# FROM PUBLIC SERVICE BROADCASTING TO PUBLIC SERVICE COMMUNICATIONS

edited by
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Damian Tambini

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Prior to joining Sky, Jim spent seven years in strategic consulting and corporate finance with PricewaterhouseCoopers, based in London and subsequently Sydney. As part of the Telecoms & Media practice, his work included strategic, regulatory and competition policy advice in the fixed and mobile telecoms sectors as well as in broadcasting.

**Robin Foster** is an economist, specialising in economic, policy and strategy work in the communications sector. He is currently Partner, Strategy Development and member of the senior executive team at Ofcom and Senior Research Fellow at Bournemouth Media School.

Before joining Ofcom, Robin was Director, Strategy, Economics and Finance at the Independent Television Commission, responsible for the ITC's strategic and market analysis, and the finance function. Prior to that, he held several leading

strategy roles at the BBC, was a director of economic consultants, National Economic Research Associates (NERA), and started his career as a consultant with the Economist Intelligence Unit.

Robin has published a wide range of speeches and conference papers, and contributions to collections of papers on broadcasting economics, including P*aying for Broadcasting* (Routledge, 1993) and *Public Service Broadcasters: Accountability and Efficiency* (David Hume Institute, 1992).

**Nanne Priebs** is Referendar to the District Court for the Land Brandenburg and is concurrently completing a PhD at the University of Hamburg investigating public service broadcasters online activities.

Before joining the Judicial Service, she was the Markle Foundation Information Policy Fellow at Oxford University where her core research topic was public service communications. She was involved in projects on public service broadcasting in transition societies as well as conducting extensive research on public service online services in the UK, Germany, Australia, Canada and Japan.

Nanne Priebs studied law at the Universities of Hamburg and Paris (Sorbonne). Following her graduation from Hamburg University in May 2001, Nanne Priebs worked at the Public Policy and Government Relations Department at AOL Time Warner, Germany where she developed and managed Digital Divide Projects for the Corporate Responsibility Division in cooperation with partners from governmental, corporate and NGO backgrounds.

**Phil Redmond** is Chair of Mersey Television Company and Honorary Professor of Media Studies, Liverpool John Moores University. He founded Mersey Television in 1981 to produce his own work and it is still Britain's biggest permanent employer in the independent production sector with approximately 300 permanent and 150 freelance staff.

In 1978 he created *Grange Hill* for the BBC. *Grange Hill* has won numerous awards including in 2001 the Special BATFA Award. In 1982 he devised and produced *Brookside* for Channel 4. In 1995 he launched *Hollyoaks* for Channel 4. Other drama series written by Phil Redmond include *Going Out* and *Tucker's Luck*, *Doctors*, *Waterfront Beat* and *What Now?* In 1993 he was engaged as programme consultant to *Emmerdale*. In 1994 he was asked by S4C to act as consultant in the selection of a new Welsh teenage drama serial. Phil was also Executive Producer of *And The Beat Goes On*.

In 1989 became Professor and Honorary Chair of Media Studies at the Liverpool John Moores University. He was instrumental in designing, implementing and developing the Media Professional Studies Degree Course. The course received the highest rating in the Country from the Higher Education Funding Council Teaching Quality Assessment for Media Studies.

In 1998 he became a member of the Department for Education and Employment's Advisory Group for the National Year of Reading. In February 1999 he launched the 'Brookie Basics' initiative aimed at improving adult literacy. Phil conducts extensive charitable work including recently spearheading 'Save Our Samaritans'; a Merseyside media campaign committed to raising substantial funds to safeguard The Samaritans' on Merseyside.

Phil is a founder member of the first regional branch of BAFTA in Manchester; a council member of the Independent Producer's Association (IPPA) and a former national negotiator for the Writer's Guild of Great Britain (WGGB). In 1996, Phil was elected as Fellow of Royal Society of Arts and in 1997 he was appointed Vice Chair of the newly created North West Film Commission and became a Patron of the Commission in July 1999.

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For the previous two-and-a-half years, Jonathan was the in-house economist at the British Screen Advisory Council, an industry organisation representing a broad range of interests drawn from the film, television, new media and telecoms sectors. Major projects at BSAC included developing a pan-European position on audiovisual to assist EC trade negotiators in the GATS negotiations.

Prior to joining BSAC, Jonathan was a media consultant at London Economics, carrying out film and television-related work for the BBC, ONdigital (as it then was) and DCMS. He received a doctorate in Economics from the European University Institute in 1998.

**Damian Tambini** is the Head of the Programme in Comparative Media Law and Policy at Wolfson College, Oxford University and an Associate Researcher at the Institute for Public Policy Research (ippr). Damian was a Senior Research Fellow at the (IPPR) from1999 to 2002. He was previously Visiting Fellow and Lecturer at Humboldt University in Berlin. He has been a Visiting Fellow at Nuffield College Oxford, The University of Westminster, The European University Institute at Florence and a researcher at the Institute of Education, University of London. His research interests include media and telecommunications policy and democratic communication. His publications include *Cyberdemocracy* (Routledge 1998) *Markets, Citizens and States* (Oxford University Press 2001), *Communications, Revolution and Reform* (ippr 2001), *New News: Impartial Broadcasting in the Digital Age* with Jamie Cowling (ippr 2002) and *Ruled by Recluses* with Clare Heyward (ippr,2002).

# Introduction: Redefining public service broadcasting for the 21st Century

The established debate about the funding and regulation of public service broadcasting is giving way to a much more complex debate about the role of public intervention in communications markets across the piece. As a new regime for regulating broadcasting and telecommunications comes into force, and the government outlines its views on the future of the BBC, this book offers a balanced overview of the main factors and positions in the debate in the words of some of its protagonists, including leading figures from academia, regulators and business.

Many argue that the tradition of public service broadcasting is now unsustainable: the end of spectrum scarcity promised by digital switchover makes public service broadcasting unnecessary; because increasing viewer choice means we can no longer use television to deliver merit goods to the public; because competition for advertising revenue means that commercial public service broadcasting is under siege; or because the attempt to regulate broadcasters to promote particular public serving genres will lead to ever more crass attempts to capture audience – documentaries about sharks and nazis which fulfil public service requirements whilst delivering maximum audience. There is an increasing challenge to the funding of the BBC and other public broadcasters, and within the current legal definition of their role and objectives, public broadcasters are subject to constant legal challenge to their ability to launch new niche channels and online services.

This book appears at a time of rapid change for the communications environment. The Communications Act (2003) has brought in a new regulator, Ofcom, and a new regulatory environment. Ofcom's first Public Service Television Broadcasting Review, a key aspect of the new regime, will be completed for the first time in 2004. For the first time, the costs and benefits of public intervention in broadcasting markets, the value for money to the citizen of the UK's *circa* £4 billion annual spend on public service television are to be clearly weighed up and assessed. The BBC Charter Review process will begin in 2003 and must be completed by 2006 with the aim of designing a Charter to take the BBC through to 2016.

When analogue broadcasts cease around 2010 the vast majority of television households will be able to access at least 24 television channels. Digital radio broadcasting will provide a similar expansion in choice. According to the conventional broadcasting wisdom, such current shifts in the market mark a fundamental paradigm shift for public service broadcasting. Increased consumer control and choice, together with fragmentation and segmentation of the audience, appear to signal that the age of mass public broadcasting to a passive audience is passing. The UK, known as a

market that in global and in European terms is most advanced in the transition to digital television, offers a key test-bed for these general claims, which impact both on immediate policy questions and upon general questions of media power and media culture. In the policy debate, an orthodoxy is emerging that maintains that audience fragmentation, control and choice is taking hold in those homes that have access to multi-channel TV, and that public service broadcasting is likely to be less efficient and effective in those homes. However the key claims of this orthodoxy have not in general been subject to detailed and rigorous empirical testing. In this book David Bergg, Patrick Barwise, Steven Barnett and Damian Tambini review the conventional wisdom. On the one hand, as Patrick Barwise and David Bergg make clear, all is not doom and gloom for the public service broadcasters. Like the big networks in the US the UK's public service broadcasters channels' audiences remain relatively robust – viewers tune in for longer and are more loyal. Whilst multi-channel television is growing as a whole this masks visceral competition between the niche channels provided. However, as David Bergg also finds, innovation has suffered as the public service television broadcasters play safe to retain their audiences. Steven Barnett takes a contrary position. His analysis of public service radio suggests that in radio markets it is only public service providers that can afford to take risks and fulfil our needs as citizens. Damian Tambini's analysis makes for uncomfortable reading for those who believe that public service broadcasting can still educate and inform audiences who can switch between a myriad of different channels. He demonstrates that whilst the public service television broadcasters audience share has remained relatively robust the audiences for the traditional public service broadcasting genres in both the UK and Germany declines precipitously when viewers are offered more choice.

Jamie Cowling asks if the historical bargain of access to valuable spectrum in return for expensive public service content is breaking down. Increased choice for viewers has meant increased choice for advertisers. His analysis of the impact of multi-channel television finds that whilst on the one hand the commercial public service broadcasters revenues have been remarkably robust there is little doubt that in the near future either the current public service obligations placed on them will have to be reduced, a level playing field will have to be introduced, or new sources of funding will need to be found.

Phil Redmond, as one of the UK's leading content creators adopts the standpoint of the creatives: given the massive changes afoot, what must be done to foster and encourage the intense innovation and creativity of UK production. He argues for a thorough redesign of the UK ecology of public service in the transition to digital, including the phasing out of digital terrestrial broadcasting and the subsidy of digital satellite receivers to compete with the dominant BSkyB platform.

Whilst the white heat of the 1990s dot-com revolution has cooled internet penetration and use continues to increase. The role of public intervention in the online

environment is now ripe for reassessment and renewal. The 1990s witnessed a wide range of experiments in online media that are relevant to public service communications. On the one hand, broadcasters including the BBC used cross promotion, brand and subsidy – as well as their unique skills and vision – to become the leading providers of online content (in the UK). On the other hand, public bodies of all types including local and central government got involved in the provision of online public information and also interactive citizenship services. Stephen Coleman makes a powerful case to use the potential of online communication to address declining participation in formal democracy, the key democratic dilemma of our time. He argues that an online civic commons has the potential to breathe life into the corpse of the body politic and should be at the heart of any conception of public service communications. He also argues that the key policy challenges lie in managing the overlap of roles between government-funded information providers such as UK Online and the established public service communications providers such as the BBC.

In the early years of the development of online markets, we observed a gloves-off battle between publicly subsidised providers on the one hand, and those that attempted to develop a commercial business model. In the case of education services for instance, commercial models have often failed, and lay blame on large powerful publicly subsidised organisations who are able to launch new services at will. Mike Bracken and Alex Balfour use BBCi as the model of a public service communications provider. They answer the question of how to encourage both market and public service intervention in online environments and suggest that increasing transparency and accountability of public providers online will be essential to securing the future of public service communications.

As the objectives and rationale for public service in communications develop, the laws, institutions and codes that regulate for public service are currently being re-assessed and redesigned. UK regulation is being transformed as Ofcom, takes over responsibility for the communications sector at the end of 2003. The BBC Governors have come under increasing scrutiny in their role as guarantors of the BBC's impartiality and independence, but the Hutton inquiry  is only the latest episode in an ongoing drama. It seems the combining regulatory and management functions within one body can only continue to generate these conflicts. These problems are not unique to the UK. In other countries, similar public service broadcasting structures, similar challenges as well as some interesting solutions can be found. Nanne Priebs presents comparative data and regulatory frameworks from Germany and Japan. Her chapter presents a new regulatory framework designed to guarantee the independence of funding of public service broadcasters. Richard Collins asks how can we know how much public intervention is enough and offers a framework for a dynamic assessment of the need for public intervention in broadcasting markets. Robin Foster, Jim Egan and Jonathan Simon present a radical new framework for establishing value for money

in public service communications. Both chapters question the received wisdom that quality cannot be regulated for, and argue that the only way to ensure the ongoing future of public service communications is through a clear and transparent assessment of the costs and benefits entailed.

In our opinion there is an ongoing role for public service in communications. However, all too often the current debates remain rooted in vested interests and dogma. Communication lies at the heart of our democracy, it remains the most powerful tool available to bring citizens in mass industrial societies together. However, the challenges faced in the 1920s and the technologies available to meet them have change beyond recognition. The framework for public service communications must meet the challenges of the 21st century. It is only through a reconceptualisation of the fundamental justifications for intervention in communications markets that a new case for public service communications can be built. This book aims to provide a rationale for renewal of the role of public service in the digital age.

## A note on terminology

In communications policy, as elsewhere, terminology is loose, contested and often instrumentally used. In this book PSB refers to *public service broadcasting*. We generally take the term *public service broadcasters* to refer both to broadcasters that are publicly owned and to commercial broadcasters with significant public service obligations such as ITV. *Public sector broadcasters* are publicly owned, in the UK that would be Channel Four and the BBC as well as some smaller entities. *Public service communications* is a broader category that encompasses many of the new services that are carried out both by current public service broadcasters and by quasi-governmental organisations using newer, non-broadcast media platforms. When referring to public service broadcasters we generally mean television broadcasters. When we refer to radio broadcasting this is clear in the text.

## Endnote

1    The Hutton inquiry, an 'investigation into the circumstances surrounding the death of Dr David Kelly', began on 11.8.03. The inquiry follows a major dispute between the Government and the BBC over a report by Andrew Gilligan on BBC Radio 4 on 29.5.03. See www.the-hutton-inquiry.org.uk and http://politics.guardian.co.uk/kelly for further information.

# Taking a horse to water? Delivering public service broadcasting in a digital universe
David Bergg

'You can lead a horse to water but you can't make it drink'. There is little doubt that this proverb is exceptionally well-founded and based on the anecdotal evidence of horsemen down the generations but it is one that the UK's public service broadcasters[1] have spent a lot of time in the past half century trying to disprove. Leading horses (viewers) to water (programmes) and trying to force them to drink (watch) what we thought was best for them has been our stock in trade. We refer to it as 'hammocking': the practice of scheduling a worthy piece of public service programming, such as current affairs, arts or religion, in between more popular fare, such as entertainment, in the hope that the viewer accidentally comes across it and discovers the path to enlightenment.

It is a practice that has served public service television well. From the 1950s to the 1980s when viewers had little choice but to endure the shenanigans of schedulers like me it was all the rage, but ever since the arrival of multi-channel[2] TV in the 1990s its effectiveness has been on the wane. We can still lead viewers to the watering hole but it is harder and harder for us to make them drink. If they're not in the mood for a major documentary at 9.00pm on a wet Wednesday evening there are plenty of other places, sports channels, movie channels, music channels and golden-oldie repeats channels to name a few, where they can sate their thirst.

So, if 'hammocking' is dying or already dead, what does that mean for the future of public service television and the way in which it is served up to viewers? Indeed does it have a future at all? Should we give up on trying to force feed cultural goods to viewers on all of the public service channels and leave it instead to those channels less exposed to the pressures of the commercial market to take a greater share of the burden? If so, how do we effect such a change in the way the public service ecology in the UK is calibrated.

Ofcom's Public Service Television Broadcasting Review (PSTBR) will examine not just what the public service broadcasters are currently delivering, but what they individually are likely to be in a position to deliver in the rapidly changing marketplace of the next decade.

The aim of this paper is to provide context, in order to inform this debate on the volume and nature of public service programming over the next decade.

**Figure 1.1: The growth of multi-channel viewing share**[3]



Source: BARB/ TNS Infosys
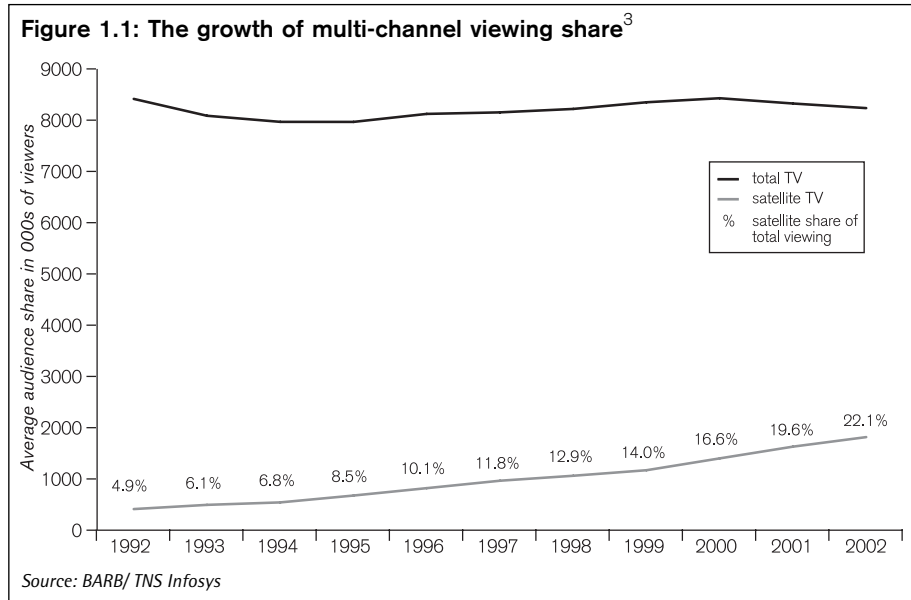
The most dramatic and far-reaching change in the UK television landscape over the past decade has been the growth of the multi-channel universe and the consequent growth of multi-channel viewing share. Figure 1.1 shows that total TV viewing levels have remained pretty constant over the past ten years but that within constant total levels, viewing to multi-channel services has increased from one-twentieth of all viewing in 1992 to approaching a quarter of all viewing in 2002.

There are two ways of interpreting this data: either that the terrestrial channels have been hit hard, losing a quarter of past viewing or that multi-channel television has not made much of an impact, as it accounts for only a quarter of all viewing. I incline to the former viewpoint. The leviathan has been launched and is making steady progress as we move towards analogue switch-off and a digital-only UK broadcasting marketplace by 2010. Futurologists within media consultancies will be kept busy until then predicting total terrestrial (BBC1, BBC2, ITV, Channel 4 and Five in aggregate) versus multi-channel (the small two hundred channels in aggregate) viewing shares as we enter the second decade of the twenty-first century.

By 2010, I predict that there will be a more sophisticated understanding about what is happening in the broadcasting environment and that commentators will have come to acknowledge the massive fragmentation within multi-channel viewing. Reading the way in which these matters are reported it would be easy to miss the fact that ITV1 and BBC1 remain by far the most popular out of the two-hundred-plus channels available in the UK. ITV1 currently reaches 24 million more people in an average week than the top ten non-terrestrial channels combined and is nearly six

## Figure 1.2 Fragmentation of viewing 1997 (channels with over 0.1% share Q4)

| Channel | Share |
|---|---|
| ITV | 30.9% |
| BBC1 | |
| CHANNEL 4 | |
| SKY 1 | |
| BBC2 | |
| SKY MOVIEMAX | |
| SKY PREMIER | |
| SKY SPORTS 1 | |
| UK GOLD | |
| TNT | |
| TURNER | |
| MTV | |
| SKY NEWS | |
| UK DRAMA | |
| DISCOVERY | |
| BRAVO | |
| SKY CINEMA | |
| CHALLENGE TV | |
| LIVING | |
| NICKLEODEON | |

**20 channels**

## Figure 1.3 Fragmentation of viewing 1997 (channels with over 0.1% share Q4)

ITV — 25.2%
BBC1
CHANNEL 4
BBC2
SKY 1

**38 channels**

## Figure 1.4 Fragmentation of viewing 2002 (channels with over 0.1% share Q4)

20.2%

**110 channels**

times more popular than the most popular non-terrestrial general entertainment channel (Sky One) in households that can receive both channels. Yet, in a year in which we read that first ITV1 and then BBC1 has been overtaken (even if for a short time) by the combined viewing share of all 200 digital channels one could be forgiven for assuming that ITV1 and BBC1 are no longer popular, let alone pre-eminent.

The figures above examine how this fragmentation *within* the multi-channel universe has developed over the past decade. Figures1.2, 1.3 and 1.4 rank by share of viewing all channels that achieved at least a 0.1 per cent share within multi-channel homes in quarter 4 of calendar years 1993, 1997 and 2002. In 1993, ITV1 was the most popular channel out of the 20 channels listed, with 30.9 per cent of all viewing in the multi-channel universe – 19 per cent of the UK population – at that time. By quarter 4 1997, 33 per cent of the population had access to multi-channel television and 38 channels now registered on the share of viewing chart. (See Figure 1.3, which is to the same scale as Figure 1.2). By quarter 4 2003, BBC1 had overtaken ITV1 on the leader-board, with a 20.2 per cent share ahead of 109 competitors (Figure 1.4, also to the same scale).

Going forward, it is to be hoped that commentators will focus on the struggle for share within the multi-channel universe, rather than concentrating solely on the erosion of terrestrial channels' share, which is still largely a function of universe growth. Within the multi-channel arena, competition is fierce: by 2003 Sky One has lost 20 per cent of its audience year-on-year to non-Sky competitors.

Table 1.1 ranks the top 20 channels within the multi-channel universe that performed best in 2003 compared to 2002. All the major broadcast groups feature on

**Table 1.1 Year on year multi-channel share point increase: all hours (0600–0300) ranked INDS share increase**

| No | Channel | Increase | No | Channel | Increase |
|----|---------|----------|----|---------|----------|
| 1 | Sky News | 0.57 | 16 | Nick JR | 0.09 |
| 2 | ITV2 | 0.51 | 17 | Bid Up TV | 0.09 |
| 3 | Sky Sports 1 | 0.28 | 18 | MTV | 0.09 |
| 4 | CBeebies | 0.27 | 19 | Five | 0.08 |
| 5 | UK Gold + 1 | 0.27 | 20 | BBC4 | 0.07 |
| 6 | Challenge TV | 0.24 | 21 | ITV News | 0.07 |
| 7 | Sky Sports News | 0.23 | 22 | MTV Dance | 0.05 |
| 8 | CBBC | 0.22 | 23 | Sky Travel | 0.05 |
| 9 | BBC News 24 | 0.19 | 24 | Motors TV | 0.05 |
| 10 | Discovery Health | 0.17 | 25 | Men+Motors | 0.05 |
| 11 | Nicktoons | 0.17 | 26 | Hallmark | 0.05 |
| 12 | Sky Sports 3 | 0.16 | 27 | UK Food | 0.04 |
| 13 | Boomerang | 0.11 | 28 | Discovery H&L | 0.04 |
| 14 | UK Style Plus | 0.10 | 29 | Sky Premiership+ | 0.02 |
| 15 | attheraces | 0.10 | 30 | Discovery Kids | 0.02 |

this list: BBC, ITV, Channel Four, Five, Sky, UKTV, Viacom, Discovery and Turner (Time Warner). Sky News' dramatic growth is attributable of course to the 2003 war in Iraq, and the channel's viewing levels during the conflict have not been sustained. Several of the channels in this list – ITV2, Sky Sports News, CBeebies, CBBC, BBC News 24 and BBC4 are on the Freeview[4] platform which experienced significant penetration growth throughout 2003. However, the presence on the list of time-shift, spin-off and minority interest channels (UK Gold +1, Discovery Health, Nick Jnr, MTV Dance, Discovery Kids and UK Style Plus) indicates how, within the current multi-channel universe, cannibalisation of existing services by siblings of their competitors is rife.

Table 1.2 ranks the top 30 channels within the multi-channel universe in 2003 by share of viewing. ITV1 and BBC1 still account for just under two-fifths of all viewing by the 54 per cent of the UK population that has access to multi-channel television; the 30th-most popular channel in this universe (Sky One Mix) gets only a 0.44 per cent share. At this stage, of course, it is impossible to predict the top 30 channels once the UK has switched to a digital broadcasting environment; we can assume that most of the current entries will still be around, but there will inevitably be new entrants in the top 30 ranking in ten years' time and some on the 2003 list will have ceased to exist.

**Table 1.2 2003 (weeks 1-37) multi-channel share performance across all hours**

| No | Channel | Increase | No | Channel | Increase |
|----|---------|----------|----|---------|----------|
| 1 | BBC1 | 19.31 | 16 | Hallmark | 0.73 |
| 2 | ITV1 | 19.07 | 17 | Living | 0.70 |
| 3 | BBC2 | 6.99 | 18 | Boomerang | 0.69 |
| 4 | Ch4 | 6.75 | 19 | Sky Sports 2 | 0.68 |
| 5 | Five | 4.62 | 20 | Granada Plus | 0.67 |
| 6 | Sky One | 3.01 | 21 | Challenge TV | 0.65 |
| 7 | Sky Sports 1 | 1.79 | 22 | Cartoon Network | 0.60 |
| 8 | ITV2 | 1.53 | 23 | Sky Sports News | 0.57 |
| 9 | UK Gold | 1.53 | 24 | Nickelodeon | 0.57 |
| 10 | E4 | 1.39 | 25 | Paramount | 0.53 |
| 11 | Sky News | 1.33 | 26 | Sci-Fi Channel | 0.53 |
| 12 | CBeebies | 1.22 | 27 | BBC3 | 0.50 |
| 13 | UK Style | 0.86 | 28 | Discovery | 0.47 |
| 14 | BBC News 24 | 0.78 | 29 | Discovery H&L | 0.47 |
| 15 | Sky Premier 1 | 0.77 | 30 | Sky One Mix | 0.44 |

Will that matter? Are we better off? Some commentators think not. Stuart Jeffries (Jeffires 2002) insisted that the hugely extended choice of programmes and channels now available means that TV is not special any more.

The Digital vision stops television being special. The picture quality and sound are better, but that doesn't make it any less dreary. I wander Digital's

> choices rather as someone might wander the freezer cabinets of Iceland, morosely looking for something reassuring to defrost a cold Wednesday evening. I know that The Simpsons will be on Sky 1 at 7pm each weekday; I know that Seinfeld is on Paramount at 9.30pm; I know there will be news whenever I want it. Everything is in its proper time slot ready to be activated by me if I can work up the enthusiasm (Jeffries 2002).

Another result of fragmentation is the decline in the number of programmes getting very large audiences, compared to the days when we all watched the same programme on a Saturday night because there were only two other choices. Table 1.3 details the number of programmes broadcast in the UK in quarter 4 1993, 1997, 2002 and quarter 2 2003 (the latest available data) which achieved audiences of over four million; two million to four million; one million to two million; and under one million. It graphically illustrates that while the number of programmes broadcast that achieved more than four million viewers has almost halved, from 1,635 to 941, the number of programmes viewed by under one million has increased exponentially from 20,000 in 1993 to 250,000 in 2003. The public service broadcasters are not suffering death by a thousand cuts, more like death by two hundred and fifty thousand cuts.

