broadcasters. Ofcom would no doubt be capable of taking on this broader role. However, it would be a real challenge to balance this demanding new role as champion of licence fee payers’ interests with its core function as sectoral regulator for the communications industries.

Any external body would need to have its duties precisely and skilfully defined. That brings the advantage of clarity. But the lack of precision in the current system is a strength as well as a weakness. It is not possible to anticipate every eventuality in the text of the charter. The Trust’s status as sovereign body within the BBC gives it the flexibility to adapt its role as circumstances require – and in particular to intervene in a crisis if it sees the need. The risk of having to be very specific from the outset is that the regulator finds itself without the locus to act when something unforeseen arises or, alternatively, that it ends up with an overcomplicated raft of new duties. The alternative, of giving an external regulator broadly defined powers to intervene, would risk continual boundary disputes and raise concerns for the corporation’s independence. There are particular risks to independence if new legislation is involved, bringing the BBC’s constitutional arrangements into the parliamentary arena for the first time.

The protection of the BBC’s independence is a critical success measure for any governance system. The Trust has at times acted as a buffer between the BBC’s management and the political environment: it is plausible that the government would have intervened more directly in recent crises had the Trust not existed. With an increasing tendency for parliament to want to call the BBC to account on ad hoc editorial issues, and for governments to treat the licence fee fund as a form of exchequer funding, the BBC’s independence needs robust protection. Ultimately, of course, the one concrete measure the Trust can take when independence is seriously threatened is to resign en masse, a drastic but politically powerful weapon to have in the armoury. It is hard to see a unitary management

board doing that and leaving the BBC rudderless. An external body could offer some protection if that was part of its duties, but there is a limit to how far it could absorb pressure on the BBC's behalf.

Reform or replace?

All of this brings us back to the question which has been somewhat leapfrogged in the debate so far: might the best option be to reform the trust/executive board model rather than replace it? In my view there are two sets of changes which could go at least some way towards addressing the problems while retaining the strengths of the model.

- First, the Trust's remit could be narrowed to remove its involvement in setting strategy and approving the BBC's budgets. It would focus wholly on holding the executive to account, arbitrating appeals and handling regulatory approvals with, as now, the interests of licence fee payers at its core.
- Second, the BBC's executive board could be reconstituted with a non-executive chairman and full responsibility for setting the financial and operational strategy and running the BBC's services.

These changes would embed a much clearer distinction between the roles of the two bodies, while retaining many of the strengths of the current system – in particular the trust's ability to effect real change within the BBC. The Trust would remain the sovereign body, with the ultimate ability to intervene when extreme circumstances demanded. But the presence of a separate executive board chairman would provide the director-general with clear support while counteracting confusion around the perceived role of the Trust chair (even more radically, the 'honorary title' of BBC chairman could be dropped).

This would not be a perfect answer. It would reduce the tensions and difficulties in the current setup without removing them entirely. But it would build on the improvements in accountability and oversight which the 2007 charter brought in, while avoiding the risk of either ineffectual or overprescribed supervision from outside.

Conclusion

It may well be that the debate about the BBC's governance has already passed the point of no return, and the Trust is to be no more. None of the other options is unworkable, provided they have the right calibre of people in place to deliver them. But none of them are free from difficulty. The option of reforming, rather than replacing, the Trust model may, in the end, be better than the alternatives – certainly it should not be too easily dismissed. It is, after all, still new and it is not surprising that lessons have been learned in its early years. But whatever happens, it is important not to lose the major improvements in BBC governance which have been achieved since the days of the governors. The interests of licence fee payers – which include choice and healthy competition – must continue to be at the heart of the system and the independence of the BBC must be resolutely protected.

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5.2

CAN OFCOM REALLY PROTECT THE BBC'S INDEPENDENCE?

RICHARD HOOPER

In short, yes. Ofcom, a creature of statute, can indeed protect the BBC's independence. But my 'yes' to the question in the title of the chapter has a slight echo of a 'but'.

Having just watched Bettany Hughes's excellent BBC Four exposition on Socrates, let me start by deconstructing the question Socratic-style. What is meant by Ofcom and its independent status as a regulator? And what is meant by the BBC's independence?

Ofcom's independence

Ofcom is indeed a creature of statute, thus accountable to parliament first and foremost and not to the executive. Ofcom is a regulator in the long line of regulators in the UK since the wave of privatisation in the 1980s – designed to be independent. Independent regulation was and is part of the deal struck under prime minister Thatcher. This idea of independent regulation became something of a British first, a 'gold standard', inspiring sectoral regulators in other countries. Only an independent regulator, the argument went and still goes, can truly balance the potentially conflicting demands of profitability from private investors with the need for reasonable prices and high-quality service for consumers. Politicians in the runup to elections will tend to promote lower prices for consumers to the possible detriment of investment.

Regulators of all kinds clearly have to balance the consumer–investor push and pull. Cathryn Ross, chairman in 2015/16 of the UK Regulators Network and CEO of the water regulator Ofwat, does not see that as a simple problem, and actually finds the consumer–investor balance argument rather facile:

‘Economic regulation is about aligning the interests of capital, and company management (not the same thing) with the interests of customers... You often hear economic regulation or regulators referred to as “balancing the interests of investors/companies with those of customers” or, more crudely still, “limiting the profits of monopoly firms”. I think this is quite dangerous – it risks positioning the regulator as an all-seeing, all-knowing arbitrator between regulated firms and customers. It also risks creating a narrative in which a pound for the customer is a pound from the investor, and vice versa.

‘For me, the essence of economic regulation is all about achieving that alignment – where companies and investors profit by doing what their customers want. Of course, that’s what well-functioning markets do.’

Ross 2015

Ofcom has, since its creation in 2002/2003 from five existing regulators, enjoyed a good measure of independence, and that independence does flow from the fact that it is a creature of statute. But... and there are three buts.

First, the UK’s long-established public appointments process for all the members of the Ofcom board, including crucially the chairman and the chief executive officer, has a political edge. An independent selection board deems X applicants as ‘appointable’. The names of those X ‘appointable’ applicants go to the relevant secretary of state, or for big appointments (for example chairman of the BBC Trust) to Number 10. The prime minister or the secretary of state then chooses whom they want from the group of X applicants. It is well known that the politicians at this point, whether from left or right of the political spectrum, are free to choose, and do from time to time choose those with similar political sentiments. However, to counteract

this, the independence of the Ofcom chairman is enshrined in European telecoms legislation.

Second, no chairman or CEO of Ofcom is going to make big decisions without keeping the government fully informed. No surprises, no veto. Ofcom has since its creation become well known for the quality of its research and evidence-based decision-making. So much so that Ofcom has on occasion run the risk of being seen as a policymaker, which is not necessarily appreciated by the government of the day. The difference between policy adviser (which Ofcom is and which government appreciates) and policymaker is not always that large – if the evidence-based decision-making really is thorough and objective.

The third 'but' concerns operational independence. Sectoral regulators in the UK such as Ofcom are experiencing increasing government encroachment on how much they spend and how they spend it, even where they are funded by industry fees as distinct from tax revenues.

The BBC's independence

Turning to the BBC, it is important to be clear where the independence argument lies in relation to three key matters: editorial independence, its public service broadcasting remit and its funding.

The BBC should be thoroughly independent in its ability to run an impartial and accurate and fair news service. It should not be leant on by government in editorial matters, nor by newspapers of the right or left. If the *Daily Mail* does indeed think the BBC is full of lefties, then it should follow the normal complaints-handling process like anyone else and give letter and verse. Accuracy and impartiality, fairness and privacy, harm and offence, are the six horsemen of the content apocalypse. The BBC should be regulated on these matters as other broadcasters and as the statute stipulates (political impartiality in the UK is a statutory requirement for broadcasters, but no longer in the US for example).

It would have been better for all of us if the infamous Gilligan report on the *Today Programme* about the Blair government's handling of intelligence in the runup to the Iraq war had been

adjudicated, coolly and objectively, by an independent body like Ofcom, with fines and sanctions for any deemed misbehaviour. Instead the whole thing turned into a highly politicised witch-hunt with the chair of the BBC and the director-general losing their jobs. Dan Rather, the distinguished American newsman, recently commented:

'News organisations and teams within those organisations have to have the guts and the backbone to dig into stories that people in power don't want the public to know. If you take the attitude that the public needs to know what somebody in power doesn't want them to know, that's news. Most of the rest of what passes for news is propaganda or advertising.'

Meek 2015

But there is a very important distinction between the BBC's journalistic independence and any desire it might have to be independent of normal forms of accountability while receiving £3.7 billion of public monies. The BBC's remit is set down in the charter and agreement and is currently overseen by the BBC Trust which represents the interests of licence fee payers, requires value for money and approves service licences. The BBC's remit and its fulfilment are also evaluated by Ofcom in its regular reviews of public service broadcasting. Section 264 of the Communications Act 2003 requires Ofcom to report 'on the fulfilment of the public service remit' of all broadcasters including the BBC. The government of the day exerts a strong influence on the BBC's 10-yearly charter and agreement. The BBC Trust is appointed under the same public appointments process as Ofcom (but the BBC chairman's independence is not enshrined in European legislation!). By contrast ITV's public service broadcasting remit and licences to broadcast are negotiated and agreed with Ofcom under guidance from the Communications Act 2003.

The independence of the BBC, so important in relation to editorial matters and content, does not stretch to its funding arrangements and quantum, and never will while it is funded by a licence fee or any other form of hypothecated 'tax'. It is legitimate for the government of the day, after (one would hope) consultation with parliament, to set the level

of the licence fee. If the BBC were ever funded entirely by a combination of subscription (of whatever sort) and commercial revenues, it would immediately gain independence of funding (and independence of much political flak too). The last two behind-closed-doors ‘negotiations’ of the licence fee, under the Coalition government and more recently under the Conservative government, have not been especially edifying. A stronger parliament might have expected the executive to consult and debate the matter of BBC funding, but this is not in my view an independence issue for the BBC.

Bringing the two together: Ofcom and the BBC’s independence

As chairman of the Ofcom Content Board from 2002–2005, I can say with full confidence that there was never any attempt on behalf of the government to influence our judgments related to harm and offence, and fairness and privacy for all broadcasters, including the BBC. In January 2005, BBC Two’s transmission of *Jerry Springer the Opera* received the largest level of complaints ever for a television programme (some half of them submitted before the programme was actually transmitted!). We rejected the complaints (concerning harm and offence) in May 2005. There also were no attempts by the government to influence our judgments on accuracy and impartiality, but here our remit covered all broadcasters excluding the BBC. I have long argued (unsuccessfully) that accuracy and impartiality should have been regulated by Ofcom and not by the BBC Trust. Culture secretary John Whittingdale, being interviewed at the 2015 Edinburgh International Television Festival, seems to be moving in that direction. I earnestly hope that this will be changed under the new charter arrangement. The argument is simple: who would prima facie be seen as more independent and objective when assessing that complaint from the *Daily Mail* about lefties – Ofcom or the BBC Trust? Ofcom, easily.

There is no doubt in my mind that Ofcom, based on past experience and its own track record of guarding its own independent regulation, would protect the BBC’s independence on editorial matters.

But there are two other tiers of content regulation above tier one which regulates editorial matters – fairness and privacy, harm and offence, accuracy and impartiality. Tier two is all about quotas. What percentage of production and programmes should the BBC or ITV be required to take from independent production companies, for example? This clearly overlaps with the government’s policy towards economic growth in the creative industries. As a result Ofcom judgments on this in relation to the licence fee-funded BBC would always need to be taken close to government thinking. UK ‘indies’ have been a great economic and creative success but they remain firmly a political construct based on the assessment of the power balance between big commissioning broadcasters and smaller producing companies and the division of programme rights.

Tier three of content regulation is all about remit and is the most difficult. Ofcom under the 2003 Act is responsible for promoting the provision of public service broadcasting and whether the BBC or ITV or Channel 4 are delivering public service broadcasting to citizens and consumers in the UK. If the BBC Trust is abolished, Ofcom could take over the regulation of the public service broadcasting remit of the BBC and issue licences as it does now to ITV and Channel 4. But this leaves the question of who ensures that the BBC delivers value for money for the public funds it receives. Logically this should be a strengthened unitary board of the BBC where the non-executives have genuine independent power to hold management to account, drive value for money on behalf of licence fee payers (proxy shareholders), and are encouraged to escape capture by that management – an issue for all non-executives on all boards, not peculiar to the BBC.