**Table 1.3 Fragmentation of viewing: audience size quarter 4 1993 to 2002, quarter 2 2003**

|  | *Number of programmes* | | | |
| --- | --- | --- | --- | --- |
|  | *1993* | *1997* | *2002* | *2003* |
| 4 million or more | 1,635 | 1,502 | 1,177 | 941 |
| 2 to 4 million | 1,724 | 1,793 | 1,825 | 1,476 |
| 1 to 2 million | 1,999 | 2,859 | 2,876 | 2,761 |
| 0 to 1 million | 27,735 | 75,338 | 229,070 | 248,179 |

Viewing is becoming fragmented, as more alternatives become available. So what have we all been watching as we flee away from the terrestrial schedules? Table 1.4 details the top five programme genres within the top 1000 programmes viewed on non-terrestrial channels in 2002. In aggregate, those five genres accounted for 92 per cent of all viewing within the top 1000 programmes. The small number of programme titles represented here include: *The Simpsons*; *ER, Star Trek*; *Buffy The Vampire Slayer*; *Friends*, *Will and Grace*; *Kirsty's Home Videos* and Premiership football. I suspect that, going forward, there will be a broader, more positive spread of programme genres represented in similar charts to this, via UK-produced general entertainment and factual programming on ITV2, BBC3, E4 and BBC4.

**Table 1.4 Top 1000 programmes on satellite channels in 2002 by genre**

|  | *Percentage of the top 1000 programmes* |
|---|---|
| Entertainment: Animations | 51.2 |
| Drama: Series Non UK | 14.6 |
| Sport: Football | 12.2 |
| Documentaries: Factual Entertainment | 7.8 |
| Entertainment: Situation Comedies US | 5.8 |

## The consequences of fragmentation

How have those responsible for running the terrestrial channels responded to this increase in multi-channel penetration and consequent fragmentation of viewing?

Broadly speaking, in two ways:

● There seems to have been a distinct increase in the number of senior broadcasting executives giving speeches in which they assert the importance of taking risks and their intention to do so.

● As multi-channel penetration has increased, there seems to have been a diminution in the terrestrial channels' willingness to take risks and a reliance on increasing the volume of established, safe, popular programmes.

This propensity to 'play safe' is best represented by the fall in the number of unique programme titles per year on BBC2 and C4 (channels which have held their share best against the onslaught of multi-channel growth compared to ITV1 and BBC1).

**Table 1.5 Unique programme titles on BBC2 and Channel 4**

|  | *1993* | *1997* | *2002* |
|---|---|---|---|
| BBC2 | 699 | 570 | 439 |
| C4 | 577 | 522 | 463 |

The data in Table 1.5 covers the entire schedule, not just peaktime, and is a reflection of the value of stripped programming on the smaller terrestrial channels' schedules in order to maximise share of all viewing across the day. Similarly, soap operas and lifestyle programming all stripped five days a week underpin BBC1's position as the most watched channel in the UK.

Another representation of this recent tendency to play safe is detailed in Tables 1.6 and 1.7. Over the past ten years, the more popular genres of programming – soaps,

**Table 1.6 Playing safe: popularity all terrestrial channels – all time**

|  | Hours of programming | | | |
|  | *1992* | *1997* | *2002* | *% change 2002 vs 1992* |
| --- | --- | --- | --- | --- |
| Drama Soaps | 819 | 1,635 | 1,842 | +125 |
| Drama Plays and Series | 1,355 | 2,372 | 2,828 | +109 |
| Hobbies & Leisure | 731 | 1,953 | 1,481 | +103 |
| Entertainment | 2,573 | 3,952 | 4,807 | +87 |
| Documentaries | 2,947 | 4,242 | 5,390 | +83 |
| Religion | 204 | 230 | 222 | +9 |
| Current Affairs | 2,064 | 2,657 | 1,874 | 9 |
| Arts Programmes | 337 | 224 | 201 | 40 |
| Music Classical | 153 | 72 | 58 | 62 |

**Table 1.7 Playing safe: popularity all terrestrial channels – peaktime**

|  | Hours of programming | | | |
|  | *1992* | *1997* | *2002* | *% change 2002 vs 1992* |
| --- | --- | --- | --- | --- |
| Hobbies & Leisure | 157 | 445 | 366 | +133 |
| Drama Soaps | 337 | 557 | 758 | +125 |
| Documentaries | 873 | 1,075 | 1,556 | +78 |
| Drama Plays and Series | 812 | 1,324 | 1,178 | +45 |
| Entertainment | 1,246 | 1,399 | 1,168 | -6 |
| Current Affairs | 441 | 398 | 285 | -35 |
| Arts Programmes | 168 | 123 | 81 | -52 |
| Music Classical | 71 | 45 | 34 | -53 |

drama series, 'lifestyle' programming and (to a certain extent) entertainment – have come to account for a larger share of terrestrial channels schedules, at the expense of the traditionalist PSB genres: arts, current affairs, classical music and religion.

The massive increase in the proportion of peak-time hours dedicated to programmes in the hobbies and leisure genre categories continues, particularly on Channel Four and Five. BBC2, the channel that first rode this particular wave, has already made good on its public intention to scale back on this genre in 2003/4 – although on past form this may just be a temporary pre Charter Review blip.

Table 1.8 provides evidence of the impact of multi-channel growth and audience fragmentation in three dayparts – Sunday mornings, weekdays 1515-1700 and

**Table 1.8 The impact of increased competition on elements of ITV1's core Public Service Broadcasting programming – ITV1 share in for PSB dayparts**

*ITV1's share in all homes*

|  | 1997 | 1999 | 2001 | Jan-Aug 2003 |
|---|---|---|---|---|
| Sunday 0930-1200 | 16.3 | 14.9 | 10.9 | 9.6 |
| Weekday CITV 1515-1700 | 19.5 | 17.3 | 13.2 | 8.1 |
| Weekday 1800-1900 | 34.4 | 29.2 | 26.9 | 22.6 |

*ITV1's share in multi-channel homes*

|  | 1997 | 1999 | 2001 | Jan-Aug 2003 |
|---|---|---|---|---|
| Sunday 0930-1200 | 8.4 | 8.5 | 6.4 | 6.2 |
| Weekday CITV 1515-1700 | 13.5 | 13.2 | 9.7 | 5.7 |
| Weekday 1800-1900 | 28.3 | 22.4 | 20.0 | 18.4 |

weekdays 1800-1900 – when ITV1 schedules programming to meet some of its core PSB obligations (religion/childrens on Sundays, childrens programming and national and regional news at 1800 respectively). The declines since 1997 are stark, but so is the relatively small nature of the viewing shares. Less than ten per cent of the six to seven million people watching any TV on a Sunday morning choose the public service programming on ITV1 and only 6 per cent of viewers in mutli-channel homes.

Similarly, the Children's ITV (CITV) weekday slot has seen viewing shares fall from 20 per cent in 1997 to 8 per cent in 2003 in all homes, and from 14 per cent in 1997 to six per cent in 2003 in multi-channel homes, whilst the 'news hour' from 1800-1900 has seen a 28 per cent share in multi-channel homes in 1997 fall to an 18 per cent share in 2003. The percentage decline in all homes is as bad, from 34 per cent to 29 per cent. These are dramatic falls in viewing share, in the context of advertising-funded channels' need to retain audience levels year-on-year in order to safeguard share of total television advertising spend.

## Conclusions

What can we discern from these trends in audience behaviour and the way in which the public service channels have responded to them over the past ten years? What does this tell us about the way in which the channels might respond in the next decade as we move towards digital switchover and 100 per cent multi-channel penetration? Finally, is there anything that policy makers can or should do now if we are to preserve the rich mix of public service television that the UK has traditionally enjoyed?

Firstly let us recap on what the evidence tells us about audience behaviour in multi-channel homes and the response of the public service channels to it.

## Audience behaviour

As the number of channels increases there is inevitable audience fragmentation. Viewers exercise their greater freedom of choice and viewing to the main terrestrial channels diminishes. Nonetheless the main terrestrial channels remain far and away the most watched channels in multi-channel homes and the vast bulk of the new digital channels achieve average viewing share of far less than one per cent of the total audience.

The types of programmes on the terrestrial channels that are most aggressively and frequently rejected by audiences in multi-channel homes tend to fall in those genres that are classically defined as the 'niche market failure' genres: arts, religion, serious documentary and so on. The broader appeal public service genres, in particular drama, fare much better.

## PSB channels' response

The response of all of the PSB channels has been to minimise the risk of losing audience share, firstly by concentrating on the more popular genres to the detriment of the 'niche market failure' genres such as arts and secondly by introducing greater familiarity into significant proportions of their schedules (particularly daytime, early peak (1700–1900) and the 'lifestyle' hour pre-2100) by reducing the number of new programme titles they broadcast each year. These trends have been most dramatically evident on the smaller PSB channels, BBC2 and Channel 4.

With multi-channel penetration potentially set to increase to 100 per cent by 2010 the pressures that have prompted these trends are only going to grow. It is safe, therefore, to assume that on balance we will continue to see an increasing concentration on the safe and familiar. Risk taking, at least in the sense of investment in new programme titles and in those genres that are not big ratings winners, is in danger of diminishing further.

This may not be satisfactory in the eyes of the regulator or most importantly the viewing public. It is estimated that terrestrial broadcasting currently enjoys a public subsidy of somewhere in the region of £4 billion. This calculation includes discounted and free access to terrestrial spectrum enjoyed by all the public service broadcasters, although well over half of it, approximately £2.5 billion, comes in the form of direct public subvention via the licence fee. That is a lot of money to pay for a system of public service broadcasting particularly if it is producing an increasingly familiar and unchallenging diet that a free market in television services might be perfectly capable of delivering.

Clearly public service television in the UK has historically been about much more than niche market failure programming. I do not believe that most viewers in the UK

want to end up with a US-style PBS, memorably described by Michael Jackson in 2003 as a 'pimple' on the surface of American broadcasting. For mass audience channels like ITV1 and BBC1 public service always has been, and must continue to be, built around their ability to deliver a diverse range of popular programming that is able to sustain, in ITV's case, the kind of advertising revenues that can go on funding its huge investment in original UK production, including regional production, and in the BBC's case broad public support for the licence fee.

But for public service television to remain a meaningful concept in the UK it has to continue to embrace 'niche market failure' programming too and a significant commitment to taking big programming risks, and often. Which channels are going to be best placed to go on delivering these aspects of PSB and how historic levels of risk taking can be financially supported in a totally multi-channel future will be key questions for Ofcom's first Public Service Television Broadcasting Review.

Encouragingly the Government already appears to have grasped the need to address these key questions and the new Communications Act takes account of the implications of the trends I have outlined. For the first time it seeks to make clear in its approach to the delivery of public service genres that the public service broadcasters must each be seen as individual contributors to the wider PSB ecology and that we might expect to receive different things from each. This is to be done by assessing the delivery of each genre of PSB on the basis of what the broadcasters have achieved when their services are 'taken together'.

It is also clear that Ofcom understands the importance of these issues and the need to create a more explicit regime for public service broadcasting. One in which there is a clear understanding of the costs and benefits involved and an appropriate apportionment of risks and obligations. This is vital because if public service broadcasting is to have a long-term future the public needs to know that the money it is being required to invest in TV by the Government is giving it something the free market cannot or will not provide.

### Endnotes

1   The UK's public service television broadcasting channels are BBC1, BBC2, ITV1, Channel 4 and Five.

2   Those channels that are not available through analogue terrestrial television broadcast signals and are only available through the Digital Terrestrial, Direct-to-Home Satellite and Cable platforms.

3   All tables in this chapter use BARB/TNS Infosys as source data.

4   Freeview is the name of the UK's Digital Terrestrial Broadcasting platform run by Crown Castle, the BBC and BSkyB. Freeview is free-to-air.

## 2. What are the real threats to public service broadcasting?

Patrick Barwise

**Three potential threats to public service broadcasting**

Public service broadcasting (PSB) faces three potential threats: Firstly, the impact of multi-channel television; secondly the personal video recorder (PVR) as a threat to television advertising revenue and, finally, the current ideological climate.

This chapter will explore each of these in turn, concluding that the real threats are the impact of PVRs for advertising-funded PSB and the current ideological climate, especially to the BBC. The growth of multi-channel TV creates more competition for all broadcasters, whether PSB or purely commercial, but it can reasonably be argued that it either increases, or decreases, or does not affect the need for PSB. Which of these conclusions one draws depends on one's ideology.

My focus here is on potential and actual threats to PSB, not on its precise definition. For this purpose, I take PSB to mean terrestrial broadcasting which meets a public service remit in the Communications Act.[1] Throughout the chapter, I follow the convention of using the term 'public service broadcasting' although the focus is almost entirely on television. Some of the arguments are also relevant to public service radio, and of course the two are connected via the television licence fee, which also funds BBC radio.

One factor I do not discuss is digital television (DTV), apart from PVRs. DTV is an important development but not especially relevant to this discussion: digital and PSB are not closely linked and, again, the implications depend on one's ideological position. Similarly, I regard broadband delivery as largely irrelevant because I expect it to have minimal impact on viewing over the next ten years.[2]

**Multi-channel television**

The growth of multi-channel has been the biggest single trend in television over the last 25 years. Different countries are at very different stages of this process. For historical reasons, in some countries such as the UK, multi-channel is mainly delivered through direct-to-home satellite transmission while in most, including the US, it is mainly delivered through cable transmission. The growth of multi-channel started long before digital transmission and the two are distinct phenomena.

## Audience trends in multi-channel homes

The main audience trend in multi-channel homes is that the total amount of viewing remains pretty constantiii but is spread over many more channels, leading to audience fragmentation. However, the viewing of different channels in multi-channel homes is extremely skew, so the PSB channels lose less viewing than one might expect. Even in a home with 60 or 70 channels, the average viewer typically watches only about 15 channels and this number hardly increases with more available channels (Figure 2.1). More importantly, the channels viewed usually include most of the terrestrial networks, which in the UK are all, to varying degrees, public service broadcasters.

**Figure 2.1 Number of channels available and number viewed per week (US adults)**



Source: Nielsen Media Research, 2001
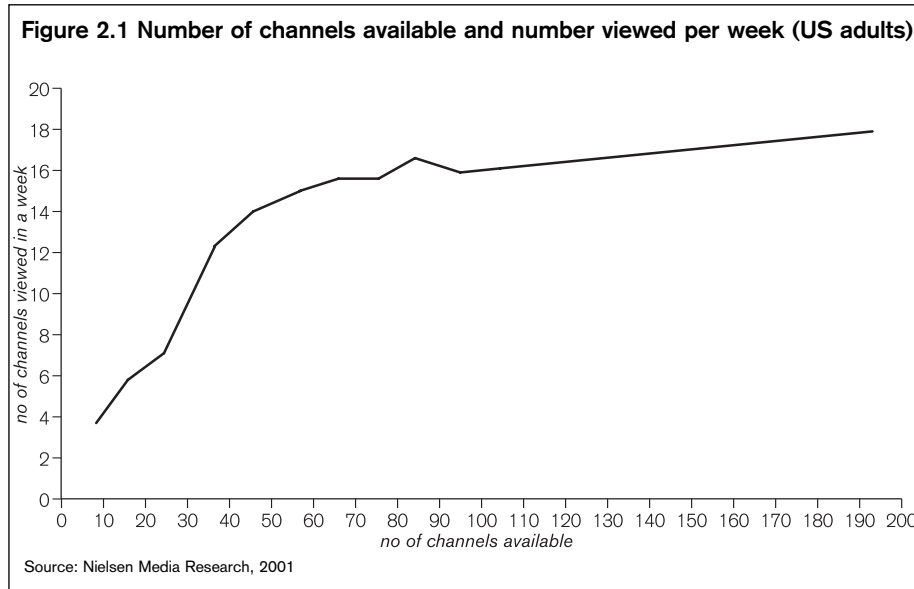
The result is that, even in multi-channel homes, a handful of terrestrial channels still captures over half of all viewing with the rest spread over dozens of cable/satellite channels, most of them with barely measurable audiences. Linked to this, each week the main terrestrial channels still reach a majority of individuals even in multi-channel homes (Table 2.1).

Audience fragmentation with fixed total viewing by definition leads to lower programme ratings and less viewing for each channel. The number of programmes able to attract an audience of, say, ten million viewers has fallen dramatically and continues to fall. Less obviously, as programme and channel audiences decline, their loyalty also decreases (Ehrenberg, Goodhart and Barwise 1990).[5] That is, small channels and low-rating programmes do not deliver small, highly-committed, loyal 'niche' audiences; they

**Table 2.1 Channel reach (% of people watching per week) in the USA (2002) and UK (2003)[4]**
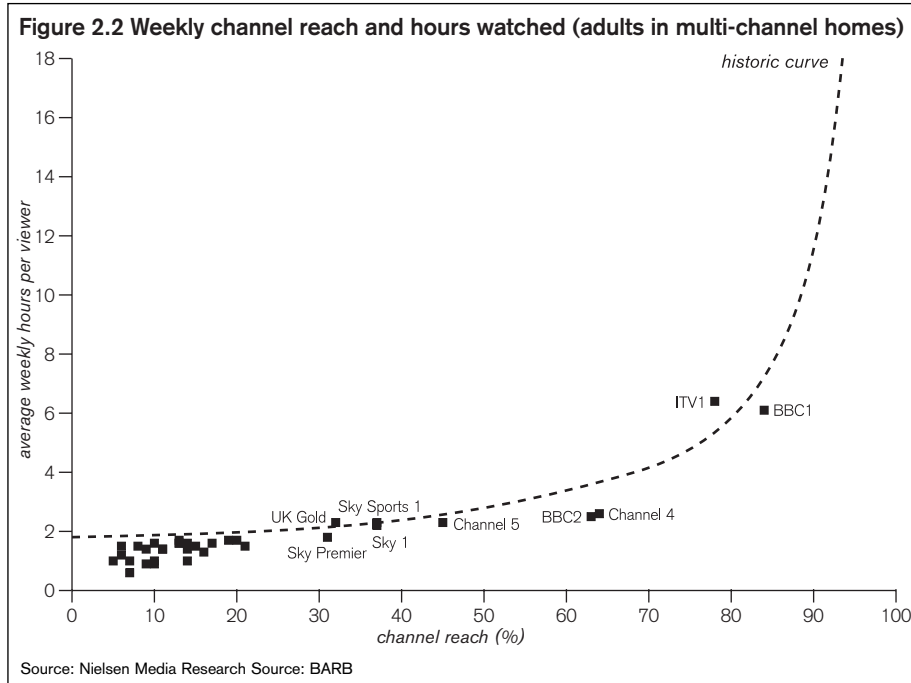
| USA | Weekly reach % | UK | Weekly reach % |
|---|---|---|---|
| NBC | 67 | BBC1 | 84 |
| CBS | 58 | ITV1 | 81 |
| ABC | 56 | BBC2 | 69 |
|  |  | Channel 4 | 67 |
| Fox | 40 | Channel 5 | 56 |
| WB | 28 |  |  |
| UPN | 26 | Sky 1 | 38 |
| TNT | 22 | ITV2 | 29 |
| HBO | 20 | UK Gold | 22 |
| PBS | 18 | Sky Sports 1 | 19 |
| AEN | 17 | BBC3 | 18 |
| Lifetime | 15 | E4 | 15 |
|  |  | 18 Medium-sized | 10-14 |
| USA | 15 | 49 Smaller | 5-9 |
| Others | <15 | ~50 Very small | <5 |

Bases:    USA – Adults in multi-channel TV homes in three local markets viewing 6 minutes+ (Nielsen)

UK – Individuals aged 4+ in multi-channel homes viewing 10 minutes+ (BARB)

deliver small, mostly uncommitted, disloyal audiences. Figure 2.2 illustrates this for television channels in the United States and United Kingdom. The general pattern is that the small channels not only reach fewer people but also reach them less often. The main exceptions are Hispanic stations in the US such as Univision and Telemundo, and to a lesser extent, the Fox News Channel. These have low weekly reach but in some cases (notably Univision) higher average hours per viewer than the main networks. Bible stations have been found to show a similar pattern (Barwise and Ehrenberg 1984).

In the case of programmes, lower loyalty shows up as a lower 'repeat-viewing rate', (that is, the percent of this week's audience who also saw last week's episode). Thirty years ago, repeat-viewing rates were typically about 50-55 per cent and slightly higher than this for top-rated soap operas (Goodhart, Ehrenberg and Collins 1975). Repeat-viewing rates today vary with rating levels but average about 30-35 per cent, with soaps still attracting somewhat more loyal audiences with repeat-viewing rates of about 50 per cent for the main daytime soaps in the US. In line with these patterns, neither television channels nor individual programmes deliver strongly segmented audiences, unlike print media (Barwise and Ehrenberg 1988).[6]

Figure 2.2 Weekly channel reach and hours watched (adults in multi-channel homes)



Source: Nielsen Media Research Source: BARB

These audience trends in response to the growth of multi-channel TV could in principle impact three aspects of PSB: citizenship benefits, the value for money of the licence fee, and the advertising revenue of the advertising-funded PSB channels.

## Impact on citizenship benefits of PSB

What one considers to be the impact on the citizenship benefits of PSB depends largely on one's ideological position (an issue to which the chapter will return below). Consider news: the anti-PSB position is that if the market provides several reasonably well-funded sources of TV news, there is no longer a need for a PSB news provider any more than for a publicly-funded newspaper. The pro-PSB position is that, in practice, deregulated commercial TV news is populist, 'dumbed-down', and sometimes even biased, avoiding topics which are important but difficult or against the commercial interests of the owners. As evidence, they cite not only broadcast news in the US but also countries such as New Zealand, where deregulation led to measurable 'dumbing-down' of the news almost overnight (Cook 2002).  In Britain, high-quality broadcast news is greatly valued by the public, which relies on it far more than on newspapers, which are seen as less balanced (ITC 2002). On this view, the growth of commercial news sources actually reinforces the need for high-quality balanced PSB news.

Similar differences of opinion apply to other citizenship benefits of PSB. For instance, the reduction in high-rating programmes lowers the ability of PSB to act as a 'social glue': there are now fewer programmes which represent shared experience among large numbers of different people. The anti-PSB view is that this reduces the need for PSB; the pro-PSB view is that it might even increase it, since high-rating programmes on the few universally-available channels are the only ones which can provide this benefit in a multi-channel world.

## The value-for-money of the licence fee

A similar divergence of views seems likely to apply to the value-for-money of the licence fee. On the one hand, the growth of multi-channel gives more viewers more alternatives to the BBC channels and the gradual erosion of BBC audiences reduces the absolute value-for-money of the licence fee. On the other hand, the licence fee is, for the great majority of viewers, demonstrably better value for money than subscription and probably always will be. That is, those self-selected homes which have chosen to subscribe to satellite or cable pay far more for it (both per annum and per viewer-hour) than they pay for the BBC, which also provides half their radio listening as well.

The pro-PSB position is that, purely in consumer terms, leaving aside the citizenship arguments and issues such as quality standards, innovation, UK production and training, a well-managed BBC funded by the licence fee is such good value for money that it significantly improves the overall cost-effectiveness of broadcasting both for those willing and able to spend more for extra channels and for those who are less lucky or less interested. Those who refer to the licence fee as a 'regressive' tax are disingenuous: it is neither more nor less regressive than pay-TV, but it is a lot cheaper. In fact, most of the commercial objections to the BBC right now are that it is too popular, that is, good value for money, as measured by the cost per viewer per hour, not that it is too unpopular. No one makes the audience tune to BBC television and radio, but they do so freely, tens of millions of times every day.

The licence fee would raise an issue of equity if many of those who pay it did not use the BBC services. Actually, the cross-subsidies would be trivial in comparison with big-spenders such as health, education, and social services, but in any case the situation does not arise: even within a week the number of households that watch no BBC television and listen to no BBC radio is small and relatively upscale.

In 1990, a London Business School study of viewers' willingness-to-pay found that the great majority would be willing to pay far more than the licence fee level if the alternative were that they would lose BBC1 and BBC2. The results suggested that:

> BBC-TV could easily be financed by subscription instead of the licence fee. If the BBC were to charge as much as the market would bear, it could be highly profitable. But since the great majority of viewers would pay voluntarily, there might seem to be little point in moving to subscription, which is probably 50 per cent more costly to operate for the same service. It would be more efficient and effective to retain the licence fee but raise it to be closer to a free-market price, enabling the BBC to show more good programmes. There is no support from the market for the idea of cutting services in order to reduce the licence fee (Ehrenberg and Mills 1990).

Unfortunately, this study has not been replicated to see how, if at all, its conclusions may be different today in either multi-channel or terrestrial-only homes. Such a replication, if conducted using the same methodology (perhaps also including BBC Radio), would bring some much-needed facts to the table.

### Advertising revenue of ITV, C4 and Five

There are several ways in which the growth of multi-channel might reduce public service broadcasters' advertising revenue, but for each of these, the impact to-date has been limited:

- The growth of pay-TV channels (combined with the robust performance of BBC-Television) has reduced the total number of viewers' opportunities-to-see (OTS) television commercials.

- Audience fragmentation means that a given number of OTS is now spread over more spots, which tends to reduce campaign reach and efficiency.

- Many satellite/cable channels carry advertising, providing competition to the public service broadcasters for this revenue source.

- Some would argue that multi-channel – especially digital multi-channel – technology makes viewers (even) less attentive during commercials. For instance, there is evidence that EPG users scroll through alternative programmes during the commercial breaks (Green 2003).

In addition, there is a slow, long-term shift of marketing expenditure away from traditional media advertising towards direct mail and, especially, interactive marketing (Barwise and Styler 2002).

This is a complex topic. Television advertising revenue has indeed declined over the last three years, but largely in line with the general downturn in total advertising spend. The main growth of multi-channel television was through the 1990s, during

which terrestrial television net. advertising revenue continued to grow. The recent downturn seems to be largely cyclical, not structural, and most experts expect television advertising to grow over the next two to three years.

Even today, non-terrestrial channels capture less than 20 per cent of net. television advertising revenue, partly because the terrestrial networks, with their higher ratings and universal availability, are more efficient at delivering high-reach campaigns. As we have seen, in television, audience fragmentation does not lead to strong audience segmentation (unlike with print media) so that, from an advertising perspective, the low reach of small satellite/cable channels is not compensated by delivering highly targeted and valuable viewers. In newspaper advertising, one *Financial Times* reader is worth six to eight tabloid readers. In television advertising, the opposite is the case: 'niche' channels around the world generate less advertising revenue per viewer than the big networks.

If the growth of multi-channel TV had significantly reduced the revenue of advertising-funded PSB channels, they would be less able to meet their public service obligations while remaining commercially viable. The evidence is that, so far, this has not happened. Since multi-channel growth is now starting to mature, it is unlikely that this factor will pose a major threat to PSB in the foreseeable future. The real threat to PSB (and multi-channel) advertising revenue comes from the personal video recorder (PVR).

## The PVR threat to television advertising revenue

Every few years a new technology or development appears which promises to revolutionise what and how people watch television. So far, none of them has done so. Remote switches, colour television, multiset homes, VCRs, multi-channel TV, and most recently DTV have all changed how – and, to a much lesser extent, what – people watch, but the effects have been evolutionary. The most revolutionary change to-date was the launch of ITV in the late 1950s, which transformed British television in a few years from a single, paternalistic voice of the establishment to the strange but successful mixed economy model of terrestrial television which still accounts for three-quarters of all viewing 20 years after the initial launch of multi-channel TV.

Personal video-recorders (PVRs)[7] are likely to have as much impact on viewing behaviour as multi-channel and more than every other change since the launch of ITV, but if anything faster. Like multi-channel with 1980s cable, PVRs have had a slow start but should take off fast after the re-launch of BSkyB's Sky Plus in 2003.

PVRs will have a big impact on both viewing and PSB over the next few years. Firstly because of the failure, relative to expectations, of TiVo and ReplayTV, the original PVR manufacturers, does not represent a good market test. The original technology was somewhat limited, costly, and above all was never given the

marketing support and distribution required to achieve fast mass-market penetration for a complex new technology. Despite these initial problems, PVR penetration in the US has reached two per cent and is accelerating.

More importantly, all the key indicators suggest that PVRs will now be a huge success:

● Those who have PVRs use them extensively, love them, and quickly become used to fast-forwarding through anything boring, including the commercial breaks. They really miss the PVR if they are away from home and stuck with live TV. They enthusiastically recommend it to friends and family.

● The technology itself is becoming cheaper, more reliable and with the ability to store more programmes. It is easy to use by anyone familiar with an EPG.

● The early adopters are not especially nerdish. The benefits of PVR ownership – the dramatic increase in consumer control combined with extreme ease of use (unlike VCRs) are likely to be appreciated by anyone with a television. This is not a technology for which either the product or the way it is marketed needs to change significantly to go from early adoption to a mass market.

● Finally, PVRs are now being marketed by the big battalions such as BSkyB in Britain and the cable and satellite companies in the USA. Other big players such as Microsoft, Sony, Samsung, Toshiba, Philips, and Nokia, are entering or about to enter the market.

Taking these four factors together, I expect the use of PVRs to grow quickly over the next five years, becoming especially popular with the money-rich, time-poor consumers of most value to advertisers.

## Implications for PSB

PVR usage has been surprisingly under-researched, but the main patterns are already clear.[8] At least 60 per cent of PVR owners' viewing is off the disk, versus only one per cent or two per cent off tape in homes with VCRs. Viewing off the disk is split between short-term time-shifting of specific broadcasts (sometimes by only a few minutes, sometimes by up to a day or so) and 'catching up' episodes of favourite programmes for which the PVR has been asked to record every episode. News, sport and reality shows are more likely to be watched live, while most other programmes, especially favourite dramas and sitcoms, are more likely to be watched off the disk. Crucially, when users watch programmes off the disk, they fast-forward through most of the commercial breaks, especially if the adverts are for boring products such as banking.

As PVR penetration grows, it will have various second-order effects on what people watch and probably also on the supply and price of different types of content. For instance, it may reinforce the 'winner-take-all' pattern whereby the stars of a top show, such as *Friends*, earn hugely more than those of otherwise comparable but less popular shows. Again, PVRs potentially reduce the power of scheduling: programmes shown off-peak or on small channels may achieve more exposure than today. However, these various second-order effects seem unlikely to have much effect on PSB. What will have such an effect is the fact that, if my analysis is correct, real television advertising revenue will start to go into permanent decline within five years. Over time, this will significantly change the whole broadcast ecology by weakening one of the three main funding sources for television. At the same time, it will put pressure on the concept of advertising-funded PSB. This may affect all three advertising-funded PSB channels in the UK.

In the case of ITV, the long-term threat to advertising revenue reinforces the need for a single, efficient and well-managed company which the 2003 merger between Carlton and Granada should facilitate. However, we are still likely to see pressure to reduce both ITV's licence payments and its public service obligations, such as regional programming. We will also see pressure to reduce the regulations that govern advertising and sponsorship.

Channel 4 has managed to ride the current advertising downturn by cutting costs and I expect the current model to be viable for several years. Beyond about 2007/8, however, if PVRs do start significantly reducing advertising revenue, something will have to give. In my view, the best policy would be to maintain C4's innovation and public service remit and gradually allocate it a small proportion of the licence fee. I would, however, oppose the idea, favoured by some people, of an 'Arts Council of the Air', whereby any commercial broadcaster could bid programme by programme for resources to make PSB programmes. This would not only introduce unnecessary bureaucracy and transaction costs. More important, by splitting programmes into those which are 'good' and those which are 'popular', it would undermine the key strength of PSB in Britain, which is to make programmes which are, to varying degrees, both good and popular. One has only to look at the dire state of PBS in the US to see what happens when one makes this separation. Again, NZ provides some evidence about the practical problems of an 'Arts Council of the Air' (Comrie 1996).

In the case of Five, it depends. Five is the smallest terrestrial channel, still unavailable in many terrestrial-only homes and with the weakest PSB obligations. Whether these should be strengthened or weakened in five or ten years depends on the trade-off between its potentially stronger market position and the potentially weaker advertising market.

PVRs are a significant threat to advertising-funded PSB. There are various ways in which advertisers and their agencies can mitigate its effects,[9] but all of these are partial.

Consumers will adopt PVRs on a large scale over the next few years and use them extensively, including to avoid watching commercials. The question is not whether this will happen, it already is, it is how much and how soon, and therefore what the policy response should be. As with multi-channel, the policy response to the PVR threat will greatly depend on the ideological climate.

## The ideological climate

The single biggest threat to PSB is not new technology, nor the resulting changes in audience behaviour, which have generally been less dramatic than often claimed. The biggest threat to PSB is ideological, reinforced, as always, by commercial and political vested interests. The issue is the balance between PSB and the market. This especially affects the BBC, but also issues such as retaining the existing model for C4 and the PSB remits for ITV and Five.

Over the last twenty years, the general climate of opinion has shifted dramatically towards market-based thinking. The presumption, long-held in the US but now also widely held elsewhere, is that the market is normally the best way of organising activities, with government's role restricted to market regulation (mainly to ensure competition) and directly providing a few exceptional services, such as national security, where competitive market provision is agreed to be unsatisfactory.

In UK broadcasting policy free-market ideas became dominant during the 1980s. In 1982, the Thatcher government launched Channel 4, based on a clever combination of commercial funding, a PSB remit which emphasised innovation, and a commissioner-publisher organisation to deliver it. Almost everyone agrees that Channel 4 has added to the range and quality of British broadcasting as well as playing a big role in the growth of independent production.

Within eight years of the launch of Channel 4, the same government introduced the 1990 Broadcasting Act based on free-market beliefs. In the subsequent franchise auction, one incumbent lost its franchise because the regulator thought that its revenue projections were so overoptimistic that its proposed licence payments might well bankrupt it. At the other extreme, one large franchise went for £2,000 per annum to an operator whose competitor intelligence (again, rightly) told it that it would be the only bidder. In others, there were two or three bids remarkably close to each other, raising a suspicion that in at least one case the winner may have successfully penetrated its rivals' security. According to Richard Tait, 'There are many reasons for [ITV's] decline over the past decade, but the flawed...1990 legislation was certainly a major factor' (Tait 2003). But the fiasco of the ITV franchise auction did nothing to raise doubts in the minds of those pushing for broadcasting policy based on market solutions with minimal 'light touch' regulation.

## PSB and the market: two views

Under the free-market view, the only role for PSB is to address market failure, to provide socially desirable programmes not provided by the market. At least in this respect, the US is the exemplar. Under the US model the market supplies virtually all broadcasting. PSB is limited to providing a small number of minority programmes that the market will not provide but which for various other reasons, mainly citizenship or culture, are considered worth having. The underlying assumption of this model is that anything which the market *can* provide should be provided *only* by the market. In this model, PSB operates on a tiny scale and only in areas where no one has found a way of making money. It is actively prevented from competing with commercial broadcasters.

For historical reasons, the UK has a quite different system based on a foundation of high-quality universally available PSB. With multi-channel and other new technologies, the model now also includes a wide range of add-on services for those willing and able to pay more for extra choice. In this mixed economy, we apply strong regulation to the PSB foundation, while treating the add-on services much like any other consumer market, with economic regulation to ensure competition but also some content regulation.

These two models are qualitatively different from each other and based on very different assumptions. The US model assumes that the market provides almost all the programs the public wants and that it does so both effectively (by responding to audience preferences) and efficiently (since competition favours the efficient over the inefficient). It further assumes that, for those programme genres that the market provides, a public service broadcaster would be less effective and efficient. The main policy implication is simple: PSB should be restricted to activities not provided by the market. This still leaves some scope for policy judgements about the scale and scope of PSB, but only at a trivial level in terms of resources (one orchestra or two?). From the audience's perspective, PSB is almost irrelevant under this model: anything people want to watch will be supplied by the market unless the production costs are disproportionate, in which case they are also likely to be beyond the resources of the public service broadcaster. The public service broadcaster is therefore restricted to low-budget programmes few people want to watch.

The UK model does not assume that the market is automatically the most effective and efficient provider of whatever it wants to supply. It sees this as a practical, empirical question.

## Beware of the dogma

In contrast to the pragmatism of the UK model, those advocating market solutions often rely on pure dogma. That is, they rarely see a need to provide any evidence of consumer benefit, assuming instead that the superiority of the market (from a

consumer, if not a citizenship, perspective) is self-evident. I have already mentioned the ITV franchise auctions in the early 1990s and the radical deregulation of television in New Zealand. Other examples of policy proposals based on market dogma abound:

●   In August 2000, a *Financial Times* editorial proposed that the BBC should be privatised and its public service functions moved to a separate commissioning organisation. This editorial literally did not mention either how the privatised BBC would be funded or how viewers might benefit (FT 2000).

●   Barry Cox, deputy chairman of C4, in his Oxford lectures, argued a somewhat similar position, admittedly with more attention to the practicalities but still without seeing any need to discuss why viewers would benefit (Cox 2003).

●   Tony Ball, ex-Chief Executive of BSkyB, in his 2003 MacTaggart Lecture, argued for UK broadcasting to switch from the UK to the US model (Figure 2.4 to Figure 2.3) (Ball 2003). It is obvious why the reduction in competition he proposed would benefit BSkyB, but again, he saw no need to tell us why, in his view, it would also benefit British viewers.

●   On 7 October 2003, John Gapper wrote a *Financial Times* feature arguing that 'Auntie...[should confine] herself to remedying market failure' because this is 'what an economist would regard as her true purpose'. Further, he argued that if the BBC limited itself to making programmes that the market does not, the commercial marketplace would be bigger, enabling C4 and Five to compete more effectively with a consolidated ITV. Leaving aside the questionable logic of the latter proposition (why would ITV's share of TV advertising go down if the BBC were smaller?), Gapper's article again makes no mention of audience preferences or value for money: the assumption seems to be that if economists and advertisers are happy, viewers will automatically benefit (Gapper 2003).

The same faith in market forces seems to lie behind the Government's controversial decision to remove most of the barriers to foreign and cross-media ownership in the Communications Act (Communications Act 2003).

### The messy reality of the US model

In practice, the US model is a lot less pristine and government-free than it appears from Figure 2.3. One of the ironies of using free-market rhetoric to justify allowing US companies to own UK broadcasters is that the US itself prohibits foreign ownership of its own broadcasters, even the smallest local radio station. The US is now the only

superpower and dominates the global media market, so it is mildly amusing that its paternalistic government feels the need to protect its citizens from the dangerous influence of foreign-owned broadcasters.

The US media market is also subject to large-scale, aggressive political lobbying and litigation. The regulator, the Federal Communications Commission, essentially comprises five lawyers and a large support staff. The main current issue there is how many stations a TV network is allowed to own and operate. The previous issue involved News International successfully lobbying against EchoStar acquiring DirecTV, on the basis that this would create a monopoly in US direct-to-home satellite television that now accounts for about a quarter of the US pay-TV market. This argument too should cause some wry smiles in Britain, where News International's BSkyB is the monopoly supplier of encrypted direct-to-home satellite television that accounts for two-thirds of the UK pay-TV market.

In evaluating the relative performance of the US and UK models, it is important to allow for the difference in the two countries' scale and wealth. The US broadcasting system has at least six to seven times the revenue of the UK system. Comparing the two without allowing for this would be like comparing British broadcasting with that of Sweden or Holland without allowing for the difference in scale. In television, resources matter. If one does allow for the difference in resources, it is certainly not clear that the US model outperforms the UK model in consumer terms (range, quality, value for money), leaving aside citizenship issues, although this is an inherently subjective issue.

## What about choice?

A wider issue and one beyond the scope of this chapter, is whether consumers/citizens value choice as an end in itself. I think this is debatable. Choice (or, strictly, competition) in markets can be essential as a means to an end, to force or encourage companies to improve their products and/or prices, but it is far from clear that consumers actually value choice in itself. This is a researchable issue with wide potential policy implications, but does not materially affect the issues covered here.

## The scope of PSB in the UK model: crowding-out

The UK model works well for the audience as citizen-consumers but is disliked by commercial broadcasters and by people who like things to be simple and clear-cut. It raises, on a much larger scale than the US model, the difficult issue of determining what the scale and scope of the universally-available PSB should be. This is not only a question of assessing what the public gets for its money. Public service

broadcasters compete for audiences and acquired programmes against the pure commercial players, reducing their market and the more popular and efficient the public service broadcaster, the more the remaining market is reduced. This is known as crowding out.

In the US model, there is no crowding out. In the UK model, for any PSB activity, it is a matter of judgement both how much if any crowding out there will be and also how much this matters. One criticism of the BBC Board of Governors is that they have so far failed to address this issue. Something we badly need for a rational BBC Charter Renewal process is the BBC Board of Governors' view of the appropriate scope for the BBC and a coherent framework for deciding that scope. A key part of that framework has to be an evaluation of crowding out.

To give a practical example, the launch of CBeebies and CBBC has provided extra competition to the already-established US-owned children's channels in multi-channel homes. In principle, this might lead to these channels scaling back their UK operations, perhaps including their investment in original UK programming. In deciding whether to give the BBC the go-ahead to launch its children's channels, the government had to take account of such potential crowding out. In this particular case, the benefits to the British public outweighed the hypothetical dis-benefit of the potential crowding out by such a wide margin that the decision was clear-cut. In other future cases, it may be less so.

In other words, from a rational policy perspective, crowding out is a factor to be taken into account, not a religious principle which should by itself determine policy. This distinction is the main difference between the US and UK models.

The BBC children's channels illustrate another aspect of crowding out. Under the British model, the first player to move into a given area tends to have first-mover advantage. That is, once part of the potential market is occupied by commercial players, the onus is on the public service broadcaster to justify any entry into that area, an almost impossible task, especially given that media companies have so much political clout. Conversely, however, if the public service broadcasters already provide a certain type of programme, it becomes hard for a commercial operator to make the case for them to withdraw from that activity. This first-mover effect means that any significant reduction in the scope of PSB is likely to be irreversible. Given the success of the UK model to-date, the precautionary principle should apply.

One final, much misunderstood, aspect of crowding out is that, given the largely unsegmented nature of TV viewing, it is mostly about competition for commercial broadcasters' share of total viewing. It is not primarily about competition for the viewing of the specific kind of content. For instance, the launch of BBC4 is unlikely to have significantly reduced the viewing of the loss-making Artsworld Channel. BBC4's viewing share in multi-channel homes is only 0.2 per cent. Even among viewers of the Artsworld Channel, BBC4 is unlikely to be capturing more than one per cent or at

most two per cent of viewing, an immeasurably small impact. There are other factors to consider, for example, distribution and programme supply, but purely in terms of reduced viewing, the impact is negligible.

## The way forward

This chapter has reviewed three potential threats to PSB. It has discussed the growth of multi-channel, the main trend over the last 25 years, in some detail. I have argued that any conclusions one might draw about its impact on the future of PSB would largely depend on one's ideological perspective.

The chapter then discussed the PVR threat to television advertising revenue. My view is that, within five years, it will lead to a permanent decline in TV advertising revenue. Others may see this as too pessimistic, but few analysts would disagree that this will be a major factor within ten years, enough to put pressure on advertising-funded PSB. Long-term broadcasting policy will need to take this factor into account.

Finally, the chapter discussed the threat to PSB from the current free-market ideological climate. The chapter contrasted the US model, where PSB is limited to a peripheral market failure role, with the UK mixed-economy model. I argued that in today's ideological climate, the trend has been towards the free-market model and that its devotees have such faith in its efficacy that they often regard it as unnecessary to give any reasons or evidence for its superiority over the mixed-economy model. The chapter then discussed the way a thriving PSB sector can crowd out activities by pure commercial players and noted that, because of such crowding out, any significant reduction in PSB would be irreversible.

Despite these threats, there are two reasons to be optimistic about the future of PSB. First, the new communications regulator Ofcom is strongly committed to a fact-based approach to regulation. In most respects, the facts favour the mixed-economy model. Second, there are some signs that we may have approached or reached the high tide of unquestioning faith in markets. From now on, the ideological climate may become more pragmatic. In five or ten years times, it should be harder for someone to propose a free-market solution without any supporting evidence or argument about the likely impact on viewers.

Some of the discussion about broadcasting policy assumes that the market provides the best outcome for the audience as consumers while PSB and content regulation are required to achieve a good outcome for the UK public as citizens. While I agree with the second part of this statement, the first is demonstrably wrong.

Although the distinction between consumer and citizenship issues, like the distinction between programs which educate, inform, and entertain, should not be overstated, there is no question that television's social, cultural, and political importance is large compared with its modest economic scale. The media agency

MindShare recently estimated that broadcasting takes up 29 per cent of people's time but only 1.8 per cent of their money. In pure economic terms, UK television turns over only about £8 billion a year, more than water and sewage, but only about half the turnover of domestic energy. In comparison, consumers spend over £35 billion on clothing and footwear and £50 billion on motoring (Advertising Association 2003). Given television's small economic scale relative to its huge role in people's lives, it makes no sense for policy to be dominated by economic issues and perspectives.

But even if we leave aside these social and citizenship issues, a mixed broadcasting economy which includes a large well-run public service broadcaster funded by the licence fee can provide better value for money to the public as consumers than a free-market system funded only by advertising and subscriptions. The reason for this is that an efficient public service broadcaster funded by a licence fee can provide services at a lower cost per viewer-hour than an equally efficient commercial broadcaster financed by subscription or pay-per-view, because it has lower non-programme costs and receives revenue from more homes. The public intuitively understands this. If asked whether they would prefer a monthly subscription to the licence fee, they overwhelmingly reject it, rightly assuming that they would end up paying a lot more for the same programmes. We need to get away from the unquestioned assumption that the market automatically provides the best outcome for consumers. Ofcom's fact-based approach will help us to do this.

## Have we reached the high tide of unquestioned free-market ideas?

Often, the free market (regulated to ensure competition and product safety) is the best answer. An example is car distribution: the dismantling of the EC's 'block exemption' after years of lobbying by consumer organisations will deliver benefits to consumers and look forward to the day when a consumer can go to a shop and compare different brands of car just we do when purchasing a washing machine. Let the market decide.

It should be clear that broadcasting is different, and not just because of citizenship issues such the need for balanced news. In Britain, we have widespread agreement that in areas such as health and education we want strong, well-funded, well-managed universally-available provision, perhaps supplemented by the private sector for those willing and able to pay more for more (and even this is controversial). In addition to these and other familiar cases, we have a growing number of examples where market solutions have been tried and the results to-date have been disappointing. These range from pensions, food safety, and railways to environmental policy and international development. In some cases, such as contracting-out local refuse collection; the results of privatisation have been excellent. In others, such as the Private Finance Initiative, the jury is still out, but the initial evidence is that the approach may work well with some types of project and not with others (Kelly 2001). In yet others, such as directory enquiries, the

initial results have been poor (higher prices, lower volume, more complaints) but the hope is that the eventual outcome will be better than before deregulation.

This accumulating evidence is certainly not leading us back towards traditional socialism, nor towards some elusive 'third way'. It suggests that there is no one best way because every market has its own characteristics and the details matter. The approach is increasingly pragmatic and evidence-based. In the words of a recent paper from the Cabinet Office strategy unit:

> Much of the experience of the last 20 years has shown that public value is best maximised neither by competitive private markets nor by monopoly public provision. Instead… the combination of strong public sector institutions and competition from private and non-profit organisations achieves the best balance of accountability, innovation and efficiency (Cabinet Office 2002).

The one-sided US coverage of the 2003 Iraq war and the lack of serious debate have been poor advertisements for the US broadcasting model. Some would also argue that US media concentration has now reached such a stage that even its traditional strength in television drama and sitcoms is now under threat, because big media will always struggle to be truly creative media (Kay 2003).

The next few years will be tough for public service broadcasters. Each will have to run a tight ship, but time is on their side. The next 3-5 years are crucial: any damage to PSB brought about by market dogma and commercial or political vested interests will be irreversible. But beyond that, the intellectual and ideological climate should become more balanced, pragmatic, and fact-based. We will still need to manage the reduction in television advertising revenue caused by PVRs, but the main, ideological threat to PSBs will have been weathered.

Meanwhile, the policy priority should be to state the practical options as clearly as possible and use evidence and analysis, rather than dogma, to assess the likely outcomes of each one. This will always involve judgement, but after nearly 50 years of practical experience and analysis of different ways of organising television in different countries, we have plenty of evidence on which to draw.

## Endnotes

1    BBC1, BBC2, ITV1, Channel 4 and Five.

2    Digital TV and broadband are both big topics beyond the scope of this chapter. From a consumer perspective, DTV is primarily enhanced television rather than a radical new medium (eg for e-commerce). See Brodin K, P Barwise and A Canhoto (2002) 'UK Consumer Responses to iDTV' *Future Media Report* London Business

School. Available at www.idtvconsumers.com. The main reasons for adopting broadband are for fast, always-on internet access and (in Europe) unlimited usage. See 'Consumers' Adoption and Use of Online Technology' *LBS Future Media Global Expert Panel* Report London Business School: September 2002. Broadband does allow the sale of individual programmes via pay-per-view (PPV), video-on-demand (VoD), or near-video-on-demand (NVoD) but there is no evidence that these will ever account for more than a small proportion of viewing (comparable to current viewing of bought/rented video cassettes and DVDs) even in broadband homes. Evidence from South Korea and China, each with around ten million broadband homes, is that the impact on TV viewing is minimal. For discussion see 'Will broadband give us television on tap – or is it just a fat pipe dream?' *FT Creative Business*, 30 September 2003: 8-9 Available at www.ft.com. Broadband can also support time-shifting, which I discuss under PVRs (see endnote 7).

3    Multi-channel homes watch more than terrestrial-only homes both for demographic reasons and because they tend to contain people who like television. But there is no evidence that having access to extra channels causes them to increase their viewing significantly, except perhaps for a brief honeymoon period.

4    US data from Collins M, V Beal & P Barwise (2003) 'Channel Use Among Multi-Channel Viewers' *Research Report 15*, *The R&D Initiative*, *South Bank University* and The Marketing Science Centre, University of South Australia, March 2003. UK data from BARB w/c 1 September 2003 Available at www.barb.com.

5    This is an example of McPhee's Law of Double Jeopardy. See McPhee MN (1963) *Formal Theories of Mass Behavior* Free Press. McPhee's law states that something which is less popular is, usually, not only chosen by fewer people in a given time period but also chosen less often by those who do choose it. See Ehrenberg ASC, GJ Goodhardt & TP Barwise (1990) for further discussion.

6    Current research at the R&D Initiative (South Bank University and the Marketing Science Centre, University of South Australia) confirms this result using recent US and UK data.

7    I use the term PVR to include any technology with PVR functionality. In the mid-term, these may include standalone PVRs, set-top boxes with PVR functions, integrated TV/PVRs, games consoles, DVD recorders with hard drives, regular PCs, home 'gateway' computers with a wireless in-home network, and possibly broadband services which store the programmes somewhere on the network. The threat to TV advertising revenue comes from the PVR functionality, not the technologies used to provide that functionality.

8    Most of the research on PVR usage is unpublished. The best semi-published research, to my knowledge, is by CNW Marketing Research in the US. Available at cnwmr@msn.com

9    These might include: sponsorship and advertiser-funded programming; product placement; more/shorter commercial breaks; shorter, more creative/relevant, better-targeted commercials; various types of interactive advertising.

# 3. Which end of the telescope? From market failure to cultural value

Steven Barnett

For most of the last ten years, analyses of the future of broadcasting have taken a predominantly one-sided approach based on economistic theories of 'market failure'. Historically, it is an interesting phenomenon which has happened almost by osmosis and on which there has been very little comment or interrogation. In fact, we have to go back to 1978 and the Annan Report to find any formal, systematic attempt to examine the role, future and contribution of broadcasting in cultural rather than economic terms.

Perhaps this is unsurprising. The Annan Report coincided with a historical turning point in British politics, as the corporatism of 1960 and 1970s 'Old Labour' gave way to the new era of Thatcherite individualism, market liberalism and private enterprise. Her mantra that 'there is no such thing as society' embodied a philosophy that made it extremely difficult to advance arguments around the benefits of public service. While the postwar tendency, particularly within the Labour and Trade Union movement, to assume 'private bad, public good' blinded many left-wingers to the value of a vibrant entrepreneurial culture, the mirror image 'public bad, private good' which was a hallmark of the 1980s ideology obscured the societal benefits of those who saw their purpose (and their self-fulfilment) as much in terms of serving the public as maximising individual earnings.

Within that social and political context, it was hardly surprising that analyses of broadcasting from the 1980s should be governed by economic priorities. It was the free marketeer Alan Peacock who set the tone with his report (Peacock 1986), published in 1986 at the height of the Thatcherite revolution, and established the ideological position for the White Paper on Broadcasting in 1988 and the subsequent 1990 Broadcasting Act (Broadcasting Act 1990). The auctioning of ITV licences, the separation of Channel 4 from ITV, and the mandated 25 per cent independent production quota were all fundamentally inspired by a free market approach to the broadcasting industry. However, while the 1990 Act was framed by the momentum of a pure market libertarian approach, the cultural arguments were made sufficiently loudly by broadcasters and resonated sufficiently well with concerns on both sides of the political divide, for the final outcome to be less terminal for public service broadcasting than might have been assumed in 1986.

That contrast of approaches – economic priorities qualified by cultural considerations – set the context for continuing debates in the 1990s. The two key

legislative landmarks of that decade, the renewal of the BBC Charter and the 1996 Broadcasting Act, were both characterised a more muted market-led approach. The consultation papers on the future of the BBC (HMSO 1992), on reforming ownership (1995, see DTI-DCMS (2000)) and on proposals for digital terrestrial broadcasting (DTI 1995) were a cautious mixture of market-led reforms and acknowledgement of broadcasting's unique contribution to cultural and democratic life in Britain.

The arrival of New Labour in 1997 therefore did not represent any kind of ideological fracture in the dominant framework of policy thinking. On the contrary, in its efforts to demonstrate that the party had ejected any of the baggage associated with 'old Labour', any rhetoric about the value of public service took second place to the importance of markets, business, entrepreneurialism and competitiveness. Most of those involved in Labour policy-making were therefore able to maintain the market-based philosophy that had its roots in the 1980s and continued in a more muted form in the 1990s.

The Government's market-based framework for policy analysis has, over the last few years, been reinforced by the rapid globalisation of the media industries and the relatively sudden emergence of a number of media corporations seeking to expand their share of the media cake. It is difficult to underestimate the importance of a more globalised economy on the way in which media landscapes are being transformed around the world. It is an international phenomenon which impacts differently on different countries, but is particularly acute in its influence on those with deeply embedded social democratic traditions which privilege public interest values and those institutions which exist primarily to make a positive contribution to civil society and the quality of public life.