The most difficult issue, in relation to remit, is defining public service broadcasting and this brings the definer/regulator very close to public policy, indeed into public policy. ITV for example enjoys benefits from being a public service broadcaster – its position on the all-important EPG (electronic programme guide) is a case in point. It is difficult to imagine Ofcom or any other regulator making decisions about public service broadcasting’s benefits and obligations without being close to both parliament and the government. John Reith 90 years ago argued that the BBC should provide what people want *and* what people need.

The first of these can be answered by what Cathryn Ross calls ‘well-functioning markets’. The second is, sooner or later, a political judgment.

As regards funding, where I have argued that the BBC enjoys no independence anyway, Ofcom would be in a position to provide useful evidence to the political decisions, if asked to do so, given its wider remit to ‘maintaining and strengthening the quality of public service broadcasting’ set out in the Communications Act. Ofcom’s understanding of the broadcast market (if such a thing still exists in the digital world) would certainly be helpful to the civil servants and ministers toiling at 100 Parliament Street, the home of the Department for Culture, Media and Sport. Ofcom in the past has put forward the idea of top-slicing the licence fee, making the licence fee contestable, as happens in New Zealand – something which the BBC did not like at all. This of course then duly happened in the last two licence fee settlements, as a result of a government not an Ofcom intervention. The licence fee funds broadband rollout, the World Service, S4C and Jeremy Hunt’s passion for local television, and will shortly fund over-75-year-olds’ ‘free’ licence fee. The government clearly controls the BBC through the setting of the licence fee and will always do so as long as these are public funds. Neither Ofcom nor the BBC Trust will change that.

Conclusion

Ofcom, if asked in the next two years to take over all regulation of the BBC from the BBC Trust, would indeed be thoroughly capable of protecting the BBC’s independence in editorial content matters. It would be especially good at politically hot matters to do with accuracy and impartiality, if given the remit.

Ofcom would be able to make a positive advisory contribution to funding arrangements where the BBC, if it remains licence-fee funded, enjoys no independence anyway.

With regard to quotas/independent production companies, and definitions of public service broadcasting, Ofcom has already demonstrated its ability to apply a framework for public service broadcasting set out by parliament in a sensible and rigorous way, using its discretion and judgment. There is no inherent reason to think that it would not do the same for the framework

set out by government and parliament in the next charter and agreement for the BBC.

This leaves three questions to answer. First, who has the power to set or amend budgets for particular BBC services? The BBC's unitary board is presumably the starting point for this, but what if their priorities become so skewed for whatever reason: should there be a power for Ofcom, pursuant to its public service broadcasting responsibilities, to direct budget changes to particular services?

Second, who actually decides if the BBC should be free to launch new services, close BBC Three, or substantially enhance the budget of a service to take it outside the budget set in a service licence? Ofcom?

And third, is Ofcom's historic and by-and-large well-judged closeness to the political process a plus or a minus when it comes to protecting the BBC's independence? It is a plus in most cases. But how would Ofcom behave if the government of the day became hostile to the BBC's very existence? Or if the government of the day wanted to significantly reduce the BBC's funding and hence the scope of its operations? Ofcom would have to stand up for the BBC because it has a clear statutory remit to 'maintain and strengthen the quality of public service broadcasting in the United Kingdom'. Would Ofcom have the courage to say 'No, Minister'?

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5.3

PUTTING THE SCOTTISH VOICE INTO BBC SCOTLAND

GERRY HASSAN

University of the West of Scotland

The BBC is one of the main institutions and pillars of Scottish and British public life. It arouses passion in many forms: identification, reverence for some of its past glories, even fury at current and historic shortcomings. Some want to defend it at all cost, others denigrate and diminish it, and a few radical voices want to democratise and open up the BBC and broadcasting.

In Scotland, the BBC has tended to lag behind the curve of change of the nation and society, rarely taking chances or being bold and innovative in leading debate and programming content. The BBC (and STV too) have historically represented Scottish political and public life in a narrow, cautious way, focussing on safe debates and figures, avoiding controversies, and consistently avoiding challenging power and privilege.

This should be of little surprise in a culture which was until recently highly deferential, authority- and permission-based, where domestic autonomy and influence lay in the hands of a few bodies (churches, local government, professions), and in which BBC and STV came from and saw themselves as part of the dense network of relationships which characterised civil society.

Pre-devolution, political power and scrutiny lay elsewhere, in Westminster, with Scottish politics mostly a secondary and often displacement activity. But across other areas of life – whether religion, how professional bodies discharged their responsibilities, and the divisions and discriminations of society – for most of our recent history, Scotland's media, whether newspapers or broadcasters, have had little of originality to contribute.

This wasn't, of course, the story they told themselves. Instead the picture was, in Magnus Linklater's recollection of Arnold Kemp, *Herald* editor from 1981–1994, 'to reveal to the powerless that which the powerful would rather keep secret' (Kemp 2012: 4). But seldom did this happen. To use the *Herald* and *Scotsman* as examples and summarise a wide and complex historical pattern briefly: these two papers were voices of the liberal and unionist classes of the 19th and 20th centuries, which in the 1970s shifted to being pro-devolution, and in the 1980s, anti-Thatcher and anti-Tory. The continuity in this is as important as the change: they were from and for a managed, consensual politics and society.

That meant not holding power to account, something BBC and STV followed in the footsteps of. A recent example which illuminated how this tradition had not vanished was the liquidation of Scotland's biggest football club, Glasgow Rangers, in July 2012. All of the mainstream press and broadcasters were caught out by this story, having failed to ask over years difficult questions of the owners and backers of the club. This became known as 'succulent lamb journalism' – whereby sports writers became in effect PR agents for the football clubs.

The Rangers story was the biggest media controversy in Scotland until the independence referendum. After not dealing with the first well, and having been outflanked by social media and wounded by tribal passions, you might have thought the media would have seen the warning signs and upped their game.

Instead, the independence campaign of 2011–2014 showed the structural, psychological and cultural issues which limit the potential of the Scottish media. Nowhere was this more evident than in broadcasting and BBC and STV's coverage. Neither could be said to have covered the campaign in an imaginative way. Rather, both, played safety-first campaigns, trying to ensure they made as few political enemies as possible.

The BBC, because of its place in society, ownership and traditions, faced much more scrutiny and attention than did STV. Marches were held to BBC Scotland's Pacific Quay headquarters by nationalists claiming its coverage was 'biased'. There was visceral anger at the Beeb in sections of the pro-independence commentariat, with several observers making

the charge of systemic 'bias', while former first minister Alex Salmond at numerous points, post-referendum, criticised the BBC and called their coverage 'a disgrace' (Ponsonby 2015; Rawlinson 2015).