Since the 1970s, a number of factors have transformed the nature of the global economy: a wider choice of locations for capital investment; the 24 hour presence and importance of global financial markets; the rise and increased financial muscle of transnational corporations; and, vitally, the communications technology on which all these factors depend for efficient operation. It is only really in the last ten years, however, that emerging global corporations in the media industries have been flexing their international muscles, seeking global expansion or sometimes just survival. In the search for further investment or expansion opportunities, these corporations will inevitably seek to influence and mould the boundaries of any state regulation which tries to limit market opportunities or champion public institutions.

At the same time, of course, the political landscape has been transformed to accelerate the process of globalised trading: the breakdown of the old Soviet Union, and the triumph of capitalist systems means that production, distribution and selling can take place virtually anywhere in the world. Politically, throughout the developed world, the last 20 years have seen an astonishing unanimity about the kinds of political rhetoric being employed by virtually all parties across the political spectrum.

Liberalisation, the free market, deregulation and withdrawal of state intervention have become the new battle cries, while rival parties quarrel only about the speed and extent of withdrawal of the 'nanny state'. Because it is just as important to achieve credibility with the financial markets as with the ordinary electorate, the impact on domestic policy making extends beyond media policy to almost every aspect of decision-making. While politicians claim to be acting in the public interest, and still talk about the importance of community and collective welfare, in practice much of the decision-making flexibility has been finessed by the need to placate the private sector.

This process has been exacerbated by three separate factors, one general and two related specifically to the media sector. First, there is the vast gulf in lobbying power between on the one hand the corporate interests wishing to push back the boundaries of state intervention, and on the other the public interest and consumer groups attempting from an array of different perspectives to persuade governments to put citizens before corporations. This is particularly true in Europe at the EU level, where public interest groups find it difficult to operate across national boundaries while global corporations can invest enormous time and resources in targeting European Directorates and Commissioners and attempting to persuade them with arguments for looser regulation. Proposals for regulating ownership at the European level were dropped as a result. In the UK, the passage of the Communications Act (Communications Act 2003) saw a manifestly unequal struggle between those under-funded, voluntary groups such as Public Voice and Voice of the Listener and Viewer and the massed ranks of corporate lobbyists.

Second, within the media sector, media owners have access to the one of the key drivers of opinion formation: the mass media themselves. As consolidation increases between newspapers, TV, online and other areas of publishing, different parts of a media empire can be exploited not just to cross-promote other parts of the empire but to promote forceful arguments about how governments should be legislating in the very areas which might limit corporate expansion in that field. Newspapers in particular are likely to play a vociferous role in the debate on renewal of the BBC Charter over the next two years, and their approach to arguments about the BBC's funding and existence tend to rely almost wholly on economistic analyses of the broadcasting market-place.

Third, there are arguments about new technology. Starting with the emergence of multi-channel television in the early nineties, and continuing more recently with digitalisation and electronic convergence between – in theory – computers, telecoms and broadcasting, a host of arguments have emerged about the unreality and unwisdom of attempting to separate broadcasting from the communications revolution and to protect its uniqueness. These are a variation of the technological determinist arguments that dictate that, because it is possible, it must happen. And there is no doubt that technology is changing what is possible. We can read today's

newspaper, or catch up with a programme we missed, on our computer. We can watch football highlights on our mobile phones, and PVRs which are programmed to individual tastes and can pause programmes in real time make nonsense of any notion of channel branding or scheduling. In a pure technological sense, therefore, there is no question that convergence of screen, print, computer and telephone is here. It is hardly surprising that convergence, like digitalisation, has become one of the battle-cries of those seeking to remove traditional regulatory structures in electronic media.

There is one further contextual explanation for the focus on economistic approaches to the value of broadcasting: the rise of consumerism. The principles and values associated with the consumerist movements of the last 20 years have come to dominate, largely with positive results, much of our public discourse. Such notions as value for money, transparency of decision making processes, demands for knowledge and information, the right to interrogate decisions allegedly made in the public interest, and the demand for accountability when mistakes are made or problems arise, are a relatively recent phenomenon which have been manifested across all areas of public life. Thus, long-standing professional bodies and associations such as the General Medical Council and the Law Society find themselves accused of professional self-protection and obstructionism where once there was unthinking deference to professionals deemed always to be acting in the public interest. The recognition of individual rights has brought with it a sea-change in language. We are no longer passengers or patients or viewers, but customers. The cash nexus defines our relationship to producers and gives us the right to demand answers.

Not every element of this enfranchisement process is positive, because it has also involved a progressive dependence on purely quantitative measures of performance. Michael Power discusses the explosion of auditing activity in Britain and the US: medical audits; technology audits; value for money audits; environmental audits; quality audits and teaching audits. These have their roots in political and consumer group demands for accountability and control, but Power argues that by imposing their own values, audits often have unintended and dysfunctional consequences for the audited organisation. League tables are the bane of every educational institution in the land, from primary schools to universities, not because there is anything inherently wrong in students and parents having information on which to base important decisions, but because the process of quantification inevitably privileges that part of the educational process which is easily quantifiable such as exam results and drop-out rates. League tables cannot capture the atmosphere of an educational institution, whether it stimulates intellectual endeavour, enhances the well-being or general welfare of the student, offers a creative and happy environment in which to study, and other quality of life issues which defy the slide rule and the calculator. The language of consumer sovereignty is a two-edged sword that needs careful interpretation (Power 1999). It was significant that during the passage of the Communications Bill, both the

Consumers Association and the National Consumer Council contributed to policy thinking in ways which gave very little to emphasis to the creative or democratic roles that the media can play (DTI-DCMS 2002).

For all these reasons, then, the dominant paradigm for thinking about and understanding the future of communications has been an economistic, quantifiable, technology driven approach which treats broadcasting in particular as part of a burgeoning industry with great export, employment and revenue generating potential. The logical conclusion is that as with any other industry the market not only can provide but is actually the best mechanism for provision. Moreover, any intervention in the normal operation of the marketplace through regulatory instruments or public subsidy will upset the competitive equilibrium and depress the value of that market. The only concession to cultural considerations is to recognise that perhaps there are some public interest areas where the market may be weak or unable to provide, current affairs, religion or high art, for example, and that the role of the public sector should be restricted solely to addressing market failure and filling in the public interest gaps.

The problem with this analysis is that it views the whole issue through the wrong end of the telescope. By putting to the fore all the economic, market-led arguments, such an approach necessarily ignores the fundamental importance of broadcasting in all areas of our national life. At a secondary level, it also ignores the evidence of what actually happens in a wholly market-led system.

This may sound quaintly old-fashioned amidst all the technological psychobabble about a communications revolution, but the fact is that mass television and radio are still a fantastically powerful means of reaching, stimulating and enriching large numbers of people. For all the talk of convergence, there is actually little sign of convergence in terms of people's actual behaviour and patterns of consumption. The vast majority of viewers do not watch television on their computers or mobiles, nor download newspapers from the internet. The PVR is an astonishingly powerful tool to regularise and individualise viewing behaviour. However, compared to the VCR 20 years ago the PVR is relatively affordable for the great majority. Despite many predictions of a revolution in viewing behaviour, however, there has been little sign of mass take-up. The same is true of broadband cable that has again been predicted to revolutionise viewing behaviour and has been part of the regulatory logic in the creation of Ofcom; how can you logically separate the regulation of television and computers when programmes are downloadable to computers? While an interesting regulatory conundrum, consumer behaviour so far renders it a redundant concept. Even if broadband cable can genuinely wire up millions of people to the internet, there is little evidence that this would revolutionise traditional media behaviour.

This is not in any way to diminish the contribution that new technologies can and to some extent have already made to people's lives. Nor is it to attempt to deny the

potential for new technologies, at some point in the future, to obliterate any notion of mass experience or one to many communication and therefore transform the nature of any culture-specific arguments. But we should be able to recognise that now – and for the foreseeable future, the vast majority still watch television programmes on their television sets and listen to radio programmes on their radio sets. They still do so in very large numbers, often simultaneously. The numbers of people who watch the *10 o'Clock News* or *Coronation Street* or even a wildlife programme still dwarf any other collective national experience. And for all the talk of fragmented audiences, digitalisation and the multi-channel age, over three quarters of all TV viewing still goes to the five free-to-air analogue public service broadcasters[1]. This may change gradually if and when the switchover to digital occurs[2]. But it will be a slow, progressive change allowing plenty of time to re-evaluate the legislative and regulatory instruments in place.

Through its mass reach, through its uniquely powerful combination of sound and vision, and through its continued influence at the heart of people daily existence, broadcasting therefore still has an unparalleled ability to contribute to democratic and political debate, to stimulate new interests and passions, to foster creative innovation, to improve our children's social and educational welfare, to expand our knowledge about the world beyond Britain and a myriad other social, cultural and creative benefits beyond simply adding to our balance of payments or HM Treasury's coffers. This is not a dinosaur approach, as those who wish to embrace market solutions seek to portray it, but a realistic assessment of the present and short- to medium-term future rooted in an understanding of actual consumer behaviour rather than unreliable predictions and technological determinism. If we start with this approach and look through the cultural instead of the economic end of the telescope, we end up with a very different perspective on the best policy framework.

Perhaps the best analogy is with health: in looking for the most effective policy framework for dealing with the nation's health, we do not start with an assumption that we want to create the most dynamic and competitive health industry in the world, and that public subsidy should be reserved for filling in the gaps that private enterprise cannot deliver. We start with a coherent view which first recognises the importance of good health to the nation's quality of life, and then prioritises the need for universal health care and attempts to find the right institutional framework for providing it within the bounds of what is affordable. These are not easy decisions, either in terms of funding or institutional arrangements, but they are categorically not premised on any concern about the profitability or financial well-being of private Harley Street practices. The private health sector has a valuable role in filling in gaps left by the public sector, but in public policy terms it is a poor second to the priorities of maintaining and improving the nation's health. Because broadcasting still has tremendous power to contribute positively to virtually every aspect of our social,

cultural and democratic life, it makes sense to apply the argument applicable to health rather than the business.

Before looking at a couple of examples of how culture-led rather than market-led approaches can benefit public life, it is worth considering briefly what actually happens in a largely market-driven broadcasting environment. It is possible to extrapolate from the experience of other countries and from experience in the UK as a result of the competitive pressures of the last ten years. Experience in market-led systems such as the US, Australia, New Zealand and Italy all demonstrate that range and diversity are squeezed out into the margins of schedules. The most rigorous piece of comparative research remains the work carried out for the Peacock committee nearly 20 years ago by Leeds University and featured two significant findings (Peacock 1986). First, serious programming was virtually absent from the peak-time schedules of Italian, Australian and US networks which relied almost entirely on a diet of news, adventure series, comedy and sport. Second, a series of interviews with network executives made it clear that innovation was anathema to commercial success.

This antagonism to innovation and creative experimentation was also a common theme in my own research for the Campaign for Quality Television which featured interviews with a group of randomly chosen drama and current affairs producers in British television (Barnett and Seymour 1999). It found a depressing consensus amongst those at the creative coal-face that as competition and commercial imperatives had increased, there was far more emphasis on re-commissioning existing success stories or sticking to standard formulae. The problem that has afflicted US television for decades has already started to erode innovation in the UK. To some extent, we have to take the evidence of producers with a measure of scepticism, since historically creative workers have always been easily critical of those whose commissions they rely on. There was, however, a very acute sense of how the introduction of market forces had impacted on all aspects of the programme making process: on the budget available, on the treatment or subject matter, on the quality of the finished product and on imposed changes on content in order to generate better ratings or suit the allocated scheduling spot.

Research on children's programming for the Broadcasting Standards Council came to similar conclusions, suggesting that there was a tangible shift towards cartoons at the expense of home-produced factual programmes for kids (Davies and Corbett 1997). In news, there is a raft of evidence from the US that commercial imperatives have driven out virtually all foreign news bar those, such as the 2003 war in Iraq, in which US interests are heavily involved. US network news bulletins are now a notorious mixture of crime, showbiz and local gossip. Perhaps the most telling contrast and the best advertisement for the on-screen consequences of a less business-oriented approach is *Channel 4 News*. No other country in the world can boast one hour of peak-time news on an entirely commercially funded channel, which has over its full 20 years

maintained around 50 per cent of its content devoted to serious coverage and analysis of international news stories. It is difficult to argue against the public, democratic benefits of such news provision on a freely available mass audience channel. It is even more difficult to argue against the consumer benefits, given an average rating of around one million viewers and the widespread provision of news bulletins on free-to-air channels as well as 24 hour news channels. But how long such a valuable commercial space can be sacrificed to news, as Channel 4 battles to survive economically against a single ITV and a resurgent Five is one of the core conundrums of the culture versus competition argument. It is unlikely to survive in its current form for another five years, and the British public sphere will be the poorer for its disappearance.[3]

It is always difficult in advancing the case for prioritising a cultural approach to broadcasting to come up with convincing concrete examples of how a market-based analysis ultimately diminishes the public good. It is therefore worth spending a little time on two specific areas, both involving projects or output which critics have said that the market can easily provide and both illustrative of the positive societal benefits of public investment.

The first is the Digital Curriculum. This is a BBC initiative which will provide a new digital learning resource for teachers and students in schools. It was finally given ministerial approval on 9 January 2003 after bitter opposition from a number of private enterprises that had worked hard to develop their own digital learning offer that was both educationally attractive and commercially viable.

The BBC's initiative was developed in the context of an estimated £1.8 billion of public money being committed by government to investing in Information Communication Technology (ICT) hardware in schools over the period 1997-2004. At the beginning of that period, there was only around £5 million a year being spent by schools on internet learning, a huge mismatch between hardware and software. There were a number of limitations with the wholly commercial approach. First, by definition, the commercial sector was concentrating on the core subjects, such as maths and English that would be guaranteed to deliver a return on investment because of their universality and common curricula. Second, commercial enterprises were relying on CD-ROM distribution and were not rushing to develop the more expensive but the far more powerful route of broadband distribution. Third, most of the enterprises were small businesses with low turnovers and modest aspirations, which had developed reasonably close relationships with particular schools and were not necessarily thrilled with the prospect of making the transitional leap to a new distribution process. There was every prospect, in the absence of a major initiative, of US firms entering and then dominating the market on their own terms.

The BBC project was able to deal with these drawbacks, and still allow room for the commercial sector. On the range of subjects, it has committed to ensuring that over three quarters of its output covers non-core and minority subjects as well as

resources for the Nations and Welsh translations. On distribution, the BBC is able to exploit its successful online operation BBCi, thereby not only making its material universally and freely available to every school in the land, but to do so through the quickest and most easily accessible distribution system. And because of its scale and resources, the BBC can invest time and money in experimenting with new materials. With appropriate safeguards for sticking to public service criteria and appropriate means of accountability to licence payers it is difficult to object to the public sector being at the centre of an operation which harnesses new technology and the BBC's own vast archive for the educational benefit of the nation's children. A view from the economic end of the telescope would have meant stalling or abandoning this operation because of the number of commercial operations claiming to provide a similar and adequate service, whose businesses would be disadvantaged by the emergence of the BBC's initiative.

The second example, which for years has been a target for those seeking to rein back the public sector in broadcasting, is BBC Radio 1. On the face of it, a pop music station is not an obvious target for a public service approach, and the station has long been the target of calls for privatisation or the introduction of advertising. In fact, both in terms of its eclectic approach to music and its commitment to mixing speech programming with music output, it is a very good example of how a non-commercial approach can exploit the cultural impact of a mass medium still valued by large numbers of young people.

In music terms, there are a number of indicators. Because the BBC plays the most popular tracks fewer times per week than commercial stations, there is more time for exposure to new music and more opportunities to introduce new bands. There is a greater emphasis on live music, and around 40 per cent of the station's ouput is 'specialist', that is, not programmed from the central Radio 1 playlist. As well as giving airtime to new and emerging genres, there is an emphasis on regionalisation so that a national audience will hear shows presented from venues around the country. While these are, to some extent, quantifiable measures, it is almost impossible to evaluate Radio 1's contribution to Britain's popular music culture and talent base. A market-based approach would find it difficult to acknowledge the creative benefits which are scarcely measurable.

The same goes for Radio 1's commitment's to speech content, which is now virtually non-existent in commercial radio. These include two 15 minute news slots each day as well as a  two hour Sunday evening programme covering advice on personal and life issues and eight or nine social action campaigns each year with links to a dedicated helpline and website. The balance of how much speech to include is a delicate one which has to reconcile a public interest approach with maintaining a reasonably healthy youth audience. At the moment, the station succeeds in reaching half of the 15-24 year old age group each week. Given that this is the very audience

which traditionally makes little use of newspapers or TV bulletins, one would expect significant social and democratic benefits from the station's speech content. Again, this is difficult to acknowledge or identify in any market-based analysis.

Four additional points need to be made in order to pre-empt the most common objections to a culture rather than market led approach. First, this is absolutely not a paternalistic or elitist argument based on some high-minded Reithian notion of giving people what they ought to watch rather than what they want to watch. On the contrary, such an approach actually serves to *protect* so-called minority audience programmes which virtually everyone likes to watch at least some of the time. And, as mentioned above, the notion of a minority programme is one that is unique to television: given that average ratings for the BBC2 series on the Fall of Milosevic were over one million and therefore exceeded the circulation of every broadsheet newspaper, we need to be careful to protect the rights of very large numbers of viewers and listeners to have access to these kinds of programmes.

Second, for all the talk of convergence and attempting to develop a joint regulatory rationale within Ofcom that can somehow unite the very different worlds of broadcasting and telecommunications, comparisons with the telecoms market are misleading and ineffectual. In telecoms, the basic issues of pricing, efficient delivery, complaints handling and so on are standard consumer benefits which *are* generally best served through a straightforward competition approach with appropriate consumer and competition safeguards. Because there are no cultural issues at stake, and no arguments about fostering a creative and dynamic public culture, the rationale for a coherent regulatory framework is difficult to sustain.

Third, this is not an anti-business argument. It is important that the private sector is not only active but can thrive, as long as we are aware that there are limitations to what a market based system can achieve. The realities of the market is that a decent return to shareholders demands maximising ratings, minimising risk, and concentrating on demographic groups with high disposable incomes. These priorities will sometimes deliver high quality and highly popular television and radio programmes, but as we have seen they will do so over a relatively narrow range and with no interest in the nation's cultural welfare.

Finally, there is the objection specifically aimed at the BBC of market distortion. The charge against the BBC is that by launching children's channels when the market provides them, or a news channel when the market provides one, or an arts-based channel when the market provides one, or an on-line curriculum for schools when the market already offers a digital curriculum, it is guilty of making life difficult and sometimes impossible for businesses trying to provide employment opportunities and make an honest living in difficult economic circumstances.

The answer to that charge is that the BBC does and always has distorted the market just as the NHS distorts the market for health care and the Post Office distorts

the market for private mail deliveries. But we make a collective decision as a society that the benefits to citizens and the quality of our cultural and democratic life outweigh any loss to the private sector. And let us not forget that we *still* have a very successful private sector. McKinsey's calculation put the UK's per capita expenditure on broadcasting as second in the world, only just below that of the United States (McKinsey 1999). If the market distortion argument were taken to its logical extreme, we may as well abolish the BBC because there are enough niche channels offering news, arts, children's and even religious programmes. What these channels and services cannot offer is free, high quality, universally available material with a decent element of innovation to everyone regardless of where they live, what they can afford or whether they are attractive to advertisers.

We need, therefore, to adapt some of the 1970s philosophy and priorities about the potential achievements of a powerful mass medium to the new millennium. This does not mean harking back to some mythical golden age nor decrying or denying some of the enormous benefits which new channels and new technologies have introduced. It simply means applying an analytical framework  that puts the interests of viewers, listeners and citizens before the interests of shareholders and investors and which recognises the irreplaceable contribution which free-to-air broadcasting can still make to a vibrant democracy, stimulating the nation's creative and intellectual interests, and allowing scope for the creative community to fulfil its potential.

In the context of current policy-making, this raises some interesting questions for Ofcom's evidence based approach to decision making. While clearly to be welcomed, this approach necessarily places greater weight on measurable and quantifiable phenomena. Once again, there is a danger of being led into an economistic approach based on data about market share, cost per hour and programming quotas which can only give a partial and one-sided assessment of the role of broadcasting in people's everyday lives. The conundrum, which the regulator will need to confront, is, how will it approach those cultural and creative areas of broadcasting which defy quantification?

If we take as an example the cultural role of Radio 1 in the development of the nation's popular music, how far does measurement actually take us? We can count the number of new bands given airtime, the number of social action programmes, the volume of non mainstream popular music played compared to purely commercial stations, but what does that actually tell us about whether and in what ways a public service approach to popular music has stimulated different music tastes, allowed different kinds of music to flourish, has introduced youngsters to different concepts or even given them a new or better understanding of the world they live in? On a much more general level, how does one quantify the ability of any mass medium to stimulate ideas, passions, interests, hobbies, conversations or in general to enrich the quality of life of the millions of people exposed to it every day? Even sports programming has

the potential to arouse dormant interest and release hidden talents. How many Olympic medallists were first attracted to their chosen sport by exposure to the rules and the excitement in their living rooms?

The market answer to these questions are easy: they are irrelevant. Programmes are commodities, and consumer demand will dictate in what quantity and with what quality they are provided. There is no room in this analysis for a societal or community benefit approach, partly because to some extent they are unknowable. Even one of the less arguable roles of the mass media, their importance to a vibrant, informed and participative democracy, is an area which will defy measurement. Can anyone devise a set of criteria which will assess whether more people vote, are more informed about politics or politicians, care more about the world around them or are simply more engaged in current affairs issues simply because Parliament has gone to great lengths to protect television news? And yet the absence of any such measurement criteria will not, one assumes, diminish the regulator's appetite for ensuring that British broadcasting does indeed maintain a rich and varied diet of broadcast news with appropriate investment. The fundamental question that this chapter has attempted to pose is why and how those same assumptions about the democratic value of a still hugely powerful mass medium cannot be extended to its creative, cultural and social values. If we continue to look through the wrong end of the telescope, the risk is that we will not even be posing that question.

## Endnotes

1    BBC1, BBC2, ITV1, Channel 4 and Five.

2    The Government plans for the transition from analogue to digital broadcasting to be complete by 2010.

3    The Public Sphere is the area between the market and the state seen as essential for any democracy. See Habermas J (1969/1989) *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgoise Society* (trans) Thomas Burger and Frederick Lawrence Cambridge MA: MIT Press.

# 4. The passing of paternalism: public service television and increasing channel choice
Damian Tambini

*TV iz ruined by fings like news and nature programmes, dat iz why Channel 4 has invented E4. Check me on da first night.*

Ali G, advert for new digital channel E4. January 2001

## Public service broadcasting and the changing audience

National governments around the world have, more often than not, sought to harness television and radio for beneficial cultural, civic and educational purposes. They have mainly done so in two ways: they have obliged broadcasters to achieve certain thresholds of quality as a condition of permission to broadcast. And they have funded public service broadcasters such as the BBC, ARD and ZDF in Germany and NHK in Japan. These large corporations have privileged use of the airwaves and are funded through taxation, a licence fee or a combination of both.

The continuing relevance of both these models of public service broadcasting is subject to heated and continuous debate as the structure of the broadcasting market changes, particularly as increasing numbers of consumers are able to access larger numbers of less regulated channels, via digital terrestrial, satellite and cable delivery platforms. The debate will continue in the UK under the regulatory scheme for broadcasting under the Communications Act 2003, and through the life of the BBC Charter and Agreement.[1]

Promoting the transition to digital by 2010 was set out as a key government objective in 1999. Whether or not this target is realised in the strictest terms, it is clear that the numbers of channels available in the UK has grown rapidly over the last decade, and the overwhelming majority of households will have at least 24 channels available within the life of the next BBC Charter.

The shifting technical context of broadcasting forms the backdrop for ideological debate about the merits of commercial versus public provision. The BBC has come through successive rounds of policy debate relatively unscathed. The post-war Beveridge report was the last serious attempt to protect BBC monopoly against commercial competition (Beveridge 1949). The Pilkington Committee outlined a strong defence for public broadcasting in the early 1960s, recommending the setting up of a second BBC channel (Pilkington 1962). Sceptical about the intrinsic value of choice and competition, the Annan Committee recommended the transfer of

scheduling and advertising functions to the regulator in 1977 (Annan 1977). In contrast, Peacock, in the strongly neo-liberal context of the 1980s, stopped short of suggesting a privatised, subscription based BBC. The committee did suggest the setting up of a public broadcasting council to administer funding to programme makers but this was not implemented, and the report concluded that radical changes could be deferred to see how the market developed (Peacock 1986).

The broadcasting market has developed hugely since Peacock reported, but the ideological context has also shifted. Debate since then has tended to focus on the justification of public provision in the changing market and the extent of market failure. The Davies Committee recommended a substantial increase in the licence fee, but was not asked to look at broader justifications of public service broadcasting (PSB) in the new context (Davies 1999).

With the gradual introduction of alternative channels, there has been a slow reduction in the BBC's share of the overall television audience. This chapter considers the previously perennial, but of late strangely neglected issue in broadcasting policy, the impact of increasing competition and choice on the relationship between public service broadcasters and their audience. In the 1920s, the Crawford Committee specifically rejected competition and channel choice for early radio, finding the US experiment with commercial radio chaotic and undesirable (Crawford 1926). During the period of BBC monopoly there were two, then three national radio services to chose from, and a similar pattern was repeated for television, as set out in Table 4.1 below. This was the context in which the tradition and culture of UK PSB was formed. When the BBC made space for commercial television and radio, these channels were licenced with strong public service requirements. Similar patterns were found in other markets, such as that in Germany and Japan.

The impact of competition and increased choice on public service broadcasting continued to be at the heart of the debate when the Pilkington and Annan Committees discussed the possibility of introducing new channels in the 1960s and 1970s. But it is during the current period of digital switchover that a trickle of new channels is turning into a flood. Because the UK, in comparison to North America and continental Europe, has had relatively undeveloped cable television, the transition to digital is being experienced as a sudden ramping-up of choice with rapid satellite rollout and an increase in the number of channels available on many of the main platforms. This has coincided with the rapid take-up of the alternative platforms among all segments of society and is having a dramatic impact on the UK ecology of public service broadcasting. Critics of the BBC have even gone as far as to say that increased channel choice undermines the very rationale of PSB. Unfortunately, however, the debate is based on research funded by interested parties and a lack of independent data.[2]

**Table 4.1 Television channels available in the UK**

|  | Year | Number of television channels broadcast to UK homes | | | |
|---|---|---|---|---|---|
|  |  | analogue | cable | satellite | DTTV |
|  | 1950 | 1 |  |  |  |
|  | 1955 | 2 |  |  |  |
|  | 1960 | 2 |  |  |  |
|  | 1965 | 3 |  |  |  |
|  | 1970 | 3 |  |  |  |
|  | 1975 | 3 |  |  |  |
|  | 1980 | 3 |  |  |  |
| (First cable service launched) | 1985 | 4 | (5-10) |  |  |
| (1989 Sky launches four channel service) | 1990 | 4 | (5-30) | (4) |  |
|  | 1995 | 4 | 30-100 | (4 – 100) |  |
| (1997 Channel 5 launch); 1998 DTTV launch | 2000 | 5 | 30-100 | 100-180 (approx) | 24 |
|  | (2005) | 5 | 30+ | 200+ | 24 |
| (Uncertainty regarding convergence and DSL services) | (2010) | 5 | 30+ | 200+ | 24 |
|  | (2015) | 0 | 30+ | 200+ | 24 |

This chapter will use audience data from the UK and Germany to examine the impact of increased channel choice on the audience for public service broadcasting genres. Whilst many of the points made here can be applied to PSB in radio, this chapter will focus on television, as detailed genre-based data are more readily available. German data are used for two reasons. First, because of the broad similarity between the PSB traditions in the two countries and second, because more than 90 per cent of German television homes are already served by cable or satellite and therefore have a good deal more choice of channels. Every country has a slightly different method of gathering audience data, and a different level of market penetration of increased choice television services. They also have a different range of approaches to measurement of public service genre performance. Note that because of different measurement methodologies, in different countries, these data are not strictly comparable. They should be thought of as different and both valid means to research the same broad questions.