All this has left a BBC that is shaken, stirred, and unsure which way to turn, while a large section of Scotland feels shortchanged and wants change. To understand and address these feelings we need to see recent events referendum as part of a much bigger picture.

'BBC Scotland is a fiction'

The BBC and BBC Scotland come from, and to this day are rooted in, a very different UK and Scotland. The BBC's origins in the 1920s were as a patrician, elite-driven organisation whose motto – 'Nation shall speak peace unto nation', adopted in 1927 – showed that it saw itself as benignly speaking down to the world, at home and abroad, and enlightening it. It was also clear that 'the nation' in question was Britain, with Scotland, Wales and Northern Ireland seen as mere regions or outposts.

For the first 40 years, there was no such thing as 'BBC Scotland'. Instead there was a unified BBC who broadcast in Scotland. Change came on 1 January 1968, when the newly appointed controller, Alasdair Milne, later to be director-general of the entire corporation, made the mistake on the first day of his new job. Finding nearly the entire BBC Scottish staff absent, having forgotten that New Year's Day was a public holiday, he set about working out what he could do. That turned out to be deciding to change the lettering on the front of the building from 'BBC' to 'BBC Scotland' (Milne, 1988).

And so, BBC Scotland was born: a change that amounted simply to altering the name on the shop window. Nothing else was altered in terms of who called the shots, as subsequent years have shown.

Fast forward to today. One version of future broadcasting recently emerged with the rumoured proposals of the charter renewal team in BBC Scotland, backed by director Ken MacQuarrie. Scotland would get a budget of £150 million – a significant increase on what is currently really spent on Scotland and Scottish programmes (which is estimated

by observers to be as low as £30 million). There would be complete devolution, a new Scottish BBC HD channel and a second Radio Scotland channel.

Alongside this there would be a major investment programme across public life – in the arts and culture, comedy, entertainment, and music. All of this was agreed by the heads of the BBC in London. It was too good to be true. It turned out that after initial agreement was reached, director-general Tony Hall, under pressure from other senior London BBC figures anxious about seeing their empires diminished and divided, backtracked – and now these proposals are not being progressed. Yet, this is the sort of bold and belated step that the BBC and Scottish media desperately need.

The current situation is one of slow decline to irrelevance. One insider put it that ‘BBC Scotland is a fiction. In a real sense it doesn’t actually exist.’ This has parallels with the Scottish Labour party – in that clearly there is an entity operating in the here and now called BBC Scotland. But what it touches upon is how it operates, its autonomy and who it is answerable to, in the same way that causes problems for Scottish Labour.

Accountable to whom?

In short, who is BBC Scotland really accountable to? In what way is it answerable to the people of Scotland? The answer is that it isn’t, not in any direct sense. BBC Scotland is formally accountable to the BBC in London, and the only way it can be held to account north of the border indirectly, is by speaking to London.

Accountability is one of the big challenges. But that has to address how to answer Scottish concerns without getting into hands-on political management. How does BBC Scotland do that without becoming a plaything of politicians in the Scottish parliament? Could there be a role for a Scottish Ofcom as a regulator with a hands-off relationship with politicians?

Internally, BBC Scotland needs top-to-bottom transformation. It is not an organisation with great pride, a burning mission to do wonderful things, to connect, to educate, to entertain or to enter into a conversation with the people of this nation.

A first step is a different kind of leadership. All the controllers who have headed it up in Scotland have had qualities, but the clue to the limited nature of the post has been in the title. A semantic change has seen the post recently redesignated as director, but it is a manager of a branch office. Alasdair Milne daringly retitled the organisation. Alastair Hetherington in the 1970s attempted to take more decisions in Scotland and was quickly shown the door by London (Hetherington 1992).

What is required is an entirely different culture – and that is the sort of thing that doesn't happen overnight. But if the BBC is to become a more autonomous Scottish body then it needs internal change – with leaders who lead and communicate inside and outside the Beeb, who take staff and the public with them, and who listen, engage and adapt.

One significant move both culturally and in resource terms would be to value and invest in proper and excellent journalism. There is a perception that the organisation hasn't done so for years. One BBC staffer commented that the whole organisation is riddled with 'a potent feeling of inferiorism [with] people feeling undervalued and demoralised for years'.

Content and programming is crucial. Recent BBC surveys both well before the independence referendum and after have shown a systemic democratic deficit and trust gap in Scotland compared to the rest of the UK. The King report in 2008 found the percentage of the public who rejected the idea that the BBC news coverage was better than other outlets was 12 per cent in England, 16 per cent in Wales and 21 per cent in Scotland. Asked if BBC news and current affairs related to them and was personally interesting, the south of England split 66:33 in the affirmative, the north of England 52:45, with no Scottish or Welsh figures available (King 2008: 33–35). The report commented that the corporation was widely seen as 'London-centred' and 'with an "us in here" and a "you out there" mentality' (ibid: 35).

Post-referendum, the BBC found that fewer than half (48 per cent) of Scots were satisfied with BBC programmes in Scotland, compared to 61 per cent in England (and 61 per cent in Northern Ireland and 55 per cent in Wales) (BBC 2015: 33). A BBC Audience Council Scotland report stated that some people felt 'BBC coverage had focused too much on the official campaigns'

and what could be seen as ‘an “Anglified” perspective’ (BBC Audience Council Scotland 2015). It did not help matters that the BBC attempted to dismiss these figures publicly, with Ian Small, head of news and corporate affairs, stating that there was no difference between satisfaction levels north and south of the border, when the BBC’s own research showed the opposite.¹

This brings us to cultural content. Filmmaker Eleanor Yule, co-author of a study of what she has termed ‘cultural miserablism’ with David Manderson, thinks that there is a national problem, and a specific BBC problem (Yule and Manderson 2014). Partly this is about the increasingly worn-out archetypes used in what might be termed the Peter Mullan school of drama: walking-wounded men, run-down estates and towns, and lots of violence. But there are also questions about who the cultural commissioners and gatekeepers are in a small country and, with a lack of ambition and money at STV, the BBC having an effective veto on ideas.

All this is coming to the surface at an enormously difficult time for the BBC. The charter review is under way on the BBC’s future; numerous Tories and rightwingers are out to cut the Beeb down to size, believing it is biased against them. Chancellor George Osborne talked of the BBC being ‘imperial in its ambitions’, in the way its website crowded out competitors. The forthcoming cuts in BBC funding, coming on top of a previous round, are going to involve painful and difficult decisions.

Previous palliatives are now past their sell-by date. A ‘Scottish Six’ – an integrated Scottish news service offering Scottish, UK and international news in one package – was blocked by BBC head John Birt and Tony Blair in the late 1990s. Then came a decade of sticking plasters: first, *Newsnight Scotland* and the ridiculous opt-out in the middle of the UK *Newsnight*; then, *Scotland 2014* (now *Scotland 2015*), which was launched with next-to-no preparation or proper pilot.

1 BBC *Good Morning Scotland*, 17 July 2015

Fighting the conservatism of the BBC and BBC Scotland: IndyRef and beyond

Much of this has been brought to a head by politics and the independence referendum, but it is about much more. The crisis of BBC Scotland's legitimacy and its lack of a democratic mandate in the country cannot be solved by just more news and current affairs programmes. And certainly not by populist pandering, such as more football and more Scotland internationals on TV.

BBC Scotland, like the big BBC, has always travelled behind the curve, behind the nation. It has reflected back to us a set of images that are already historical and which, in many cases, we have outgrown or find embarrassing. It has continually defaulted to the status quo, to caution – a setting which was certainly 'on' during the referendum.

It took until 1978 to set up BBC Radio Scotland, when the first devolution debate was taking place. The BBC waited until the end of a near decade-long controversy to act, and when it did it produced something which many thought better suited to Scotland of the 1950s. The writer Neal Ascherson at the time commented on the pale menu of 'Radio Kailyard', which the new channel was serving up. A decade later, the arts journalist Catherine Lockerbie called it 'the "national network" of a non-nation.'

What does the future hold? The current situation is unsustainable. The status quo, which is still being clung to by BBC senior executives in London and parts of Scotland, will go. Surely it is better to embrace that and start thinking about change and new models now. One missing aspect of the charter review is how the BBC reflects and represents an increasingly diverse UK. This has always been an inherent problem in the BBC, but has grown more acute with devolution to Scotland, Wales and Northern Ireland (Fraser 2008), and been acerbated not just by the independence referendum but by the rise of London and its economic, social and cultural crowding out of the rest of the UK. (A 2014 YouGov poll found that more than three-quarters of respondents felt the UK media was London-focused [Centre for Cities 2014].)

It is not just Scotland changing; the UK and the world are shifting. The way people consume media is in the throes of a major transition. We are moving to a more fragmented, competitive, multiplatform environment. This is reinforced by huge demographic moves with people – particularly those aged under-30 – using media in very different ways from previous generations, being less reliant on traditional media formats.

One big challenge in the landscape of tomorrow will be how to pay for good media. People want good-quality journalism and they want branded journalism that they feel they can trust. Public service broadcasting does not have to remain static or persist in its present format. The BBC could evolve into a hybrid: part based on some kind of universal fee, partly on an element of choice, perhaps via subscription. There is a debate which needs to be had if the BBC has a future in Scotland and elsewhere across the UK.

This evolution requires a mix of radicalism and subtleness. It requires that the nationalists play an astute game not to knock the BBC down but to aid it becoming something very different. One observer of SNP thinking on this described their position as, ‘the SNP want to make BBC Scotland real’. That’s not how Nicola Sturgeon – and certainly not Alex Salmond – would articulate it, but it does capture the canny tone adopted by the first minister in her Alternative MacTaggart Lecture at the 2015 Edinburgh International Television Festival. Sturgeon is out to play a game of persuasion, to achieve the goals of a dedicated Scottish TV channel and second radio station – goals remarkably close to the BBC charter renewal proposals that have stalled.

Change is coming to the media and to how Britain sees itself. The media of the future will be very different to the one most people have grown up with. There will be new providers of content, independent producers, and consumers who want to enjoy their media in a variety of ways: on the move on their mobile, on tablet and on their computer.

After several false starts and hesitations, the BBC now need to show boldness and a dramatic vision of the future. The charter renewal proposals for a devolved BBC Scotland are one option. But they have to form part of a wider debate about the role of broadcasting and the media in Scotland. How do we want to

represent our nation to ourselves and the world? How would we like to pay for it? How can we best support Scottish producers, creatives and talent in the media to aid them staying in Scotland and having successful careers here? What is the best way of ensuring all this is accountable to the people of Scotland without politicians having direct control?

Ultimately the role of the BBC, broadcasting and media has to be seen as part of a much broader discussion about public life and the public sphere – which, while always being partly autonomous in Scotland, has become increasingly so, diverging in particular from the English public sphere, dominated as it is by London (Hassan 2014). Yet, the fragile ecology of the public sphere in Scotland has to be addressed – in terms of resources, places and spaces, and in terms of how it exists in a partially autonomous culture which has had a tradition of privileged institutional voices (the Church of Scotland for centuries, the Labour party until recently).

This is about William Mackenzie's concept of the public sphere having a 'community of communicators' where an understanding of who is speaking and who has voice, access and status – as well as who has does not – is crucial (Mackenzie 1978). This community has seen a lot of change in recent decades, and this has only been accelerated by the experiences of the independence referendum, which should be seen as part of a longer story of change, not as a one-off 'spike'.

The future of the BBC and broadcasting is an essential debate in the future of Scotland and the UK. Difficult discussions need to be had. Policies and ideas have to be encouraged which recognise this. In this spirit, it would be helpful to begin a public conversation which involves the BBC, other broadcasters, media, creative and cultural voices, and the general public. This should take a variety of forums – from traditional media bodies themselves, to social media, thinktanks, campaigning groups, and the wider ecology of the public sphere.

To aid in this process, below are some suggestions for questions and topics which I believe it would be helpful to begin thinking about in relation to the BBC in Scotland and the role of other media players.