What happens when viewers are exposed to increasing choice and control over what they watch? Do they cease to watch public service content? Do they prefer some genres to others? The current period is analogous in some ways to the early 1960s when the BBC adjusted to the presence of commercial television.
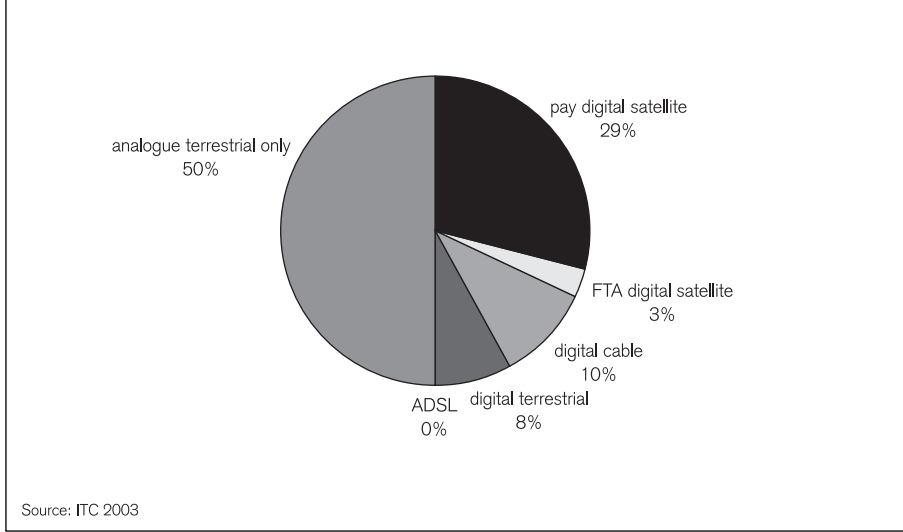
But in contrast to previous periods in the extension of choice in broadcasting, when new channels were offered that basically conformed to a PSB framework, the current expansion includes services with very low PSB content obligations. As Table 4.2 shows below, most regulatory obligations fall on those channels that established themselves in analogue terrestrial transmission (see also Foster *et al* 2003, this volume).
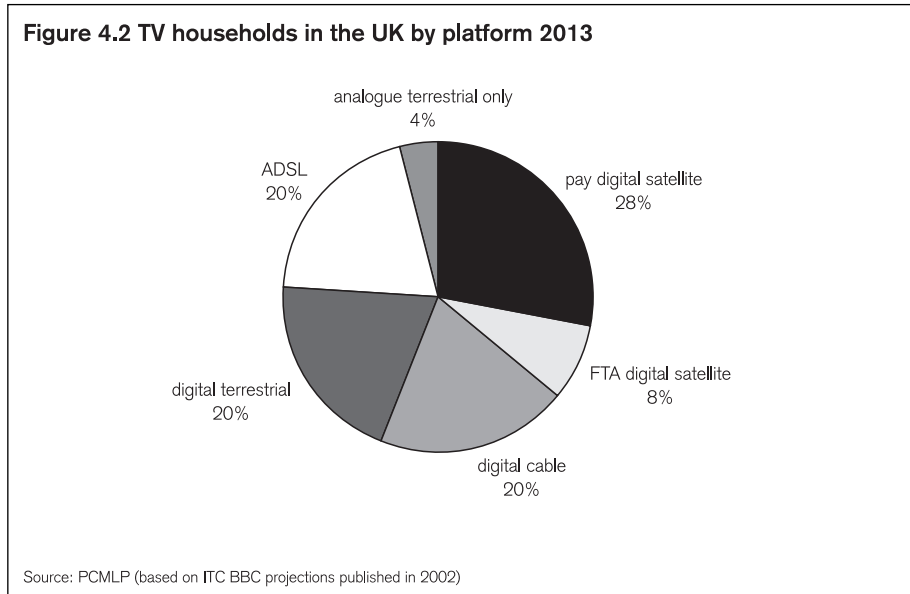
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**Table 4.2 Regulatory obligations of the main television broadcasters**

| Tier | Channel | Examples of obligations |
|---|---|---|
| 1 | All TV broadcasters on all platforms | Programme content standards, subtitling, advertising/sponsorship rules |
| 2 | BBC 1, 2. Channel 3,4,5 teletext | All the above and: Production quotas, quality news and current affairs, schools programming, regional programming |
| 3 | BBC 1, 2, Channel 3, 4, 5. | All the above and: Self-imposed obligations within a general PSB remit (eg C4 Charter, statements of programme policy). |

Source: Communications Act 2003

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**Figure 4.1 TV households in the UK by platform 2003**



Source: ITC 2003

**Figure 4.2 TV households in the UK by platform 2013**

analogue terrestrial only
4%

pay digital satellite
28%

ADSL
20%

FTA digital satellite
8%

digital terrestrial
20%

digital cable
20%

Source: PCMLP (based on ITC BBC projections published in 2002)
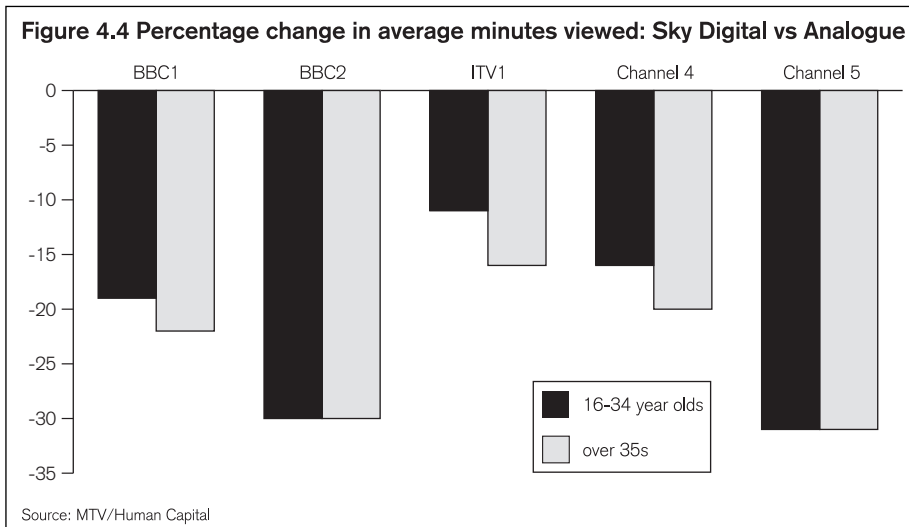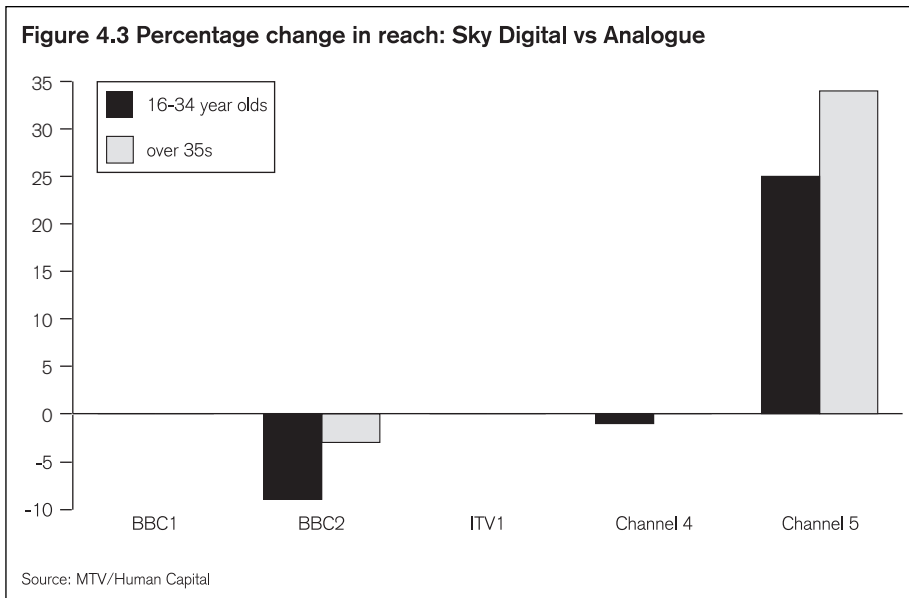
## The multi-channel effect: performance of public service broadcasting in homes with cable, satellite and digital terrestrial television

Reithian public service broadcasting has been described as soft paternalism. Schedulers, who always had one eye on the ratings graph and the other on their PSB obligations, could 'hammock' public service programmes between high rating entertainment and sport. In a process that would have pleased nineteenth century improvers such as Matthew Arnold, the more apathetic the couch potato was, the less likely he was to switch off when ambushed after 'The Generation Game' with some improving 'Civilization'. The UK approach to PSB has embraced this vision by requiring the broadcast of specific genres of programming at peak time.

Several authors have measured PSB performance in terms of the relative performance of channels with significant PSB obligations in terrestrial only versus multi-channel[3] homes. The Independent Television Commission (ITC) regularly monitors performance and, as one would expect, finds that the share and reach of the main five channels is consistently lower in multi-channel homes. This approach has been taken by Collins (Collins *et al* 2003) and also by Barwise (Barwise 2003, this volume). On the basis of these measures of channel performance, these authors claim that, 'viewing habits in the UK and US have changed little in response to the huge investment in new television channels' (Collins *et al* 2003:1). This is a matter of degree. Although it is true that the 'big five' channels,[4] which have stronger PSB duties, have held up well, they are uniformly in decline. The audience share of BBC1 in all UK homes declined by only 1.4 per cent between 2000 and 2003, but it and the

other PSB channels all notched up declines in audience. And whilst the BBC has continued to record 30-35 per cent of audience share in analogue terrestrial homes between 2000 and 2003, their share in multi-channel homes, which represent the future, has declined by one per cent and remains around 20 per cent (ITC 2003).

The PSB channels do lose audience in multi-channel homes, but viewed in terms of reach, not by such a great deal, as shown in Figures 4.3 and 4.4.



**Figure 4.3 Percentage change in reach: Sky Digital vs Analogue**

Source: MTV/Human Capital



**Figure 4.4 Percentage change in average minutes viewed: Sky Digital vs Analogue**

Source: MTV/Human Capital

Figures 4.3 and 4.4 show what one might expect: that the audience for the top 5 channels, which are those with the most public service requirements, is declining. Interestingly they do not show that performance in multi-channel homes is inversely related to the level of PSB obligations. Although BBC2 does take a big hit, down 30 per cent in SkyDigital as compared with analogue only homes, Five performs rather worse, and both BBC1 and Channel 4 audiences hold up.
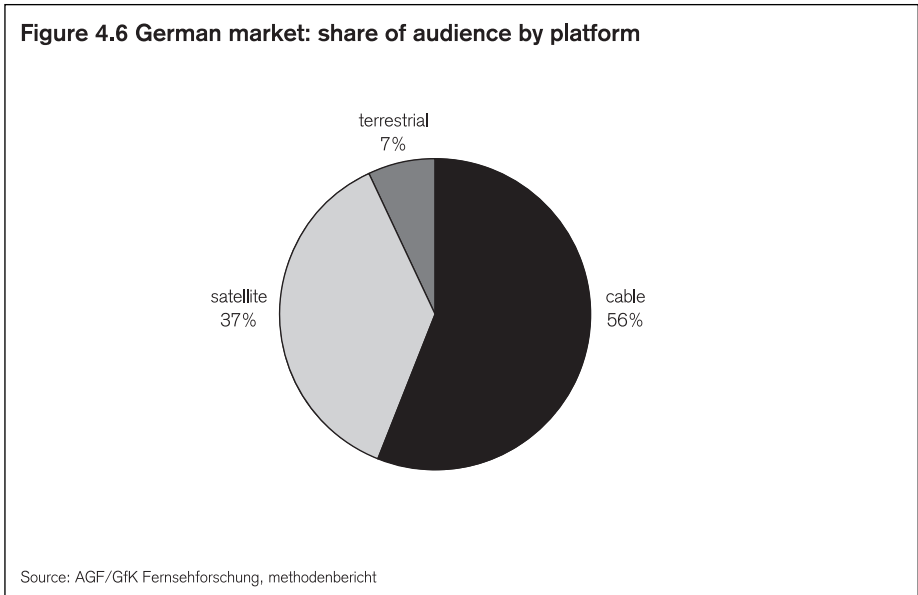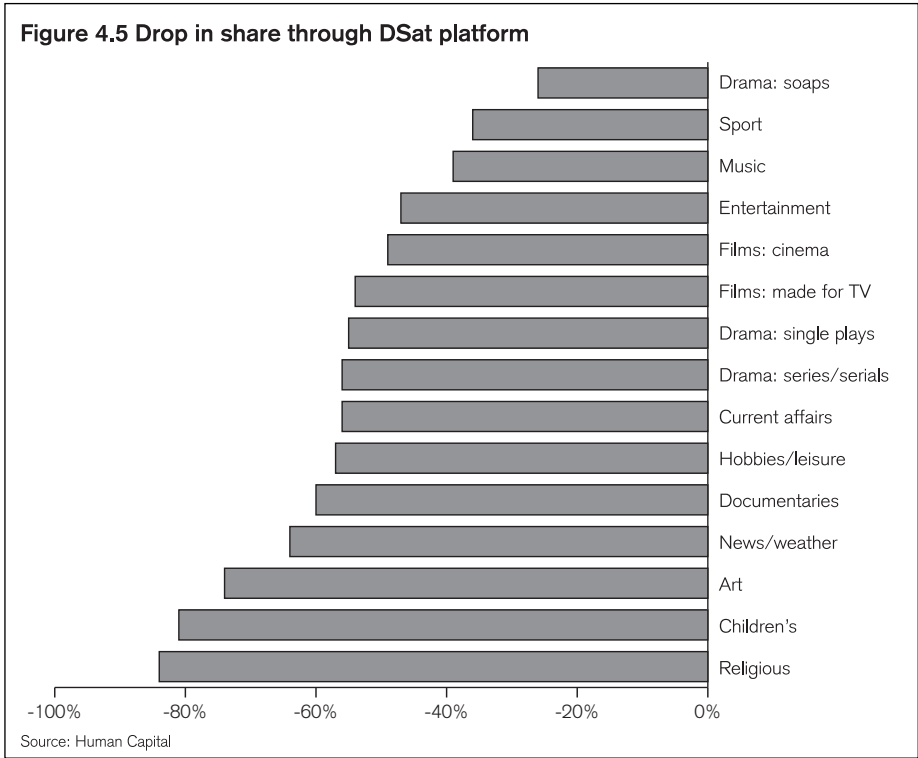
Analysis of public service broadcasting channels on the various platforms shows that their audiences are consistently lower among consumers with access to the new platforms, but not perhaps as bad as one might have thought when one looks at the quantity of channels available, as shown in Figures 4.3 and 4.4. Looking at channel ratings alone is a very limited way of assessing the impact of multi-channel. Merely measuring audience tells us nothing about the possibility that those audience performances have been achieved by leveraging brand and existing popularity, whilst watering down less popular public service programming. The policy debate surrounding the BBC in recent years has certainly been focused on accusations of 'dumbing down'. Equally, in mixed-schedules, people may continue to watch the public service channels, but not PSB programmes on them. So the continuing popularity of public service broadcasters might mask an overall decline in viewing of public service programming.
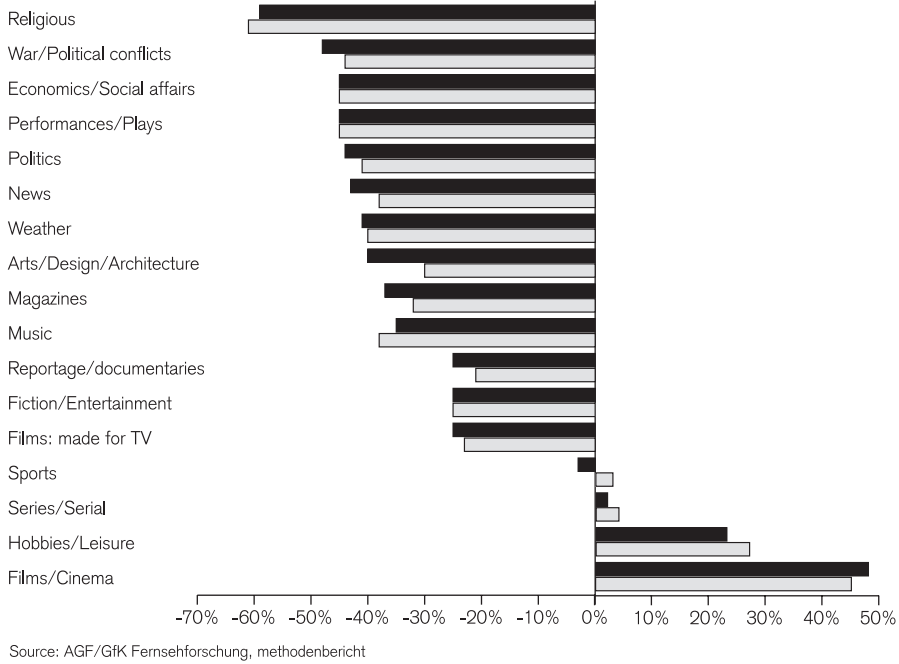
## Genre measures

There are therefore limitations to an approach based on the measurement of specific public service broadcasting channels. Such an approach may chart the health, or decline, of public service channels but completely miss trends in the performance of PSB genres. Luckily, both UK and German audience data do permit us to interrogate the performance of genres.

Traditionally, PSB has attempted to deliver content of superior quality and production values to the greatest audience. Specific public service genres, such as news, information and education, have been more favoured than others, such as sport, erotica and game shows, and the mixed schedule has been a vehicle for ensuring higher audiences for that material. In a situation where audiences are high and choice is low, public service broadcasting obligations were a very effective instrument of doing that. For example, in 1950 there were around one million television sets in the UK and one television channel. However, as choice increases, it becomes more difficult to deliver public service genres to homes.
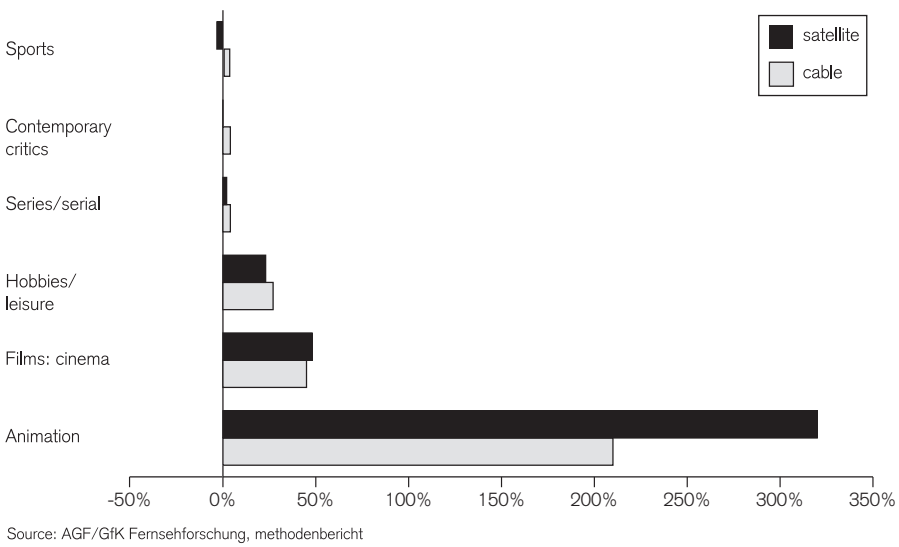
Figures 4.5 to 4.8 clearly indicate the relative levels of popularity of public service genres in multi-channel homes. Note that in the UK data we are measuring the performance of these genres of programming within the top five channels in multi-channel and terrestrial homes, not the size of the total audience for this form of programming.

**Figure 4.5 Drop in share through DSat platform**

| Category | Bar |
|---|---|
| Drama: soaps | |
| Sport | |
| Music | |
| Entertainment | |
| Films: cinema | |
| Films: made for TV | |
| Drama: single plays | |
| Drama: series/serials | |
| Current affairs | |
| Hobbies/leisure | |
| Documentaries | |
| News/weather | |
| Art | |
| Children's | |
| Religious | |

-100%   -80%   -60%   -40%   -20%   0%

Source: Human Capital

**Figure 4.6 German market: share of audience by platform**

terrestrial
7%

satellite
37%

cable
56%

Source: AGF/GfK Fernsehforschung, methodenbericht

**Figure 4.7 Change in share through cable and satellite: Germany[5]**

| Category |
| --- |
| Religious |
| War/Political conflicts |
| Economics/Social affairs |
| Performances/Plays |
| Politics |
| News |
| Weather |
| Arts/Design/Architecture |
| Magazines |
| Music |
| Reportage/documentaries |
| Fiction/Entertainment |
| Films: made for TV |
| Sports |
| Series/Serial |
| Hobbies/Leisure |
| Films/Cinema |

-70%  -60%  -50%  -40%  -30%  -20%  -10%  0%  10%  20%  30%  40%  50%

Source: AGF/GfK Fernsehforschung, methodenbericht

**Figure 4.8 Change in share through cable and satellite: Germany (all genres)**

satellite
cable

| Category |
| --- |
| Sports |
| Contemporary critics |
| Series/serial |
| Hobbies/ leisure |
| Films: cinema |
| Animation |

-50%  0%  50%  100%  150%  200%  250%  300%  350%

Source: AGF/GfK Fernsehforschung, methodenbericht

A similar effect is observable in Germany. We have not chosen here to restrict the analysis to the top five channels as the UK data did, but to show the total effect on PSB genres across all households. Figure 4.7 shows the extent of the drop in share of the total number of minutes spent watching television of the key public service genres. In short, they show that people watch less programming of the traditional public service genres when they have more choice.

The multi-channel effect is just as clear in the case of children. Table 4.3 shows that children watch less drama and markedly less factual content when they have access to multi-channel television. The proportion of viewing of factual content declines from 5.2 per cent to 1.6 per cent of all viewing. The same ITC report showed that multi-channel children watch markedly more animation, 54 per cent of total television time, than do terrestrial only kids, 39 per cent (Atwal *et al* 2003). If factual and drama, in the traditional sense of paternalistic public broadcasting 'do you good' then in the new environment it is clear that television does kids less good.

| Table 4.3 Viewing to children's programming  2002 | | |
|---|---|---|
| *Average minutes of viewing per day* | *Terrestrial children* | *Multi-channel children* |
| Total | 30 | 39 |
| Drama | 3.6 | 1.6 |
| Factual | 5.2 | 1.6 |
| Light entertainment | 5.0 | 3.0 |
| Pre-school | 3.8 | 4.6 |
| Miscellaneous | 0.7 | 2.4 |
| Source: Atwal et al, What Children Watch[6] | | |

## Can you take a horse to water? Is it thirsty?

Clearly, the effect on PSB genres is not uniform. Although the reporting categories in Germany and the UK are not identical, we can see that religious programming is the genre that declines most sharply in both German and UK cases. News and information, the other main PSB genre, seems also to lose viewers when viewers have the choice of watching other content. The figures for Germany apply to the genres across all channels, rather than just the big five as do the UK figures. Therefore they illustrate that the time spent watching television news by satellite viewers is actually 43 per cent lower than the time terrestrial only viewers spend watching news.

We saw that the data provided on channel performance are inconclusive with regard to the broader challenges facing PSB. If they demonstrate anything, they demonstrate that the existing PSB channels audiences are holding up very well in

comparison to the picture painted by their competitors. Data on performance by genre is more sobering for PSB enthusiasts. There seems to be overwhelming evidence to support the thesis that PSB genres suffer much more in multi-channel homes than do more mainstream genres. In other words, when they have the choice between watching public service genres and watching other genres, the viewing of public service genres tends to decline.

There might be some methodological problems with this data. It might be asserted that we are in fact measuring the effect of the fact that the early adopters of digital are not representative of the population as a whole. That is just about plausible in the case of the UK, where approximately half of households receive data. However, the German data represents a market at a different state of development, in a more developed market where multi-channel availability is not restricted to early adopters. In Germany, those who have access to multi-channel television make up the majority of consumers. What we appear to be measuring here is the impact on increased choice on the propensity to watch PSB.

Clearly, there is a need for more research, but these data are illustrative of a major current change in our broadcasting culture, with far-reaching consequences for the PSB framework. In fact, the main UK public broadcasters have all but accepted these trends. Mark Thompson, when still at the BBC in 2000 summed up their strategy for abandoning the mass, mixed schedule public service channel in the light of increased competition and choice. 'Now I don't think it would be right (or possible) to more overnight from our traditional mixed schedules into fully genre-based or attitudinally focused channels, but I believe that unless we start the journey soon, we risk becoming irrelevant (Thompson 2000).'

Evidence from psychological and social psychological studies supports the view that people will tend to use broadcasting services almost regardless of what is on (Silverstone 1994). In that context, a restriction of choice of broadcasting services is a particularly effective way of delivering selected genres. Where there is increased choice and control, however, entertainment will win. Education and culture are, almost by definition, cultural phenomena that require external discipline. Public service broadcasting has provided some of that discipline, but as channel choice has increased, it is no longer able to make viewers' choices for them.

The choices are starker when viewed in a broader public policy context. It may be seen that devoting resources to education delivered over the airwaves is no longer the most cost-effective way of doing this. It may be that the same public funding given to existing educational institutions might be more effective. Equally in the area of news and information, television remains the primary source of news, but it is by no means the only source, and others, including traditional newspapers and online news providers do provide what citizens need. So it would be a mistake to assume that public service television is the only potential supplier of public service information

goods. However there are areas, such as local and regional news, where it is clear that a decline in provision would result in very serious consequences for citizens and consumers, and research is required on precisely what we are confident could be delivered by the market with no loss to public welfare.

It is important to note that even if the classic PSB genres are watched less in a multi-channel environment, it may remain the case that public service values in other genres such as entertainment remain strong. Public service drama, according to many in the industry remains distinctive, though public service provision in sport may be harder to defend.