- What should be the balance of Scottish broadcasting in Scotland? What kind of Scotland should be represented and reflected back to us?
- How could the BBC and others best articulate a Scottish take on the world, and help give the world a glimpse into Scotland?
- How do we avoid central belt dominance, and ensure that the view from Sauchiehall Street, Glasgow, is not seen as the voice of Scotland? How could different Scotlands be better represented? This seldom happens at the moment – with the exception of the closing stages of the referendum, and crisis moments such as those brought upon us by extreme weather.
- What would an appropriate relationship between Scottish politicians and broadcasters look like? How can we best avoid the pitfalls of micro-accountability and comment on the content of individual programmes?
- Would an independent Scottish regulator – a ‘Scottish Ofcom’ – be the best model for broadcasting? If so, what should be its remit and how should it be drawn up?
- What is the best means of involving the public in the BBC (and STV as well)? Is it possible to devise more imaginative and participative forums than exist currently?
- What happens to public service broadcasting as the legitimacy of the current BBC licence fee declines? Is it possible to see a future hybrid model for the BBC, based wholly or partly on subscriptions, as sustainable?
- What could a multiplatform media environment look like? How could the state and public funding best aid diversity and pluralism? Could a designated fund to support and promote the multiplicity of voices be envisaged?
- How can the creative community, and independent producers in particular, best be supported? Should there be a designated quota for independent producers in all broadcasting?
- Irrespective of whether Scotland becomes independent, what should be done about London-dominated media and institutions and how they impact on Scotland (as well as the rest of the UK)? Is it possible to envisage broadcasters that are more federal or quasi-federal?

- The independence referendum was the biggest story in Scotland for decades. Many of the claims of BBC ‘bias’ were over the top, but how do the BBC, STV and others learn from this and approach similar stories differently in the future?

This is an age of unprecedented fluidity and change, and one that requires constant adaptation and innovation. That is exciting for some but perplexing for others.

The traditional institutions and ways of the media doing things are no longer viable. Change is coming. The big question is what kind of change, pushed by and aiding which voices and interests? On the one hand are even more powerful vested interests; on the other, a variety of democratic, diverse, often less financially secure forces. All of our deliberations in this should be focused on limiting the power of the former and encouraging the latter. This is an important debate – with important choices and consequences – for all of us.

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5.4

SAVE THE BBC AND SAVE OURSELVES

ANTHONY BARNETT
openDemocracy

The BBC is under threat as never before.¹ So too is Britain itself and the two threats are connected. A decennial charter renewal process for the BBC is now under way as the green paper consultation comes to a close. The government insists that the BBC is highly valued and will be preserved. But everyone who values public service broadcasting is right to be alarmed, for the very meaning of ‘the public’ and with it who we are in the British Isles as a people, is in play.

The danger is that the BBC will become, in the words of the culture secretary, the source of ‘things that are in the public interest to have that would probably not be viable on a commercial basis’ (Higgins 2015). Such a residual preservation will prove terminal for the spirit of the BBC, making it a heritage institution, a legacy broadcaster cut back from the expanding world of the internet and broken as a ‘universal’ provider. This will not be a small mercy for which we should be grateful; it would be a fate worse than death that will enslave us to the market without escape. It should be resisted at all costs.

The difficulty about trying to help save the BBC, however – especially with so much at stake – is the need to save it from itself: to prevent it from carrying on being the BBC, with its waste, its white Oxbridge presumptions and recruitment, its servility to the security state, its obsession with its own narrative.

1 This article is adapted from one that first appeared on openDemocracy on 7 October 2015. See <https://www.opendemocracy.net/ourbeeb/anthony-barnett/save-bbc-and-save-ourselves>

The starting point has to be not with the BBC but with the fact that so many of us want to save the BBC from itself. There is a huge desire for what it *can do*, as you can see from the *100 ideas for the BBC* that openDemocracy's 'OurBeeb' is publishing.² Just a quick scroll through the wealth of proposals and possibilities, attitudes and advances, content ideas and suggestions for how it is run, makes a profound impression. There is an urge for it to 'hold its ground' in the words of Ian McEwan, not passively but as a force for good. People do not relate to the BBC as yet another provider; they want it to do better as if it is their home team. Because it is our home team, especially in a world of 'global' corporations. We may despair of it, but we urge the BBC to improve and be more open in a way we never would something that was not *ours*.

As my submission to the green paper consultation, therefore, I want to focus on this all-important relationship, I want the government to conclude that there is a need for more BBC not less, that it needs to become of greater importance and not be confined, that it should be challenged to help shape the digital medium in a way that builds on the public, democratic, deliberative potential of the web, and not in its old way, with its 'establishment' voice. The era of paternalism is over. The alternative to Reithian paternalism is not populism and certainly not false, nervous populism: it is professionalism and democracy in action.

Such a top-down institution can be democratic for two reasons. First, the BBC is not a normal mandarin institution. Unlike the 19th-century structures of privilege, it was from its founding moment, as Bill Thompson has observed, a 'technology platform'. More than what it did, what mattered was what it was: a new medium. It created radio and then television in the UK. As the empire shrunk and the navy declined and sterling fell, the BBC could not help but grow. For unlike the 19th-century institutions of the British state to which it owed so much in the way it was run, from the start it was fully part of the modern world, and this has made it a multibillion pound network. Which in turn is why the *potential* for change and democracy are built into it. In a long

2 See <https://www.opendemocracy.net/100ideasforthebbc/>

exchange with OurBeeb in 2012, Richard Eyre described how the corporation used to be run as if it was a military establishment, but that what it created could be quite different in its truthfulness and reach (Mackay 2012). This is thanks to the medium not the institution and as the medium of broadcasting is again transformed so these qualities are needed all the more, not less.

The second reason we should seek more BBC is that it is trusted. A democrat needs to respect this trust. I am not saying that anyone trusts any particular thing the BBC says. But there is a shared trust in it, perhaps even more abroad than here in the UK where a healthy cynicism cohabits alongside belief in the BBC. This trust has three aspects. First, it is trusted more than politicians; who naturally hate it for this. Second, it is trusted because it is not seen as trying to screw us for its own profit or gain; Rupert Murdoch hates it especially for this, as does the *Mail*, the *Telegraph*, etc. Third, it is trusted because the British trust themselves in a way that people in most other countries do not.

For me this is the message of the 100 ideas, they show there is a self-belief that is open and creative. This is why more of the BBC can mean a different BBC. This is also why its role as a provider of mass entertainment is so important. It is show business! Without this it can't retain a democratic claim. It has to reach out to everyone, to be appreciated as more than specialist or it cannot be a democratic institution.

But the way in which it needs to be different is changing profoundly because the way we define ourselves is being transformed by the digital era. The world is no longer singular in the way it was, it is both more unified and more plural. This is most discomfoting for an institution like the BBC, which sought to impose an accountable narrative. As one of its employees said to me, and not just in jest, this is why the BBC is obsessed with *Dr Who*. The Tardis, the police box that is also a communications hub, is a metaphor for Broadcasting House and *Dr Who* a stand in for the 'DG', sent out across all possible zones, planets and universes, to create a narrative while prescribing wisdom and good judgment to younger females through exciting times; putting a singular, corrective stamp on time and space wherever it might be. Apparently Tardis stands for Time And Relative Dimension In

Space. This has now met its match in Google. Whereas the BBC was the begetter of radio and television in the UK, it is now merely a participant in the world of the web. The singular narrative form no longer provides authority.

Its response should be to seek to be a provider of a new kind. The announcement that the BBC wants to become an open platform providing access to other public service content suggests it is capable of embracing the kind of change when more BBC means less of just the BBC.

Just as its broadcasting needs to be more energetically open so too does its ownership need to become public: the BBC Trust should be a mutual, the board selected at least in part by lot, the corporation becoming literally as well as rhetorically answerable to members of the public, ending for good its military-type structures of command. The need to treat us as citizens not consumers should be built into it, so that it feels in its marrow no longer entitled to broadcast to us as its subjects.

This puts the issue of the BBC's structure and governance in constitutional language. Rightly so, because the BBC is now part of the country's informal constitution. This, of course, is not a comfortable place to be at present. It is the British Broadcasting Corporation but what does it mean to be British? The question is finally being asked in traditional quarters. The current Marquess of Salisbury, Robert Cecil, whose forebears have played a role in high politics since Elizabeth I, has spotted the writing on the wall. A passionate unionist, he personally argues for an honourable settlement with Scotland and grasps this must mean a federal solution for the UK, ideally by making the House of Commons the English parliament and replacing the Lords with an elected British federal chamber. He recently convened a Constitution Reform Group that has issued an authoritative report (CRG 2015). He justified his approach in the *Sunday Times* in March saying:

'I... believe that the purpose of the Tory party is to stand for the nation state and its institutions. Normally, this means that we Tories believe only in necessary evolutionary change. However, once in several centuries, the true Tory must accept that the nation demands more radical solutions if it is to survive. This is one of those times.'

Salisbury 2015

So it is. For what Cecil has grasped is that any British union today has to be more than a mere union, it must be federal or it will not survive for long. This is the framework within which the BBC is also fighting for its life. It is under attack from influences that wish to support commercial and corporate interests that would dissolve our capacity to act collectively through self-determination. This pressure could and surely would be firmly resisted if we as a country knew who we were. But the old Britain that created the BBC is itself dissolving. Where then is the ground on which to build the values and objectives for the BBC?

The answer is that the ground is us, the people. The green paper consultation is called 'Your BBC'. Thank you for this. It permits us to claim it as Our BBC. This is the message from 100 ideas. Can the BBC manage to 'let go' sufficiently to trust the public? Will you, secretary of state, permit and encourage it, with all your powers? If so, we can have a public broadcaster open to all, inventive and self-confident, democratic rather than paternalistic, in the way it is run and in the way it commissions content and, critically, shares its platforms.

We therefore need a universal BBC. Universal in a different way to the manner in which it has exercised its reach up till now, but nonetheless reaching out to everyone. This must mean as an entertainer as well as an educator and source of information and also as an enabler working for us not the surveillance state. By 'us' I mean the different publics of the UK, hence the need for it to become an open platform. There is a politics to this, it is the politics of assisting us to learn how to govern ourselves, as we share our music, our humour, our intelligence, and experience across a digital public space of quality and distinction.

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CONCLUSION

NICK PEARCE
IPPR

As it approaches the renewal of its royal charter in 2016, the BBC is coming under sustained pressure.¹ It faces a sceptical, if not hostile, secretary of state, egged on by MPs who want at best to clip its wings, and at worst to set it on a path to terminal extinction. It has accepted a very tough licence fee settlement, which has bought it some certainty, but at a price of further cuts for the next five years, and it has been handed the politically charged responsibility of deciding what to do about free licences for households with over-75s from the start of the next decade. As it fights political skirmishes, it has to keep an eye on the strategic horizon: one of a slowly ageing society in which technology is rapidly changing, and in which the nation state is fragmenting while global media markets integrate.

In these conservative times, a Burkean defence of the BBC should be simple to mount. It is a popular national institution that shapes and sustains core elements of our public culture. It enriches us, and gives us influence and prestige around the world. Even if we shunned that kind of rhetoric in preference for a utilitarian justification for the BBC, it would not be hard to elaborate. At just 40p per household per day, it is great value for money. It is the bedrock of our dynamic and extremely successful creative sector.

But as Edmund Burke famously said, *a state without the means of some change is without the means of its conservation*. The BBC cannot stand still while all around it changes. Nor should it be immune to reforms that are needed to address its inefficiencies, as well as its weaknesses and vulnerabilities.

1 Minor editorial changes were made to this chapter following its original publication, and so this electronic version differs from the printed version.

That is why this collection of essays has been addressed to the modernisation as well as conservation of the BBC.

Our starting point is that the BBC makes creative markets, rather than makes up for market failure. As contributors to this collection demonstrate, many – perhaps most – arguments that the BBC ‘crowds out’ private investment and market activity are flawed and have, to date, been supported by little evidence. As Marianna Mazzucato, Patrick Barwise and others argue, the public investment in the BBC creates new markets and sustains private sector companies, particularly in broadcast production.

The BBC sits at the centre of an intricate network of relationships within the UK media market. As a producer and commissioner of content, an investor in new media technology, a sponsor of national arts and music, and employer and training ground for media talent, the BBC connects with, competes with and fuels nearly every aspect of the UK’s vibrant media life. It is vitally important to the continuing success of the UK’s creative sector, that the BBC is enabled – both financially and institutionally – to sustain this role. Its overall market impact is strongly positive.

But even if the BBC’s net market impact is positive in the aggregate, its centrality, scale and scope within the broadcasting and wider media ecosystem mean that it needs to avoid doing things – such as significantly bidding up the cost of rights or talent – that would reduce the overall public value of UK broadcasting. The BBC needs to be careful of simply duplicating competitors or stifling competition.

Effective regulation is part of the remedy for this. But much is also in the BBC’s own hands. In planning to develop its own production department as BBC Studios, as John McVay of Pact argues, the BBC needs to ensure that it competes fairly and on a level playing field with commercial producers. Greater transparency around the relationship between the public and commercial parts of the BBC is indispensable, not least to ensure the best use of its public funding.