## Conclusions: public service communications after paternalism

PSB has always been ideologically ambivalent. In terms of the key cleavages of contemporary politics, it has appealed both to social conservatives and to statist anti-capitalists. Public provision and regulation has generally troubled British liberals on the other hand, and with the extension of new technology it is likely to do so to a growing extent.

The debate is also split between fatalists who may not like the new age but think it is inevitable, and activists, who think that the degree of change is wildly exaggerated and that venerable PSB institutions could be maintained more or less as they are if only the political will were there. Both are wrong. Public service in communications must survive and must change if it is to survive.

Clearly the old paternalist-hypodermic civilising mission of PSB has seen its zenith. The new era of public service communications (PSC) will be different, both for publicly-owned or funded broadcasters and for those commercial broadcasters whose public service obligations are conditions of licence.

The foundations of public service broadcasting are shifting. The basic pact upon which it has been based is being undone and another one is being developed. On one hand, the spectrum for service deal is breaking down. When once the government could trade public service obligations for cheap use of the airwaves (spectrum) by commercial public service broadcasters, a licence to use analogue spectrum is not a precondition of broadcasting now and the broadcasters are exposed to more competition. On the other hand, in a world of choice as we have seen, the audience is not going to chose what it is told to chose. This impacts all public service broadcasters, not only the public sector broadcasters.

Clearly, more research is needed if we are to fully understand the differential impact on specific PSB genres as broadcasting develops during the transition to digital. It is clear that some PSB genres suffer more than others.

The most fundamental impact of this shift in broadcasting culture is economic. If the commercial public service broadcasters lose audience as a result of their

obligation to deliver worthy content, they may seek to remove those obligations in an all-digital context. This would be complex under existing licences, but the strictest PSB obligations apply to those channels that hold an analogue terrestrial licence. ITV1 and Five after switchover will be competing directly with broadcasters with much fewer obligations and will be quick to ask for a level playing field.

Much of what has been described in this paper is non-controversial among broadcasters. Indeed, the acceptance that hammocking and the mixed-schedule is in decline formed an important part of the BBC's argument for new digital channels.

The dismantling of the mixed schedule will not please those who see the role of major public service broadcasters as providing a national public forum for debate. Clearly, there will be decisions to be made regarding whether the public benefit of certain PSB content obligations, such as for example regional news, justify the opportunity cost. These decisions should be made with regard to a broad sense of the public value of programming, not merely reported individual opinion or size of audience.

Neither should the changes that have been outlined in this paper cause us to lose sight of the more general justifications of public service provision many of which become stronger in the new environment. The most significant of these, particularly in the light of a shift away from ownership rules, is the need for pluralism. Of late, leading commentators such as Andrew Graham have argued that the justification of public service broadcasting is more fundamental than correction of market failure. He argues that public broadcasting is now basic to our civil and political rights and non-negotiable (Graham 2003). Whilst this is an attractive argument it still requires that PSB be watched and heard. And that is the challenge that public service broadcasters face in the coming decade.

## New directions: from public service broadcasting to public service communications

In the new context, existing public service broadcasters have begun their evolution into the new communications framework in the UK. Already, new directions are opening up.

*Public service communications is non-didactic.* It is clear that the BBC and other public service communicators will have to focus on making the good popular as well as making the popular good. If the transition to digital does lead to a collapse in the audience for regional news, there is a particular challenge for broadcasters to make regional news more interesting and attractive. There is surely an argument for a review of regional news to make its provision relate not to the artificial boundaries of BBC and ITV transmitters, but to the cultural, political and administrative units that make news meaningful.

*Public service communications is on-demand.* As the potential for new, on demand, interactive and online services grows, the role of public service communications (PSC) develops in three ways:

- *Civic commons.* Just as broadcasting transformed democracy, so is the internet. There is clearly an innovative role for public provision as Steven Coleman argues in this volume. Ventures like BBCi's iCan service are a step in the right direction.

- *Creative Commons.* In September 2003 Greg Dyke announced that the BBC was launching a project known as the Creative Archive (Dyke 2003). This would, in the long term, open up the archive of the BBC to on-demand access via broadband.

- *Education Commons.* As choice expands, television in the home can no longer replicate the discipline of the classroom. Public service education needs to closely serve the curriculum and take advantage of the economies of scale of the new economy.

PSC focuses on *distinctiveness* and search for areas of added value and discernable quality. Decisions will have to be made regarding the effectiveness of, for example, drama, not sport.

To evolve such new directions as we have seen is not merely to give an open chequebook for public service broadcasters. Everything they do must be demand led, and based on clear principles of proportionality, external regulation and accountability that are outlined elsewhere in this book.

## Acknowledgements

## Endnotes

1   The current BBC Charter is due to expire in 2006. The lifetime of the Charter and Agreement is usually ten years.

2   There is in fact a very clear reason for the lack of independent audience research. The industry standard research is privately owned and almost impossible for independent researchers to use. The British Audience Research Bureau provides no

public interest data for independent researchers and as a consequence public debate in the UK is blind, relying on some researchers that are fed specific data tables and reports of the large corporations that fund BARB and themselves have a clear set of interests to defend. The UK data presented here have been provided by Human Capital, an independent consultancy.

3   Those channels that are not available through analogue terrestrial television broadcast signals and are only available through the Digital Terrestrial, Direct-to-Home Satellite and Cable platforms.

4   These are BBC1, BBC2, ITV1, Channel 4 and Five.

5   Period of data collection: 1.1.2002-31.12.2002. Diagram illustrates the drop in share according to market shares of the different genres. The data used for this diagram refers to all TV-viewers who actually watched the programs. For reasons of economy and organization Gfk's surveys do not include all households in Germany. In fact a representative panel is built up on specific statistical methods. In the panel's households a Gfk-meter is installed that measures the TV-viewing behaviour of all TV-viewers in the household up from three years detailed on a second. The data are saved in the meter and are transmitted to the Gfk during the night via modem. The data collected from the panel are extrapolated on all German households. The panel consists of 5.640 households with 13.000 tv-viewers over three years.

6   BARB Monday-Sunday. Terrestrial Children: BBC1, BBC2, ITV1, Channel 4, Five. Multi-channel Children: BBC1, BBC2, ITV1, GMTV, Channel 4, Five, Boomerang, Cartoon Network Total, Disney Channel Total, Playhouse Disney, Toon Disney, Fox Kids Total, Nickelodeon Total, Nick Jr Trouble, CBBC, CBeebies

# 5.  From princes to paupers: the future for advertising funded public service television broadcasting

Jamie Cowling

*[Programme making] is about delivering audience overall and, in crude terms, driving down the overall cost of TV so it's good value to advertisers.*

Chris Boothby, Director, BBJ (Media Buying Agency)

*Financial Times Creative Business* 3 June 2003

Technological change has radically altered the UK's broadcasting landscape. In 1990 most of the population came home to the choice of four television channels, BBC1, BBC2, ITV and Channel 4.[1] By 2003 alongside an additional public service broadcaster, Five, 45 per cent of the population have the choice of watching at least 30 television channels and in seven million homes, almost 200 (ITC 2002).

Attention has focussed on the effects of increased competition, choice and control on the UK's broadcasting ecology. Concerns have been raised asking if increasing competition has meant a 'dumbing down' of British TV as channels compete in a race to the bottom to attract viewers (Mosey 2002; CMS 2000; CMS 1998). Elsewhere thoughtful commentators have questioned if public service television can still educate and inform when viewers can switch from *The Nine o' Clock News* to *The Simpsons* (Bergg 2003; Thompson 2000). Increased choice has prompted concerns for social cohesion now viewers watch what they want when they want it rather than gathering as families and friends to watch and discuss *Some Mothers Do 'Ave 'Em* (Thomson 2003; Davies 2002). The traditional values of public service broadcasting are under threat. However, despite market liberalisation the Government has professed that it 'aims to encourage strong public service broadcasting' (DCMS 2003) and that the BBC, ITV, Channel 4 and Five through tough content regulation will continue to provide public service broadcasting for the UK's television screens.

However, until recently less attention has been paid to the effects of increased competition, choice and control on the ability of the advertising funded public service broadcasters, ITV, Channel 4 and Five, to pay for their public service obligations. (Dyke 2003; Graham 2003; Picard 2001) The increase in choice for viewers has meant a corresponding increase in choice for advertisers. Whereas in 1990 an advertiser could only choose between two channels now advertisers can choose between a myriad of niche services, providing highly targeted audiences, and new

general interest channels. Concurrently, as the audience has fragmented the number of viewers watching ITV or Channel 4, and the adverts they broadcast, has declined.

The BBC can *de facto* afford to deliver its public service obligations as long as Parliament continues to fund the BBC via the licence fee. The commercially funded public service broadcasters, ITV, Channel 4 and Five, rely on advertising revenue to pay for their public service obligations. In the past the high value of terrestrial broadcasting licences that effectively granted a 'licence to print money' enabled the state to make public service obligations a licence condition. It is possible that the increased advertising space provided by the satellite, cable and digital terrestrial[2] channels, alongside the decreasing value of terrestrial broadcast spectrum as we move towards switchover, may undermine the ability and desire of the advertising funded public service broadcasters to deliver their public service obligations.

The key policy questions for the future are:

● As the UK's broadcasting market becomes more competitive, has increased competition meant that the historical public service bargain is breaking down?

● Assuming a plurality of public service content providers remains desirable how best should this be achieved in the future?

It is clear that the increase in channel choice for (multi-channel) viewers has significantly reduced the total audience share of all the public service broadcasters. However, even nearing the time when 50 per cent of the population have access to multi-channel television it is too soon to tell what the ultimate effects on the viability of the advertising funded public service broadcasting model will be. In the face of fierce competition over the last six years Channel 4 has maintained audience share and advertising revenue and since its launch Five has grown both its advertising revenue and audience share. It is clear that ITV has suffered a precipitous decline in audience share but, for the moment, advertising revenue remains reasonably robust.

The question is for how much longer? There is little doubt that whilst it is in the interest of some of the broadcasters to overstate the precariousness of the situation the UK's broadcasting market is in a period of rapid change. There is a real possibility that in the near to medium future either the obligations placed on ITV, Channel 4 and Five will either need to be reduced or alternative sources of funding will need to be found.

This chapter will begin by reviewing the historical bargain between the state and the advertising funded public service broadcasters. The paper will present new research examining the effects of the increase in advertising space on the advertising funded public service broadcasters revenue. The paper will review the evidence provided and suggest possible policy options for the future.

### The historical bargain

The early political decision to exclude advertising from television was reversed when dissatisfaction with the BBC monopoly and pressure from advertisers led to the introduction of advertising funded broadcasting in 1954. Independent Television was established by the Television Act 1954 and Independent Television began broadcasting, in the London area, in 1955.

The state entered into a bargain with private companies to deliver public service objectives. Private companies, the ITV broadcasters, were granted sole access to public spectrum for the licence period and therefore a monopoly on television advertising revenue in the region.[3] In return for the licence the ITV companies agreed to public service obligations including an independent news provider ITN (Tambini and Cowling 2002). The Independent Television Authority regulated the ITV companies' output.

The newly established ITV companies were initially unprofitable. However, by the late 1950s the broadcast licences had become, in the words of Lord Thomson, a 'licence to print money'. The Pilkington Committee recommended a levy on advertising revenue in addition to the standard income tax paid by the ITV companies (Pilkington 1962). In 1974 the levy was placed on profits rather than advertising revenue.

In 1977 the Annan Committee recommended an Open Broadcasting Authority with aim of increasing the diversity of voice and bringing new ideas to British television (Annan 1977). Channel 4 was established as a not-for-profit public service broadcaster with tight positive content obligations. Channel 4 was a wholly owned subsidiary of the Independent Broadcasting Authority (IBA), the successor to the ITA. Channel 4 began broadcasting in 1982. The ITV companies directly financed Channel 4 until 1992. The ITV companies sold Channel 4 airtime in their own region in return for an annual subscription determined by the IBA and later the Independent Television Commission (ITC).

In summary, limited spectrum availability limited the number of possible television broadcasters and therefore television advertising space. In return for a lucrative monopoly on advertising revenue the ITV companies agreed to positive public service content obligations, costs which they would not have otherwise incurred, and submitted to regulation by an independent body. By the late 1970s technological advance enabled a fourth national broadcaster. Channel 4 was established as a not-for-profit public service broadcaster with the aim of increasing the diversity of content on British television screens. The ITV companies retained their monopoly on television advertising sales until 1992.

By the late 1980s broadcasting markets across Europe were being opened up to private competition. Technological change, satellite and cable distribution for

example, and a large dose of free market ideology combined to challenge the old state monopolies. The pace of change was rapid. In 1980 there were 36 public broadcasters and 5 private channels in Europe by 1990 there were more commercial (55) than publicly owned stations (45) (Norris and Semetko 2001).

The Broadcasting Act 1990 (Broadcasting Act 1990) radically shook the UK's public service broadcasting ecology. It removed the restrictions preventing one regional ITV licencee from owning another regional licence, except the two London franchises. It introduced competition between Channel 4 and ITV for advertising revenue and laid the foundations for a fifth terrestrial public service broadcaster, Channel 5 (Five). After 1990 'Cable and satellite programme licences were to be issued virtually on demand for services complying with the consumer protection requirements in ITC codes.' (ITC 2003) In essence satellite and cable licencees were only required to abide by negative content regulation, such as the impartiality requirement and advertising codes.[4]

In summary, prior to 1990 all broadcasters were public service broadcasters. The state granted a monopoly and later an oligopoly on the supply of advertising space in return for obligations to broadcast non-profitable but merit goods. After 1990 the cable and satellite broadcasters were only required to abide by negative content regulation and were not given the positive content obligations placed upon the terrestrial broadcasters.

## A plurality of public service?

Since 1990 governments have been keen to maintain a plurality of public service content providers. Whilst many of the structural restrictions governing British broadcasting have been lifted there has only been minor tinkering with the public service obligations placed on the commercial public service broadcasters despite the concurrent growth of multi-channel television.

The Communications Act 2003 placed tight content and industrial obligations on ITV, Channel 4 and Five. Ofcom's Public Service Television Broadcasting Review (PSTBR) obliges Ofcom to prepare a review with 'a view to maintaining and strengthening the quality of public service broadcasting in the United Kingdom.' (Communications Act 2003: 264(3)(b))

The Communications Act requires Ofcom to consider in the PSTBR the costs to persons providing television services and the sources of income available to each of them for meeting the costs (Communications Act 2003: 260(7)(a)(b), primarily advertising and sponsorship revenue. The public service requirements on the broadcasters are in a sliding scale according to the rights and responsibilities of the broadcasters. The heaviest obligations fall on the BBC, followed by Channel 4 and ITV. In recognition of its small size and reach Five has the least public service
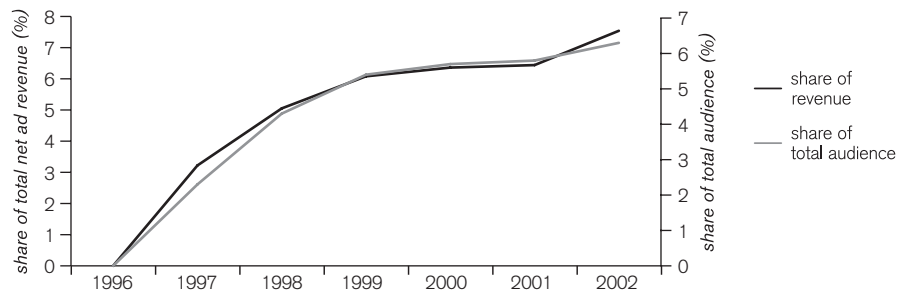
**Figure 5.1 ITV (+ GMTV) share of total audience vs share of net advertising revenue**
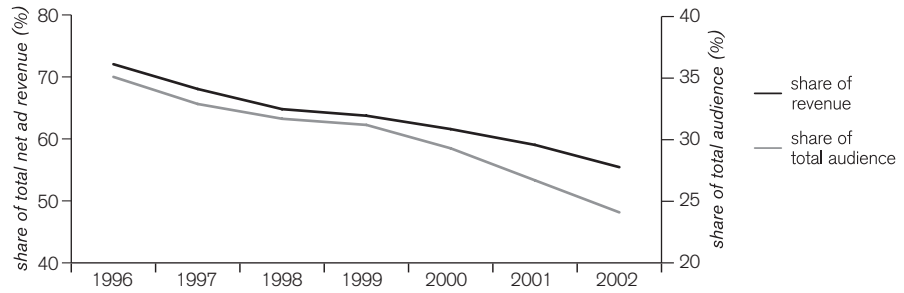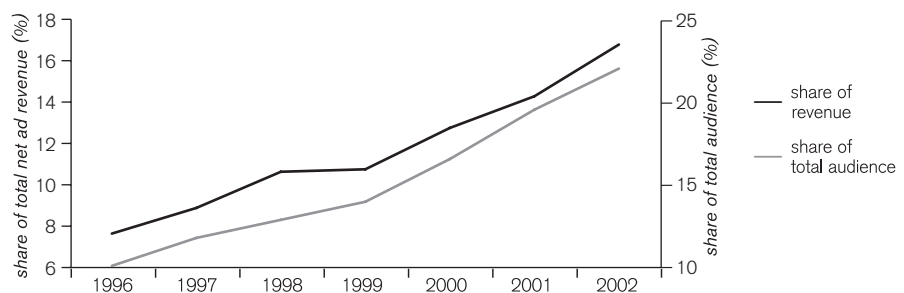


**Figure 5.2 Channel 4 share of total audience vs share of total net advertising revenue**
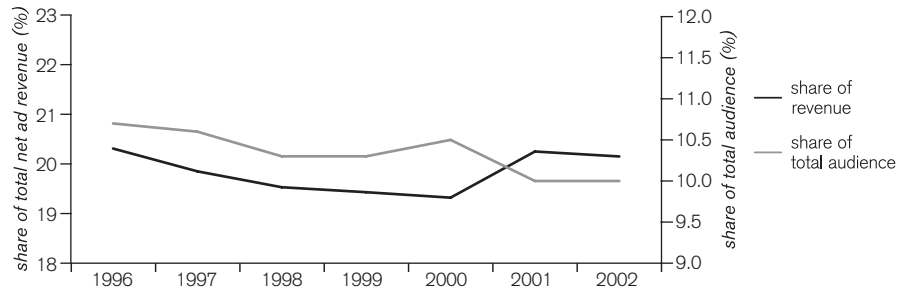


**Figure 5.3 Channel 5 share of total audience vs share of total net advertising revenue**



**Figure 5.4 All multi-channel audience share vs share of total net advertising revenue**

obligations, though these can be increased if Five's audience share and advertising revenue increases in the future.

Despite the commitment in the Act to maintain a plurality of public service providers can the current settlement be maintained in the long-term? The historical public service bargain may be close to breakdown.

Viewer consumption has not grown with the expansion in supply of television since 1990. Total audience size (national population) and the time available to watch television has remained limited in comparison to the increase in available channels. Therefore there has been limited, but still significant, audience fragmentation.

This has resulted in two major pressures on the commercially funded public service broadcasting model. As we move towards digital switchover the value of spectrum currently licensed for analogue television broadcasting is declining. This suggests that the costs of the public service obligations placed on the broadcasters may one day outweigh the benefits of access to spectrum. After switchover shareholders may begin to question whether a top spot on the EPG is worth an entire series of *My Favourite Hymns*. The second pressure comes from the increasing choice of channels for audiences and advertisers. The increase in available advertising space provided by multi-channel broadcasters and the commercial public service broadcasters declining share of the audience could undermine their revenue stream and ability to afford costly public service content.

## Public service breakdown?

Audience share is related to share of advertising revenue. The Figures 5.1 to 5.4 opposite set out the share of the total audience in all homes against the share of Net Advertising Revenue (NAR) for: ITV (including GMTV); Channel 4; Five and Multi-Channel from 1996 to 2002. Audience data is from BARB and NAR data was provided by OMD UK.[5]

ITV's share of the total audience declined from 35 per cent to approximately 25 per cent from 1996 to 2002. ITV's share of NAR suffered a precipitous decline from 72 per cent to 55 per cent over the same period.In the same period Channel 4's share of the total audience and share of NAR remained relatively stable. Channel 4 maintained an audience share of approximately ten per cent and a share of NAR of approximately 20 per cent between 1996 and 2002.[6] From its launch in 1996 Five has increased its share of the total audience to six per cent and share of NAR to 7.5 per cent by 2002.

The total multi-channel share of audience increased from ten per cent in 1996 to 22 per cent in 2002. The total multi-channel share of NAR increased from approximately 8 per cent in 1996 to 16 per cent in 2002. This increase was shared between more channels. Many broadcasters (distinct from channels), such as MTV, expanded their offering in the period to maintain audience share.
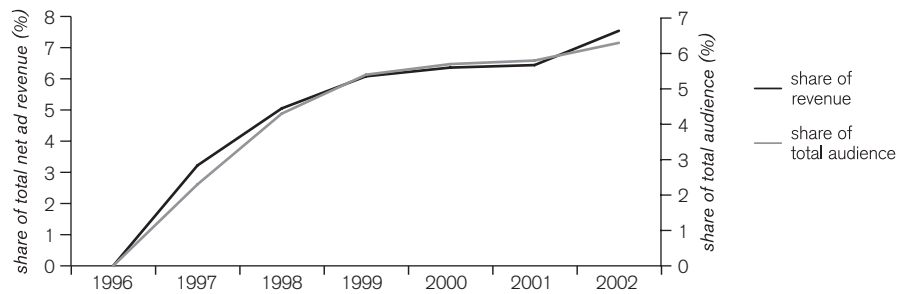
**Figure 5.1 ITV (+ GMTV) share of total audience vs share of net advertising revenue**
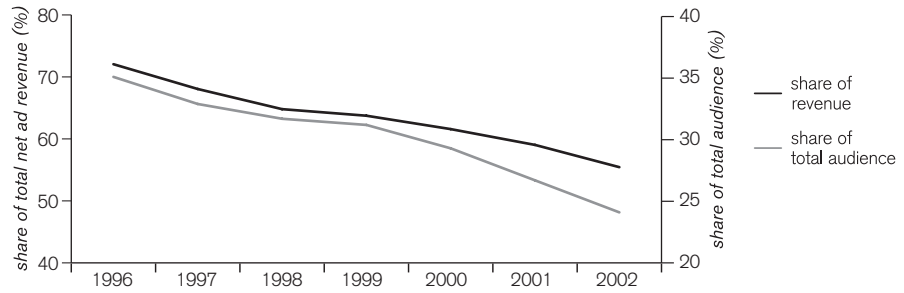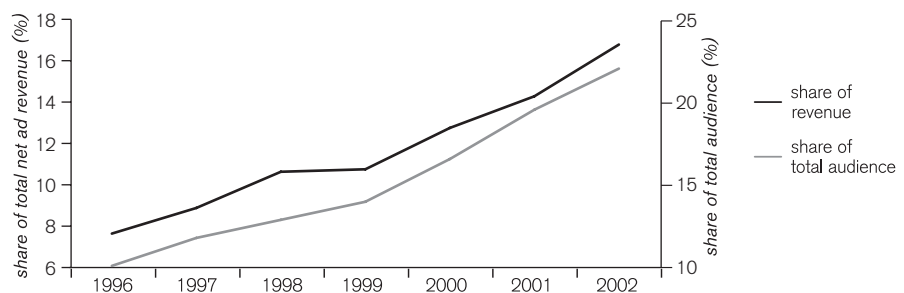


**Figure 5.2 Channel 4 share of total audience vs share of total net advertising revenue**
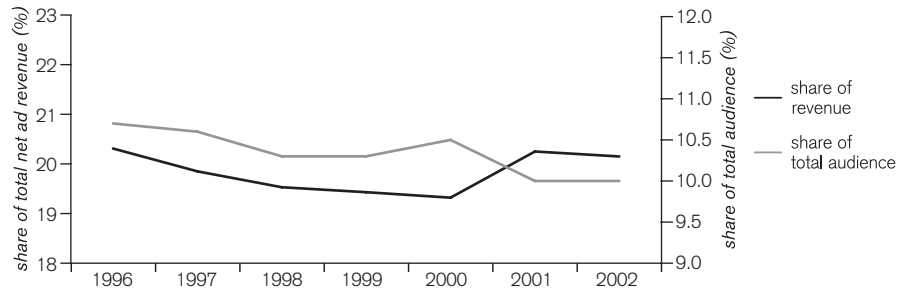


**Figure 5.3 Channel 5 share of total audience vs share of total net advertising revenue**



**Figure 5.4 All multi-channel audience share vs share of total net advertising revenue**

## Does declining share mean declining revenue?

Figures 5.1 to 5.4 demonstrate the clear relationship between share of audience and share of NAR. However, demonstrating this relationship does not demonstrate the effects on the broadcasters income. Share of NAR is dependent on, among other things such as total audience, the number of available channels. The total NAR is dependent on the amount of advertising space desired by advertisers. A broadcasters share of NAR could increase, but if the total NAR decreased at the same time a broadcaster could end up with less money. Vice versa, a broadcasters share of NAR could decrease but if the total NAR increased then it may still show increased total advertising income.

Hendry (1992) and Nillsen and Sorgard (2000) postulate that increased supply of advertising space may stimulate demand for space by lowering barriers to entry and encouraging new advertisers to advertise on television. There is disagreement, for example, see Maish (1999).

Figure 5.5 shows total UK NAR from 1996 to 2002. NAR shown is in real terms at 2001/2002 market prices.[7]



Figure 5.5 Total UK real terms net advertising revenue (£ millions, 2001/02 prices)
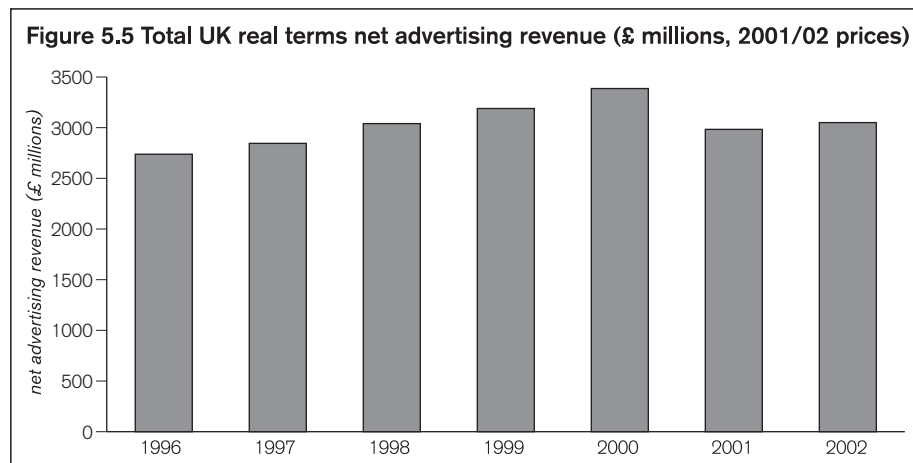
Figure 5.5 demonstrates that UK NAR continued to grow from 1996 to 2000 despite the increase in available television advertising space. Was the increase in NAR between 1996 to 2000 due to the expansion in the absolute total of television advertising or did NAR increase for individual channels as well?

Figures 5.6 to 5.9 below show share of the total audience in all homes against total NAR for: ITV; Channel 4; Five and Multi-Channel. Figure 5.6 shows that despite ITV's decline in audience share between 1996 and 2000 ITV's total NAR continued to grow until the end of the dot-com boom in 2000/01. ITV's total NAR was £1.972 billion in 1996 and grew to £2.085 billion in 2000. ITV's NAR had declined to

**Figure 5.6 ITV (+ GMTV) share of total audience vs real terms net advertising revenue**
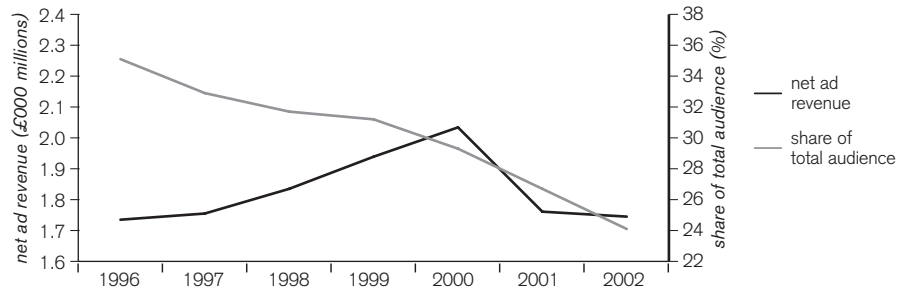


**Figure 5.7 Channel 4 share of total audience vs real terms net advertising revenue**
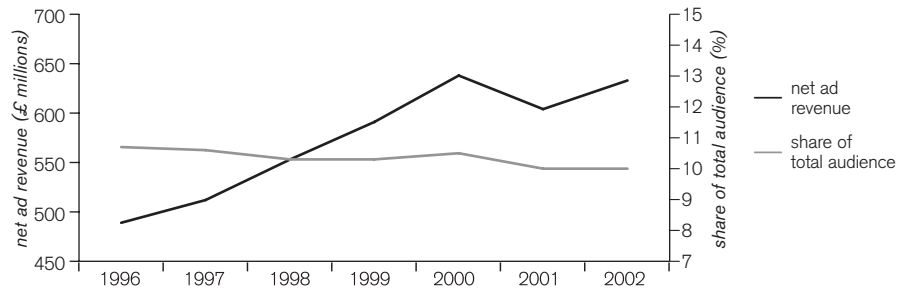


**Figure 5.8 Channel 5 share of total audience vs real terms net advertising revenue**



**Figure 5.9 All multi-channel audience share vs real terms net advertising revenue**
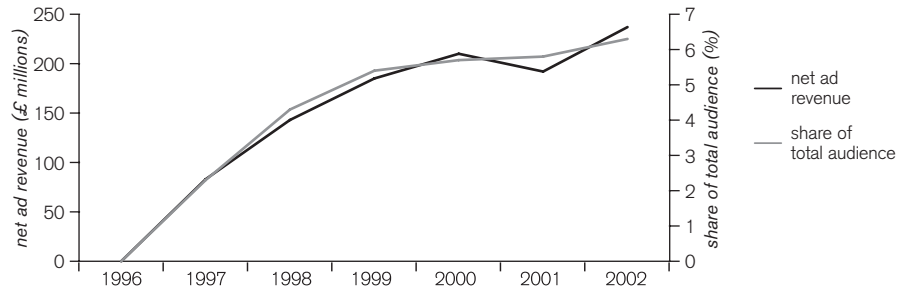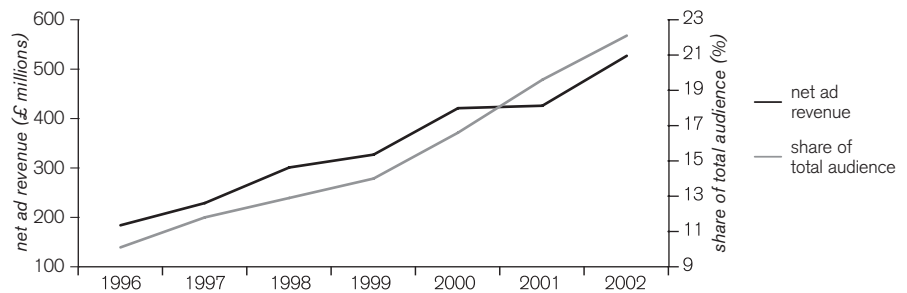
£1.694 billion by 2002. Figure 5.7 demonstrates that Channel 4 increased its NAR from £556 million in 1996 to £654 million in 2000 despite a near static audience share over the same period. Figures 5.8 and 5.9 show that both Five and Multi-Channel increased their NAR in line with their increase in audience share between 1996 and 2002.

The evidence suggests that demand for television advertising, in particular on mass broadcasters, is closely linked to the situation of the wider economy. Despite the decline in ITV's audience share and share of total NAR from 1996 to 2000 NAR increased in real terms. In periods of growth producers will tend to spend more on advertising therefore the price of advertising space and broadcasters' revenues increase. Airtime is costed by dividing the total amount of advertising money spent on the channel by the channel's total audience. So there is little doubt that share of the audience is of crucial importance. However, the situation is clearly more complex than declining audience share is equal to declining revenue.

Firstly, it is important to remember that, for advertisers, audience share is relative to the share and reach of other channels that broadcast to the same target audience. Channels with an audience of 100,000 viewers, large for a multi-channel broadcaster, who only watch for five minutes are less attractive to advertisers than a channel that can deliver an audience of five million for half an hour. Only ITV, Channel 4 and sometimes, Five are currently able to deliver this mass audience, even if the mass is not as massive as it once was. The largest multi-channel audience to-date was for the European Championship Qualifier game between Turkey and England on 11 October 2003 shown live on Sky Sports 1. The BSkyB audience peaked at 4.2 million viewers. The game was repeated on ITV later the same evening, the audience peaked at 5.1 million viewers (Gibson 2003).

Secondly, the evidence presented above suggests that the increase in available television advertising space and lower cost advertising on smaller channels may have encouraged market entry from firms previously unable to afford television advertising. Niche channels may also have enabled firms who have little need of a mass market, for example surfing equipment companies, to advertise on niche channels, such as *Extreme Sports*, as a compliment to their existing advertising. Furthermore, niche channels targeting similar audiences compete with each other as much as the commercial public service broadcasters. Whilst niche services erode the total audience share for the commercial public service broadcasters and compete to for advertising revenue niche channels also compete against one another. In the lucrative youth market MTV not only competes with ITV, Channel 4 and Five but is also in direct competition for viewers and advertising revenue with the other sixteen music channels available on the digital satellite platform.

Both Channel 4 and ITV's advertising revenue appears to be higher than their share of the audience would indicate. This suggests that there is a tipping point where

broadcasters are able to demand a mass audience premium from advertisers (Graham 2003). However, the tipping point is not fixed but will be relative to the performance of other broadcasters.

## Public service futures

This paper has questioned the long-term viability of the commercially funded public service broadcasting model. The paper has shown that the advertising funded model of public service broadcasting was predicated on a bargain between the state and private broadcasters. In return for access to valuable spectrum the state could impose licence conditions on broadcasters. Both the declining value to broadcasters of terrestrial spectrum and multi-channel television lowering the cost of television advertising space have combined to undermine the historical bargain between the state and the commercial public service broadcasters.

The evidence presented has shown that the television advertising market is complex and that commercial public service television remains in reasonably robust health, in terms of income if not audience share. The question remains for how much longer? We know that digital switchover should be complete by 2010. There are four significant variables that will shape the viability of the commercial public service broadcasting model.

First, is the current decline in the cost of television advertising space and, crucially, ITV's NAR systemic or a short-term blip? When the Government sanctioned Carlton and Granada to merge they made the clear that their assessment was that television advertising is likely to be in long-term decline. Second, the survival of the commercial public service broadcasting model is likely to be significantly affected by the success of the different digital platforms. The commercial public service broadcasters occupy more shelf-space on the digital terrestrial platform than either on digital satellite or digital cable. The commercial public service broadcasters along with the BBC take a far higher audience share in digital terrestrial homes than either cable or satellite homes. Ironically, digital terrestrial may be the saviour of ITV. Third, It may be the case that there are currently as many advertising funded broadcasters as there is advertising funding. In this situation given their historical position and strong content the commercial public service broadcasters may only have a small further decline to endure before levelling out as profitable businesses, similar to the US networks. We have seen above that whilst niche channels compete to some extent with the commercial public service broadcasters the main competition for advertising revenue comes from like-for-like competition. In this situation the major threat to the commercial public service broadcasting model would come from another broadcaster investing in content to form an alternative mass appeal channel without any of the public service obligations after switchover. Finally, the use of Personal Video Recorders will have a significant impact on all advertising funded broadcasters. If

viewers use Personal Video Recorders increasingly to skip advertisements, lowering the impacts of television advertising, then advertisers are likely to move away from television towards other media or television advertising may move increasingly towards a programme sponsorship model.

ITV, Channel 4 and Five are likely to be able to sustain their audiences and revenue in the short-term. ITV, Channel 4 and to a lesser extent Five benefit from strong brands, both individual programmes and channel identities. Their high revenues relative to the other broadcasters enable them to invest more in content giving them an ongoing advantage in the battle for viewers. However, the pressure of competition alongside the decreasing value of terrestrial spectrum as we move towards switchover at the end of the decade are likely to undermine the commercial public service broadcasting model.

If policy wishes to preserve a plurality of public service providers in the future Ofcom and the Government should consider options to sustain the commercial public service broadcasting after switchover. Any subsidy will need to pass the European Commission's three tests of entrustment, definition and proportionality (Ward 2003; EC 2001). The Communications Act clearly entrusts and defines the commercial public service broadcasters as providers of public service content. Public subsidy would need to be clearly proportionate to the task and there will need to be fair competition for any state aid package put in place. Ofcom will need to ensure that any model is dynamic enabling it to cope with the variables outlined above.

Policy options for consideration should include:

● *Raising and lowering public service obligations according to share of audience and net revenue*

   The Communications Act makes provision for Ofcom to vary the public service obligations placed on each broadcaster (Communications Act, 2003: 260). It may be the case that the commercial public service broadcasters concentrate on the commercially viable public service obligations in the future. This may raise fears about the ghettoisation of certain forms of content, such as religious programming, to the margins of the schedule. Following digital switchover, public service content obligations should be placed on all broadcasters above a certain audience share and net revenue. There should be a sliding scale of obligations and benefits.

● *Funding the public service content in the future*

   Following switchover there should be a sliding scale of obligations and benefits for every broadcaster above a certain audience and revenue threshold. These benefits would include due prominence on Electronic Programme Guides, must carry obligations on delivery platforms, Government advertising expenditure,

a reduction in spectrum charges and, if required, ultimately additional public funding. Public funding for public service content should come from the spectrum charges levied on all broadcasters.

- *A contestable fund for public service communications*

   Government may wish to remove the public service broadcasting obligations on the commercial public service broadcasters. This option is the Arts Council of the Air first proposed by Peacock. There are significant problems with this model. Firstly, it is unclear how this form of funding would achieve the industrial objectives placed on the commercial public service broadcasters. Secondly, it is unclear why a commercial broadcaster would bid for public service content. The funds available would need to be sufficient to match the lost advertising revenue within the programme. The channel is also likely to suffer a knock-on effect from broadcasting a, by definition, unpopular programme and fail to regain viewers after the public service programme. Taxation would need to fund the ongoing lost revenue. This option also leaves the question of what is public service content to a small clique of commissioners separated from day-to-day content production. Finally, the inevitable information asymmetries are likely to encourage broadcasters to engage in rent seeking behaviour. These characteristics were evident in the Arts Council of the Air experiment in New Zealand, which has now been aborted (Cook 2003; Comrie 1999; Comrie 1996).

   Rather than establish a contestable fund along the lines of the arts council of the airwaves additional public funding could be made available to all broadcasters above a certain audience threshold as described above.

## Acknowledgements

## Endnotes

1   S4C in Wales.

2   Hereafter 'multi-channel'

3   Strictly speaking the ITV licencees did not broadcast their content. The IBA broadcast television content and the ITV companies were granted a contract to supply content to the IBA in that region. This arrangement was repealed by the Broadcasting Act 1990. See www.itc.org.uk/itc_publications/itc_notes/view_note.asp?itc_note_id=59

4   Arguably the requirement to subtitle programmes is a positive content obligation but this is negligible in comparison to the obligations placed on the BBC, ITV, Channel 4 and Five.

5   Due to problems with the BARB data publicly available I have had to use audience share in all homes and include public service channels such as BBC3 in the total multi-channel data.

6   According to Channel 4, Channel 4's success at maintaining share of audience and share of NAR is based on delivering, 'upmarket and younger' audiences attractive to advertisers 'alternative to ITV' (Channel 4 2003). Note the difference in emphasis from the Annan Committee.

7   NAR data supplied by OMD was in Nominal Terms. I have used HM Treasury GDP Deflators to calculate real terms NAR.

# 6. Public service content: the conditions for creativity

Phil Redmond

*Art for art's sake – money for God's sake.*

10cc

Although perhaps not to everyone's taste, that one line from the rock band 10cc could encapsulate the entire debate about creativity and public service content. The two cornerstones of creative endeavour are patronage and exhibition. If both are to exist, they must be adequately funded. Talent has to be properly nurtured and properly rewarded. Security of funding is key. To date public service patronage and exhibition has come from direct state control. Therein lays the challenge facing public service broadcasting in the UK and the BBC in particular. In a rapidly changing multi-channel, multi-platform digital environment how do we ensure that our public service broadcasters are adequately funded not only to nurture talent, but also adequately reward it in order to retain it?

That may seem like a preamble for a Canute-like retention of the state funded BBC status quo. It is not. I believe we should focus not on whether we retain the BBC or not, but upon whether we retain the funding mechanism that supports it, the licence fee. The debate about public service content should focus on what we, as a society, wish that funding mechanism to deliver.

However, I also believe there is a need to build and maintain a new case for that cultural poll tax: not as a crude revenue instrument for the BBC, but a fund that can be used to stimulate creative public service content. We need to stop fiddling at the edges. Stop procrastinating. Recognise the social changes ahead and act. It is time for a structured rather than a semantic debate that clearly identifies and separates public from commercial services. The BBC as presently constituted should go, but the funding mechanism that sustains it, should stay.

The forthcoming renewal of the BBC Charter, with its promised 'root and branch' review, should go to the heart of the matter. We should not be wringing our hands and fretting about whether to index-link, cap or add digital subscription top-up fees to fund the BBC. We should be celebrating the fact that there is still, by and large, a broad consensus to support the licence fee, which, no matter how you dress it up, is a cultural poll tax. We should be focusing on not what the BBC wants to do with that £3 billion per annum, but what we, as a society, want to do with such a cultural fund.

## The dangers of regulatory failure

To outline a case for replacing the BBC while retaining the cultural poll tax requires an examination of both its historical context and the structure of public service content. Too often the debate surrounding public service content has been obscured by anxiety about the BBC's future. This in itself has also been obscured by concentrating on who, what and where the BBC is at any one moment and whether it is making a good bad or indifferent fist of things. BBC baiting can be fun, mischievous and informative, but it deflects time and focus from the real issue. All commercial television and radio services also have, as part of their licenses to broadcast, public service content obligations. Access to the airwaves is only granted in return for a shopping list of public service content.

I would contend that adhering to the founding principles laid down as far back as the 1923 Sykes Committee and the 1925 Crawford Committee, though laudable at the time, is now causing public service broadcasting to atrophy. Rather than maintain the concepts of universality of access and diversity, we have stifled real creativity and innovation by making sure all broadcasting remained on a so-called level playing field. The very concept means that things must be alike and therefore replication, duplication and mimicry have been the yardsticks. Indeed so successful has this level-playing field policy been that at present is difficult to delineate between the various terrestrial services.

In the BBC we have a public service broadcaster always under pressure to think, act and behave more commercially, then instantly damned if it does. To counter-balance this we have commercial broadcasters who are under regulatory pressure to be more public service minded. As a result we now actually have neither true public service broadcasting, nor fully-fledged commercial television. We have two broadcasting structures roughly mirroring each other and both deriving their revenues through regulation.

This is both an anachronism and structural weakness looking to a fully-fledged digital future. In the new digital age, when universal access will be achieved through the telecommunications networks, when content will be the prime driver, if we are to think about ways to protect public service content and promote creativity, it is this dog's dinner we need to get rid of. It is time to recognise that we need to separate public service and commercial services.

It is also time to recognise that what Lord Reith stated to the Crawford Committee in 1925, that broadcasting was, in effect, too important to be left to 'a combine of companies', no longer holds. Radio spectrum is no longer a scarce resource requiring state management. The challenge now is how do we manage the seemingly limitless potential of digital technology. We should be questioning if indeed public service content is too important to be left to a handful of regulators. Can a handful of people,

no matter how capable, truly set an agenda that serves and reacts to the cultural needs, tastes and choices of a digital Britain?

It is time to find a new model for public service content that faces up to the digital challenge, as well as appreciating that Britain's domestic television and radio services, while originally nurtured within a tightly drawn regulatory regime, are now in danger of being suffocated by the outdated philosophy of that same regime. A regime held in place by a flawed doctrine, that of market failure. This assumes that if there were no regulations in place television and radio operators would soon abandon public service content and chase ratings with lowest common denominator programming. The market, the argument runs, would decide what generated audiences and profits. This model has always been politically expedient, but flawed. There never has been a real market for content therefore it could never be tested on delivery.

Elsewhere, in the harsh commercial market of print media we can find The Economist alongside *The Model Maker*; *The Daily Sport* alongside *The Guardian* and *The Daily Express* alongside *The Daily Telegraph*. This seems to suggest that a real market can indeed deliver. The challenge is not market failure, but regulatory failure.

The risk of that failure comes in not recognising that the original need, government management of a scarce public resource, is now no longer an issue. To date, all public service content has been structured to maximise the finite analogue radio spectrum but utlilising a transmission distribution pattern laid out in the 1930s. This in turn was dictated by the capabilities and limitations of valve based transmitters. Digital technology has far more capabilities and spectrum scarcity is no longer a problem that requires state management.

However, while technology may not be the problem of the future, talent will be as precious as ever. It will still need to be found, nurtured and rewarded and we need to look for a new model to support it. One that separates quite clearly what is public service, and what is commercial. We need to find a way of harnessing all that was good about the past, while providing both the means of patronage and exhibition in the future.

At the moment the general consensus is probably weighted in favour of the BBC being 'a good thing'. This in turn allows government to continue imposing the BBC's cultural poll tax. However, it is already clear that in multi-channel[1] homes that viewing of the BBC and the other terrestrial channels, is being eroded. If so, so too is the raison d'être for paying the poll tax. If people are no longer watching the BBC, why should they pay for it?

The more this erosion happens, the more the general consensus dissolves and with it politicians' will to impose this tax burden. This in itself is an important consideration. At what point will HM Treasury suggest that that tax burden, already being carried by most households and yielding approximately £3 billion per annum, equivalent to about 1p on Income Tax, be switched to health, education or indeed helping to plug the pensions black hole? On top of that, the privatisation of the BBC

could possibly be another Treasury windfall along the lines of the telecommunications auctions. It is a powerful and almost irresistible argument.

Yet I believe we must resist both the privateers and the windfall argument. Not to protect the BBC as such but to protect the cultural poll tax itself. It is that tax, rather than a system of tolls so in favour in other areas of public life, that will guarantee the conditions for creative and cultural innovation. Moreover, under the coming tsunami of global technological change, it is the only thing we will be able to influence is domestic public spending.

Global technological change will alter what we now understand as 'media', in ways that we should not be wasting time trying to predict and shape. It will follow the paths of emergent behaviour because the success of the technology itself will depend upon how the public decides to use it. The fax, VCR, Text Messaging or even the Internet did not develope as their inventors predicted, but only as the public wanted to use them. History is littered with failed product launches. Quite often the failures are the best technology. The winners are the cheapest and easiest to use.

While we should not over-estimate the power of technology, as it never delivers what it promises, at the same time, for the reasons, history teaches us that we always under-estimate the impact of its arrival. 50cc motorbikes, 500cc cars and 14-inch televisions were dismissed in 1960's Britain as passing foreign fads before they heralded the passing of our own indigenous manufacturing sectors.

To complicate the crystal ball gazing even further are the issues of competing technology and critical mass. The long-heralded convergence of telecommunications, computers, television, radio and film is finally beginning to happen, the dominant players will be those that control both the key technology and their markets. These are and will continue to be the telecommunications and computer industries that are already offering content, in the form of games, texting, e-mail and the plethora of online activities. None of these activities is enough individually to challenge television, but taken together they equate to the same number of people as watching BBC1 at any one time. This trend will go on increasing as broadband access brings even more services to compete for people's time. In terms of the global telecommunications and computer industries, British television is like the local corner shop trying to take on Wal-Mart.

The key point to focus on here is that telecommunications and computer networking is not confined to entertainment or the office environment. It affects everything we do. It affects our social structures and our built environment. It allows shops, fast food and entertainment outlets better logistics. It makes all goods and services cheaper and more accessible. It enables greater choice and diversity that in turn changes our lifestyles. In other words, it gives us other things to do rather than sit and watch or listen to public service broadcasting (PSB).

The 1960s notion of street after street bathed in the blue grey tint of a nation sharing the experience of a common television schedule is already vividly archaic.

Over the past 20 years, lifestyle alternatives have increased to the extent that the very fact that there are now more people doing things away from their television sets than are watching BBC1 is an early indicator of the changes to come. The nation has long since passed the time when it needs to have its evenings' viewing scheduled for it.

However, the biggest change that calls into threat the notion of public service content is that universality of access will be across the telecommunications grid. It will provide 100 per cent access, if people choose. It will not be restricted, as current services now are, to a cultural, regulatory and technological structure dictated by the technology available to Lord Reith in the 1930s.

Not only will digital technology provide this universality of access, but it will allow access from around the globe. So, in a 24/7 world, whose schedule and whose time zone will people be watching? Yet, rather than get over-awed by the global potential, we should also not lose sight of the fact that digital technology will allow a more precious gain. Something that we have played lip service to but never in fact delivered in Britain. That gain is truly local content. Both the BBC, ITV and the radio networks have been built on a rather hazy definition of local programming.

## A view from Royston Vasey

Grandiose and high principled words have masked the fact that the laws of physics governing that 1930s radio transmitter pattern have never allowed any transmission, on any service, to what could be a clearly defined geographical community of interest. Instead we have played around with the notion of community of interests, pretending that we could section off the nation into discrete cultural enclosures like rock music, classical, speech, folk, country, dance and so forth. It has never really suited anyone except regulators and advertisers.

In a new digital landscape the economics of one-to-many will stand side by side with that of many-to-many and even many-to-one. There will always be a market for big events like a live football game, but providing there are enough people interested in paying to see the local village pageant, itself not requiring the budget of a *Brideshead Revisited*, someone will narrowcast it. With a view from Royston Vasey, when global access will mean 'global telly for global people', the challenge is how to create the environment to also support 'local telly for local people' and not fall under the spell of globalisation.

To date, our public service content providers, whether BBC or commercial, have never really made this choice, but have tried to deliver both under the catchall 'choice and diversity'. They have delivered neither. Neither global, nor local television. Digital technology will make both possible.

So, bearing in mind this 80-year-old historical cultural context of state regulatory management of what has been perceived as a scarce resource, what do we need to

meet the challenges of a digital age and provide the basis for maintaining and stimulating the two cornerstones of creative endeavour, patronage and exhibition? More crucially how will we nurture and manage talent? Where will it come from? How will it be rewarded in the digital age? All talent initially just wants to be seen, heard and appreciated. Exhibition is the goal. However, if success follows exhibition then sure as day follows night does the quest for artistic reward. This soon translates to that well known artistic catch phrase 'how much to get out of bed?'

Under the system of PSB patronage, there were few places for talent to barter. The BBC as monopoly buyer, initially set the rates for public service contracts. As technology advanced new entrants like ITV , Channel 4 , BSkyB and Five arrived and introduced an element of competition. Even in what has always been a heavily controlled and managed market place the cost of talent increased. Whether drama, comedy, sports rights and star presenters and newsreaders, the fact that there were other places to barter than the BBC offered talent a better deal.

As technology continues to both change and grow the market, so it will drive up the costs of talent. If people, as viewers, are to continue to support the cultural poll tax there must be a demonstrable added value other than the BBC1 beating ITV in ratings, signing big names, winning sports rights or previewing programmes on Freeview[2]. There will need to be something more than providing public funds simply to fuel a bidding war over talent wage costs.

Taking all this together it seems inescapable to conclude that the only way to maintain the broad consensus that underpins public service content and creativity is to follow the path of other public services and adopt different but complimentary national, regional and local policies. More linkage to the end-user within both their clearly defined geographical communities as well as their more broader communities of common interest. We must not fear, but embrace the prospect of digital technology, while revisiting those same concerns of the Sykes and Crawford Committees in 1920s. We must find a way of harnessing, not squandering, the potential of emerging technology.

This must not be done through allowing the current BBC to land grab because in doing so it will, by definition, take forward the same outdated notion of centralised public service. Future public funding will only be assured if there is clear and demonstrable integration with local and regional networks. Whether they are arts, education, health, regeneration or sport, there must be something that is tangible to every citizen not just as passive viewers, but as taxpayers, citizens and voters. Something they can see that their money is being used for the direct benefit for themselves.

Nowhere could this be clearer than in education. Having taken an active role in the recent National Year of Reading I am only too aware of the potential power of television and radio. Using both *Grange Hill* and *Brookside* to underpin school literary competitions resulted in high levels of involvement. Harnessing the public awareness of Brookside, with its reputation for handling social issues responsibly, gave people

the confidence to step forward and say they needed help with their literacy. That one initiative directly helped 40,000 people, but there is the potential to do so much more.

While it is fair to recognise that the BBC engages in active schools and education programming there is less evidence for arts or vocational activity. Where are the national school orchestra, the national school play, the national school art exhibitions and competitions? The same could be asked about further and higher education? Isn't this something the BBC, as the prime publicly funded public service broadcaster, could easily do through its regional structure? They may do the Young Musician of the Year, but isn't that simply another form of Pop Idol? Creativity is about exhibition, community, critique. It is not just about winning, but taking part.

At the moment, within the existing cultural context, the standard answer when raising these sort of questions usually revolves around ratings. Who would watch? Well, at the moment we could answer parents, teachers, educationalists perhaps, even children. Nor does it have to be organised to transmit across the national network during peak viewing. It could very easily be done during school hours, on a regional basis, on BBC2. Similarly there has been nothing to prevent the BBC from developing more regional news and current affairs services on BBC2. These services could easily draw upon and support things like the regional health, regional regeneration and regional development agendas.