Exploiting its commercial potential to supplement licence fee income will be increasingly important in an era when public finance is retrenching. The BBC has a world-

renowned brand and a vast library of wonderful content to exploit. But the focus should always remain on what brings best value for the UK licence fee payer, rather than the perpetual expansion of the BBC's global ambitions.

Domestically, the BBC is a vital part of the UK media, but it is not the entirety of the UK media. Plurality is essential; the BBC should be complementing and partnering with commercial media, to the mutual benefit of both. Its content should always be high-quality. As contributors to this volume attest, this is important across radio, television and online. To some extent, the wider market-shaping role that the BBC plays has been constrained by the effective cut to the licence fee in recent years. Some retrenchment in the level of the fee was to be expected in an era of falling real wages, given that a flat-rate licence fee is necessarily regressive. But the process of setting the licence fee remains unnecessarily politicised (if not undemocratic in practice). As long as the BBC is funded by a universal licence fee or household levy, rather than by subscription or any other model, it should be set by clearer, more transparent and publicly justifiable means.

One option – put forward by Steve Morrison and by Colin Browne, chair of the Voice of the Listener and Viewer, in their contributions to this collection – is to depoliticise the setting of the licence fee by passing it to an independent statutory body, whose recommendations would be laid before parliament. Such mechanisms have worked well elsewhere, notably in the setting of the national minimum wage by the Low Pay Commission, but they can never be simply technocratic exercises. The licence fee is not a tax but it pays for a public service and cannot therefore be immune to democratic deliberation (or indeed negotiation between competing interests).

An independent licence fee body also needs to be considered in the context of reforms to the regulation of the BBC. The status quo of the BBC Trust combined with partial regulation by Ofcom has broken down; the BBC itself no longer defends it, while the government has proposed handing political and other complaints about the BBC's output to Ofcom. The lead option is for an integrated BBC board, combining management and external non-executives, with a dedicated, wholly independent new 'OfBeeb' representing the interests of licence

fee payers (the alternative would be to hand regulation of the BBC to Ofcom in its entirety, but that is likely to overwhelm the resources and expertise of Ofcom and threaten its core function of regulating the wider communications sector, as Jon Zeff notes in his chapter, while simultaneously placing the BBC's independence from political interference in peril). Since OfBeeb would have primary responsibility for ensuring value for money in the BBC's spending, it would be plausible to charge it with setting the licence fee too, by analogy (if not homology) with price regulation in the utility sectors. The case for such a move would be strengthened if Ofcom took on greater regulation of the BBC's editorial standards.

The British Broadcasting Company was founded in 1922, the year in which the union of Great Britain and Ireland finally came apart. Nearly a century later, the union is once again under strain. The BBC is wrestling with criticisms, sharpened by the 2014 referendum on independence, of the content, funding and reach of its broadcasting in Scotland. The Scottish National party is calling for greater funding for BBC Scotland's services and a federal structure for the BBC as a whole, with a separate board for each constituent nation of the UK under a UK-wide board.

Meanwhile, the secure sense of national identity that once shaped the BBC and made it a lynchpin of Britishness in the 20th century has cracked. Alongside the awakening of civic nationalism in Scotland, Britishness is under pressure from devolutionary demands in 'rUK', a rise in English political identity, and the washback into popular consciousness of immigration and hyper-diversity. The national story is highly contested. As the UK's pre-eminent cultural institution, the BBC both shapes the national imagination and is shaped by it. It has to respond to pluralism and fragmentation in the union.

In Scotland, that could mean responding to the perceived deficit in BBC Scotland's legitimacy by ensuring that it is more directly accountable to the people of Scotland with its content and programming better reflecting Scotland's evolving place in the union. England too needs greater recognition in the BBC. It could be constituted formally within the BBC's structure as a home nation – through the creation of a BBC England, to sit alongside BBC Scotland, Northern Ireland and

Wales – and in its governance, through representation on the BBC board. This would be a sensible evolution from existing English representation in the BBC Trust, and has been the path taken by the NHS, the other emblematic 20th-century British institution.

But England is 85 per cent of the UK and it is little as well as large; it has rich local and civic identities and audiences. The BBC has a duty to reflect this richness of England, as well as the rest of the UK, in its broadcasting, staffing and resource deployment, and in its relationships to the wider media, particularly local press and hyperlocal websites. As devolution to England's cities and counties deepens, and decision-making powers over billions of pounds of public expenditure are handed down from Whitehall to town halls, it will become a democratic imperative for the BBC to work more closely with other local media outlets, particularly following the closure of over 300 local newspapers in the last decade. By providing resources and commissioning local content, public funding for the BBC can help close the local accountability gap and support pluralism at the local and hyperlocal level.

Since it became a corporation operating under a royal charter, the BBC has been a public institution. But it has never been a democratic one. It has an arm's-length relationship to the British public, as well as the government of the day. Licence fee settlements are stitched up behind closed doors in Whitehall during breathless budget negotiations (though it is fair to say that it has been the government, rather than the BBC, that has instigated this process in recent years). Charter renewal is opened up to public consultation, but little democratic engagement. Despite ongoing consultation exercises, the BBC's governance is basically carried out by the great and good, not the great British public.

This modus operandi makes the BBC more vulnerable to political hostility from market fundamentalists, not less. The BBC's greatest resource is the public esteem and goodwill in which it is held. But it does not seek to engage or mobilise the public in any meaningful sense. In recent months, that task has been taken on by others, such as OurBeeb, an initiative of the web publisher openDemocracy. It has solicited numerous ideas for the BBC's future and published scores of articles on

the BBC's charter renewal, including proposals for democratic governance of the organisation.

This is a baton the BBC needs to take up. It must build democratic engagement into how it works, rather than sustain its institutional interests through periodic bouts of lobbying and public relations exercises when charter renewal approaches. Paradoxically, losing control of political complaints to Ofcom may assist it in that reorientation (though it carries risks of politicisation too).

Yet although the BBC is approaching its centenary buffeted, it is far from broken. It has largely recovered from the trauma of Savile scandal. It remains the most trusted source of news in the UK, and ranks high in public affections. Realism suggests it will continue to be funded by the licence fee for some years to come, even at an effectively reduced rate. These are all grounds for confidence. They should be a platform for reform and renewal of the BBC as a democratic, public institution serving a federal UK just as well as it served the nation state in the 20th century.