This could all easily be done within existing structures. When BBC1 carries its national breakfast service it has to have its regional centres live to provide the 5 minutes regional news inserts every 30 minutes or so. At the same time the BBC regional and local radio stations are all providing such services, often in the same building. Why then, can they not pool these resources and provide clearly identifiable regional services on BBC2? No doubt there will be sensible operational reasons at the moment, but the real answer is that it does not fit that eighty-year-old historical agenda of a national centralised public service broadcaster. I would suggest these are further examples of regulatory failure.

## From public service broadcaster to public service provider

Having set out the cultural context of the present system of public service content, what is that we need to do separate public service and commercial services? In large corporate organisations a common management mantra is that to effect change in management means changing managers. Similarly no bureaucracy or institution ever deconstructs itself. To effect change we must be prepared to grasp a relatively simple idea. We must now separate public service content from commercial. We need to redefine what we require from our future public service communications, commercial players and above all our expectations from a public funding mechanism.

The BBC should be redesignated from a public service broadcaster to a Public Service Provider (PSP), redefining its role as patron of the tele-visual arts across all digital platforms. It should also offer an Internet Service Provider (ISP) function to other public service institutions like education and health, as well as basic e-mail and online search facilities to those unable to afford commercial services. This new PSP, the BSP if you like, should be the seeker and exhibitor of talent.

The BSP should be the nation's cultural curator as well as information provider. At the same time it should be freed from the repressive ratings game by establishing new methods of measurement based mainly on target audience reach and appreciation (something easily attainable through digital rights management). As digital technology should also make the collection of revenue easier, it should enable a simplified and more regular method of communication with its viewers. For instance, the BBC at present has at least one contact point with every licence holder per year, the licence renewal notice. Would it not be simple to include a questionnaire within, or even as part of that renewal notice system? This would provide the basis for a yearly cultural audit. With digital technology this could be done as a continuous online poll.

The new BSP should plug into every school, college and university to help stimulate and exhibit media training and practitioners. Talent is a very rare commodity. The wider and earlier we cast the net the better. This would allow the present licence fee to be developed as both a cultural and economic regeneration fund, embedded within the regions, seeking out, nurturing and feeding talent. However, it should not be under any pressure to retain that talent by matching the commercial market place in terms of revenue and cost base.

It should be seen as the nation's cultural nursery and vocational training ground for talented content providers, most of who will inevitably want to reap the financial rewards of their creative endeavour in the commercial world. Even as such, many will stay within the environs of the BSP as the market may not deliver some of the things, especially in the arts and education arenas, that both practitioners and consumers will desire.

By separating public and commercial we can develop a structure that integrates the new BSP within the fabric of artistic, cultural and educational life in the UK, but we should allow a true market to develop in the commercial sector. While we can continue to regulate the BSP, we should allow a more relaxed regime for commercial activity that will have to conform to the same limits of libel, financial, taste and decency regulations under which the print media operate.

The BSP should be structured more along the lines of the other national public bodies. Regional Boards should be established, perhaps under the umbrella of the Regional Development Agencies (RDAs), charged with making sure that the BSP is properly representative and integrated within the region. Making sure that the needs and requirements of national, regional and local employment skills are being fostered

and understood. Alongside the educational and arts exhibitions and competitions could also sit business and enterprise initiatives. Next to the Young Musician of the Year should also be the Young Entrepreneur of the Year.

The Chair of each of these Regional Boards should be a member of a new National Board of Trustees that would manage the new national BSP, constituted more along the lines of the Arts Council. With each Trustee being the chair of a regional or local organization, that in itself was charged with making sure the BSP was integrated within their own region, the regions would feed the centre and not vice versa. For political or business control centralism may be attractive; for creative, cultural and artistic endeavour it is suffocating. The more voices, the more opportunities, the more ideas, the greater the potential.

## Creativity and commercial content

Having set out a broad model for public service content, one that is forced by constitutional status to engage in regional and local agendas, what of the commercial sector? How would it fare without public service obligations? Left to their own devices would commercial organisations soon deteriorate to the lowest common denominator? These are fallacies promoted by the vested interests of those operating the existing structures. As such, these arguments should be resisted. So to should the siren calls about costs and ownership.

On costs, the usual mantra revolves around the sustainability of quality attached to the old chestnut about how the advertising cake can only be sliced up so many times. The answer to that is to remove the regulatory restriction that governs the size of the cake tin.

The existing commercial networks all cover most of the population, with ITV and Channel 4 having a 97 per cent reach and Five reaching 80 per cent. However, that 80 per cent covers most of the urban areas and therefore contains most of the target audience sought by advertisers and sponsors. It is also available, as are all other channels, on satellite. This gives them all the potential to reach most of Western Europe. It is a very large cake. Despite their present relative positions in terms of ratings and share of audience, all licences have the same potential value. All are only limited by regulation.

It is important to remember that there is no shortage of advertisers. There may well be a shortage of advertisers willing or to pay the inflated rates caused by the regulated and managed scarcity of airtime, but there are plenty of others waiting in the wings to spend their money on either cheaper direct advertising, sponsorship or programme funding.

There is misplaced concern over the ownership of television and radio broadcasters. The real issue is not whether one company owns ITV or whether Five could fall into foreign ownership. The real issue is competition: not just between

broadcasters, but between the almost cosy relationships between broadcasters, media sales, media buyers and advertisers. None of their respective agendas places the viewer far enough up the list.

If the public service obligations were removed from the commercial sector it would soon develop the critical mass necessary to develop real business skills, as opposed to political regulatory skills. This in turn will encourage commercial risk-taking in the quest for shareholder value balanced against corporate governance and due diligence.

They should be cut free from such regulation and allowed to compete head-on for business, in the same way as the print media. At the same time they should also be allowed to raise revenue by any means deemed fit, proper and legal. There should be no limit on the amount of minutes they can sell per hour. Product placement, sponsorship, online and offline marketing tie-ups should all be allowed as should direct funding of programmes by third parties. It is both a nonsense and an insult to the public at large to assume that broadcasters will be corrupted or influenced by corporate sponsors or advertisers, while assuming that advertiser reliant publications like *The Guardian* and *The Economist* will not.

Far from introducing a diet of pap, real competition would develop, promote and retain the best talent and the best programming. Ironically, that is what most advertisers want. Most big-spending advertisers are in themselves blue-chip companies reliant on their own reputations for quality products. They will not advertise on lack-lustre or lowest common denominator channels. In a purely commercial world it would be a foolish management that did not work hard to retain that blue-chip revenue stream. The economics of the future may be different from the past, but that is not to say they are not manageable because revenue is only one side of the business equation. The other is cost.

## The cost of creativity

Digital technology will deliver different types of programming as well as different ways of producing existing genres, drawing on different revenue streams, like online and telecommunications activities. At the same time, if the publicly funded BSP provided the training, research and development environment, the cost base of future commercial services would also change dramatically. Above all, while these macro changes occurred for the service providers and content packagers and distributors, at a micro level programme acquisitions would change as equally dramatically. This would be driven, not by the service providers, but by the talent itself.

Creative control is probably the most valued element of any artiste's work: the right to say how, when and where a piece of work is used or exhibited, down to fine details of how a gallery should be painted or lit. In almost all areas of creative activity large international distributors have dominated the world's stages due to the critical

mass they have built up territory by territory. Mass production, mass dissemination, mass marketing was required to recoup the costs of the distribution network itself.

In the future, mass marketing and distribution may not always be necessary as it takes only moments to upload and download a digital stream of information. Content packagers will therefore not have to raise huge capital sums simply to cash flow the distribution and return of revenue. If this is the case then the cost is mainly in the origination and the majority of that will be time based talent costs. If the talent decides to invest its time for a greater return the level of sales to reach breakeven and profit fall and the business model is rewritten.

The next step is for the talent to provide or raise the capital for the origination and then simply offer the work either on a time-use basis for service providers; pay-per-view or straight sale to the customer. There will be no one model but a mix-and-match depending upon genre and worth. These models are already established in rock music and publishing. The values of sports star product endorsement contracts are known. All the indicators are there. Talent always wants control, both of content and cash flow.

All this then points to a proper market for talent as, or with, independent producers to develop on merit and market delivery rather than rely on a buggins turn state-patronage system. As the overall television market develops, so too will revenues, once freed from artificial regulatory restraint. This in turn will fuel further growth, further investment, further expansion and further creativity.

In all this, there is also nothing to prevent the BSP using its resources to seedcorn specific projects, market test them and then pass them on to a commercial organisation, in return for a royalty on future income. A model for this is higher education. Universities, particularly those with incubation schemes, are already pioneering this path by trying to maximise their return on their intellectual property. The same path could be followed by the BSP. They could generate further revenue by licensing their own programme catalogue, and that of the former BBC, to other content providers, as any picture or film archive does at present. In a commercial sense, they could 'sweat the assets' a bit harder.

If all this happened the benefits would be twofold. First, we may at long last see robust business models emerging from the commercial sector that could in turn develop a critical mass that allow them to develop into international media players. Second, the viewer, as consumer, citizen and taxpayer would be provided with two systems that would be charged with delivering opposite ends of the content spectrum. Neither system would be exclusive. Both would deliver a greater range of choice and diversity.

There is a consensus to switch broadcasting to a digital platform due to the laws of physics. These require the removal of wasteful, frequency hungry analogue television and radio services from the radio spectrum. This will allow more efficient

digital take-up, but Digital Terrestrial Television (DTT) is not the way. DTT could also stand for Dead-end Television Technology. It is similar to the last days of the great liners when super-chargers where put on steam turbines to try and squeeze that last bit of power out of a dying technology. The need is to abandon the 80-year-old regional transmitter pattern.

A better and much more efficient way, until the full take-up of broadband services, is to undertake a government sponsored national programme like the 1970s North Sea Gas conversion and provide every household with a satellite digital decoder. It is the obvious albeit initially capital intensive solution. However, the initial capital outlay could be mitigated if the government looks to the assets it already possesses: the BBC and Channel 4.

One route may be to separate and privatise say BBC1 and Radios1 & 2, arguing that they are the most commercial brands if the current BBC so would make viable service propositions, counter-balance a liberated commercial sector and the sale of which would raise huge sums for Treasury. This could also provide a political windfall in allowing a reduction of the current cultural poll tax to fund only a reconstituted BBC2, Radios 3, 4, 5 and all the regional and local stations. However, that would be a short-sighted solution as the economies of scale that are undoubtedly in operation within the current BBC structures would be lost and there would then only be one national channel available to the new BSP. It is important to retain the possibility of both a national and regional structure during the transitionary stage from analogue to digital.

However, when considering the overall separation of public service and the commercial sector, a simpler solution may lay elsewhere in the curious anomaly that is Channel 4.

Following the principle that no institution does deconstruct itself, lessons from history suggest that it will take at least a decade to fight through the Jesuitical resistance of the current public service broadcasters. Perhaps then, the first step toward separating and clearly delineating the roles of PSB and commercialism would be not to privatise the BBC, or any sections of it, but to privatise Channel 4.

A privatisation of C4 would provide the necessary competitive stimulus to ITV and Five outlined above. This would have an immediate and welcome effect on advertising costs, programme supply and competition for talent, as well as creating the critical mass in the commercial sector to develop robust business and creative skills. Such a sale should be done as speedily as possible while there is still high value in terrestrial broadcasting. The longer this decision is delayed the less value will return to the Treasury as audiences will drift away and so to will the value of the terrestrial licences to broadcast.

The receipts from the privatisation of Channel 4 should then be used to give a new digital decoder to every household so all digital television services can be received

throughout the UK. Just as with the North Sea Gas conversion programme credit would be given to those already with suitable equipment. This could be as simple as a deferment of future licence fee payments. This digital programme would also allow the BSP to deliver Internet Service Provisions, while over the 10-20 year lifespan of such a satellite system broadband services would be available to most households.

The real issue remains the impact of digital technology. More importantly how that technology will merge seemlessly from platform to another. We no longer talk of making or taking a long distance or international phone call. We just use our mobiles. The future is about content delivery not platform management. Structured channels as we see them today will either disappear or be used only as promotional shop windows, in the same way that large department stores are rediscovering that their USP is the repeat order. See it in the shop and re-order online. Value, delivered as quality and trust are key consumer requirements. In future, broadcast channels may be used to market awareness of particular programmes or events, but follow through online, on DVD, on pay-per-view or even direct to mobile computing or telephones. In truth we don't know, except that it will be different. The overall challenge is to use the BBC's Charter renewal process to redefine public service content and set out an environment that will allow it to flourish.

There will be other challenges, for the BSP, the need for robust internal systems of measurement. This can be managed through the regional boards feeding a new national Board of Trustees. Region can finally speak to region. Through direct digital polling, subscription and tax collection systems that allow viewers as citizens and voters, to feel empowered.

For the commercial sector will be the vagaries of revenue generation and collection, but advertising costs and sales should be a role for Ofcom alongside telecomms pricing. Again, digital technology will allow more efficiently targeted niche programming, as well as subscription and sponsorship revenue.

Intellectual Property Rights will continue to exercise everyone but again Ofcom can police the BSP while the market will, as it has done for general publishing and Hollywood's 100-year history, police the commercial sector.

Another challenge will be in editorial content. Whose voice? Whose values? It will be critical to retain different editorial regulatory regimes between the BSP and the commercial operators, simply to retain plurality of choice and taste. If the BSP's Board of Trustees is constituted to include the Chairs of regional boards, themselves integrated within wider networks, this in itself will become a taste and decency barometer. At the same time, digital technology will create niche channels and niche marketing supported by sponsorship and subscription. Each will define its own editorial spectrum and editorial patronage just as *The Daily Sport* sits alongside the Scott Trust.

## Conclusion

We are on verge of losing a very powerful tool for social interaction in mass television due simply to technological advances. We must not. We should continue to strive to create an environment in which choice and diversity will flourish through creating more opportunity for entrants and failures.

This can only be done by separating and clearly delineating the role of public service content and commercial enterprise. To do that we should replace the BBC with a new Public Service Provider (PSP) and cut the commercial sector free of PSB requirements. While state patronage and regulation has delivered homogenous television, the less regulated and commercially driven print media market has delivered choice and diversity from *The Model Maker* to *The Economist*. Digital technology will allow this diversity and choice in what we now term television and radio. Market failure will no longer be a credible creed for artificial protectionism.

To start on this road, and to both balance commercial competition and to provide the finance to embark on a national digital conversion programme, the government should privatise Channel 4 as soon as possible, while there is still high value in terrestrial broadcasting licences.

Although technology will be the driver, we must not be in thrall to it. The public will define its use. The demand will be consumer-pulled rather than broadcaster-pushed. As such, content delivery not platform management is paramount.

At the same time, talent itself, as always, will be key. It will always seek the best exhibition and reward. Initially that talent can be nurtured by a new publicly funded, vocationally orientated PSP but later allowed to develop and earn reward in the commercial sector.

With the gathering pace of global technological change the only thing we will be able to influence is public spending. We already have a consensus to pay a cultural poll tax to fund public service broadcasting. We must make sure that we make the case for the public, and in turn politicians, to maintain the will to retain it.

The only thing we can influence is that cultural poll tax. It is probably now time we had a structural, rather than a semantic debate. That is the only way to protect and retain public service content and conditions for creativity.

## Endnotes

1    Those channels that are not available through analogue terrestrial television broadcast signals and are only available through the Digital Terrestrial, Direct-to-Home Satellite and Cable platforms.

2    Freeview is the name of the UK's Digital Terrestrial Broadcasting platform run by Crown Castle, the BBC and BSkyB. Freeview is free-to-air.

# 7. From service to commons: re-inventing a space for public communication

Stephen Coleman

## Servicing democracy

The media help us to make sense of the world. By addressing us as citizens, rather than mere consumers or free-floating egos, media make the link between communication and community. At its best, public broadcasting (PSB) has contributed to a national conversation about who we are, how we live and what we want from the future. It has helped to define a public arena in which we can be more than passing strangers.

The mediation of solidarity is threatened from two directions. Firstly, media technologies have changed radically and the language of terrestrial, national broadcasting is not always meaningful in thinking about how we want to communicate in the twenty-first century. Secondly, the discourse of citizenship is all too frequently infected by a mood of gloom, based upon a belief that there are now fewer issues than ever before that can be discussed by everyone with a view to fostering the common good. The fragmentation of the media audience, which has been an outcome of multi-channel choice, is regarded as a metaphor for the tribal disintegration of the public.

Policy for public communication in the twenty-first century needs to reflect these changes in both the technologies of communication and the sense in which the public is conceived. As a public body established in the early twentieth-century, the BBC has always seen itself as a service, mediating the national culture for a receiving audience. But what happens when audiences speak and make things happen as well as consuming cultural output? What happens when the national culture is a contested zone? What happens if service is not enough?

Raymond Williams contrasted the liberal, Victorian idea of service with the democratic idea of solidarity. Service, he argued, entails an uncritical relationship to social order. The function of the servant, whether as senior government policy-maker or butler, is not to question the rules of the game (Williams 1958). In a deferential culture, service makes sense: in fact, it reinforces sense. Culture as service is, not unlike a church service, linear and led: there is a beginning and end, a front and back row, a right and wrong tune to the liturgy. Like the dominating servility of Jeeves to his master, Bertie Wooster, the service-provider offers what is needed rather than what is

wanted. In the patrician terms of John Reith's evidence to the Crawford Committee in 1925, 'He who prides himself on giving what he thinks the public wants is often creating a fictitious demand for lower standards which he himself will then satisfy' (Scannell & Cardiff 1991).

So, broadcasting as a service fitted well the age of media scarcity, when choice meant *Take Your Pick* or *Double Your Money*. We are not wrong to feel nostalgia for a time when important things could be said to everyone and talked about the next day with anyone. Public broadcasting served as protection against anomie and disintegration and came as close to a simulation of community as industrialised, mass society would reach. The BBC modernised the popular apprehension of national culture and helped to lift the populace from subject-spectators to animated participants in their own culture. This has been an inherently democratising project.

There is also market-based, commercial broadcasting. If public service is often oblivious to the wider relationships in which it is implicated, the commercial media never forgets their connecting strings. As the mediation of British democratic culture has become more privatised, with the growth of deregulation and channel fragmentation, a range of characteristics have emerged which threaten to seem unexceptional and inevitable. Firstly, news and public-interest coverage is expected to compete with other areas of output on the basis of ratings and capacity to attract lucrative sponsorship. Secondly, the coverage of politics is abridged and under-researched, a victim of populist scheduling rationales and the relentless 24/7 news cycle. Thirdly, professional journalists find themselves locked in to a systemic embrace with political message and event managers, so that the contestation of news becomes ever more a battle between rival public relations manipulators. Fourthly, the role of citizens within this thin political sphere diminishes to the point of being little more than cheering, and increasingly booing, onlookers. Finally, the audience, whose attention sustains the case for news and public-interest programming, switch off in droves, preferring to engage in the real interactivity of *Big Brother* or *Restoration* than the indignities of inauthentic public affairs. For commercial broadcasters, the response to audience withdrawal is simple: give the customers less of what they will not watch. Coverage of politics is marginalised and left to the political junkies who will stay up all night to watch a by-election.

A public broadcasting service cannot retreat from public information. Service implies duty. But it should not blind itself to the reality that, for millions of its viewers and listeners, political coverage no longer matters. Richard Sambrook, in a speech to the Royal Television Society, observed that:

> News viewing – across all channels – is now down 25 per cent for the under-45s. There's a generation growing older which just doesn't sit down and watch news as their parents did. I see that as a time bomb. A demographic

wave sweeping up through all of our audiences. If we don't do something, in ten years it'll be the under-55s and then the under-65s who don't watch (Sambrook 2001).

If, as Sambrook suggests, and political scientists such as Seyd and Whitely confirm, disengagement from politics is a cohort effect, then democracy is in trouble and the public servant of democratic culture must simply learn to support it in new ways (Seyd & Whitely 2003).

## Disconnection and its discontents

The problem with contemporary political culture is often described in terms of disconnection. It is as if the public has somehow become unplugged from the socket of traditional power; as if the wiring of political legitimation has precariously loosened. The technological metaphors of connection and disconnection are not accidental. In a political culture that is so thoroughly mediated, pessimists blame the media for turning people off politics (again, a metaphor from broadcast technology); optimists hope that new, online media will tune them in again; and politicians call for political 'reconnection', as if seeking to rekindle a once robust attachment. There is an inescapable risk of banal determinism in linking communication technology with political engagement without addressing the surrounding problems of obsolesence and irrelevance in many of the practices and cultural norms of contemporary politics.

Few would now disagree that we are facing a veritable crisis of public participation. This is manifested in collapsing voter turnout, the demise of mass-membership political parties and a collapse in trust for political institutions or efficacy on the part of citizens. In a candid recognition of the problem, though not the solution, Rt Hon Peter Hain MP, Leader of the House of Commons and Secretary of State for Wales, has noted that:

> The public, and particularly young people, now have less faith than ever in parliamentary democracy. We (politicians and media) who constitute the 'political class' conduct politics in a way that turns off our voters, readers, listeners and viewers. They want intelligent coverage and debate, not 24-hour news spin.

> People now place a greater emphasis on independence and individualism. They are less deferential and less willing to accept the opinions of 'experts.' They want information, accountability and influence.

> In such an era, trust and respect no longer flow from status. It must be earned. And so the task for Parliament is to connect. Too many people believe that government is something that is done to them. Westminster must stop giving the impression of being a private club and instead give the public a greater sense of ownership (Hain 2003).

Citizen disengagement should not be confused with apathy. As if few people were concerned about, interested in, or had relevant views about how politics affects their lives. A major source of public frustration is citizens' inability to see how their voices count. A UK national survey of young people who have recently become eligible to vote found that 84 per cent considered that they had no influence on political affairs and 63 per cent believed that they had no say in what the government does (Henn & Weinstein 2002).

It is within this context of public disengagement and inefficacy that the democratic potential of the internet, as an interactive communication technology, has been assessed. The internet could be a new medium for horizontal communications and interactions and thereby for new relations between citizens. Its transformative potential lies in two fields. Firstly, there is the conventionally political field of citizenship and activism, where the internet could enable new modes of communication between members of social and political movements and parties. Secondly, there is the perhaps more fundamental political field of friendship and association (that is, those social relations beyond kinship that are, according to some traditions of political theory the fundamental political relations and the basis for government founded on politics). The internet could afford citizens a new technology, and a new set of channels, for:

● holding governments to account: for asking questions of representatives, ministers and parties, for protesting and talking back about governmental and administrative failure, for policy evaluations and reports;

● high quality consultation on policy options: improving policy design and legitimacy;

● displacing or supplementing older communication media: face-to-face communication, telecommunication, broadcasting, press and print;

● political mobilisation: to be used by parties to democratic politics to recruit supporters, members and activists;

● transactions between governments and citizens: claiming benefits, paying taxes and fines, buying licences and so on;

● strengthening representation by creating more direct channels of engagement, consultation and discursive interaction between representatives and represented.

The potential of the new media to invigorate democracy is high. But that potential could be lost, submerged or marginalised if not deliberately harnessed for civic purposes. Nothing is guaranteed about the realisation of that potential. Technology, after all, is democratically neutral; its development depends on how it is used. And left to their own devices, the new media could replay the disappointing scenarios that have shaped the fates of earlier 'new media', such as radio, television and cable television, in which for a time high civic hopes were also invested.

The UK Government, like others across Europe, North America and Australasia, has initiated a vast e-government programme, intended to transform the delivery of services to the public and scope for government-citizen transactions. The public is unenthused by e-government and it is still the case that rates of use for government web sites are low. Between 86 and 93 per cent of UK citizens have never accessed any online government services, according to a range of recent usage studies. [ref missing] Governments will never generate an interest in the democratic potential of the internet by confining their use to the rationalisation of bureaucratic transactions.

The UK Government has taken some tentative steps in the direction of conceiving a policy for the internet as a democratic channel. The title of its policy consultation paper, *In the Service of Democracy*, is revealing (UK Online 2002). The danger of such initiatives is that they are framed in terms of a service discourse: democracy as a gift to a receiving subject. 'Here, let us allow you to tell us what you think – here, let us give you a chance to vote online.' Handed-down democracy generates consumer-democrats.

The Government's attempt to create a showpiece online space for public dialogue, the Citizenspace area within the UK Online government portal, was not a success. Between its formation in June 2001 and January 2002 it attracted 35,000 registered users who posted over 40,000 messages. Contributions from the public were not moderated or summarised and, above all, were entirely disconnected from the policy-making process. *Citizenspace* became a forum for empty ranting rather than meaningful consultation, made additionally frustrating by the notice appearing at the top of the discussion forums declaring that a summary of the comments would be passed on to the Prime Minister. In fact, a substantial number of all the messages within Citizenspace were addressed not to matters of current affairs, but to allegations that messages had been censored, deleted and unanswered. The Government had re-invented the worst aspects of soapbox oratory and, by placing it online, imagined that it had somehow contributed to modernised empowerment.

Beyond government, the internet has been used in more imaginative ways to consult with hard to reach stakeholders, share experiential narratives, promote political satire, organise collective actions and link dispersed groups. By and large, experiments in online democracy have flourished in serene independence from government. Perhaps that is inevitably the way with democracy: it is always ultimately subversive to government and should never be conceived as a top-down service or

offering. The BBC has always been at its best when it has been autonomous. What sort of communicative autonomy is appropriate for the media ecology of the twenty-first century?

## The new context for public communication

Since 1927, when the BBC became a corporation, both the media and the public have changed radically. There are now more media: more channels, more platforms, more efficient use of the spectrum. There is now a more diverse public: more pluralistic, reflexive and mobile. These are seismic historical changes, a recognition of which is fundamental for any serious reassessment of the role of public communication. Then there are three other shifts which are more discrete, but as important for thinking through a reconfigured system of public communication. Firstly, the shift from transmission to interaction. Secondly, the diminished significance of media places and the new dynamics of media spaces. And thirdly, a transition from democratic representation based upon the intractability of distance to more direct notions of representation based upon (often disembodied) participation and deliberation. The combination of these three trends suggests a case for the reshaping of public communication.

From transmission to interaction

Brecht famously observed that:

> The radio would be the finest possible communication apparatus in public life, a vast network of pipes. That is to say, it would be if it knew how to receive as well as to transmit, how to let the listener speak as well as hear, how to bring him into a relationship instead of isolating him. On this principle the radio should step out of the supply business and organise its listeners as suppliers. Any attempt by the radio to give a truly public character to public occasions is a step in the right direction  (Brecht 1932).

Broadcasting has evolved as a dominative form of communication: its tendency has been to transmit without receiving, to speak without being required to listen. In the late twentieth-century broadcasters began to incorporate technologies of feedback into their 'one-way conversations'. The phone-in show is exemplary of this 'step in the right direction', from a Brechtian perspective. But the phone-in caller, like the studio audience member or *Big Brother* housemate, is always only a guest, an invited participant in the broadcasters' agenda, bound to play by the broadcasters' rules (Coleman & Ross 2002). The public performs a surrogate presence in broadcast media.

A defining feature of digital media is their inherent feedback path that blurs traditional distinctions between message senders and receivers. No successful online communication strategy works on the assumption that message transmission is an exclusive domain. The rhetoric of 'Here I am. You only have to look at me and listen to me to complete the communicative transaction' no longer works.

The huge success of reality television has depended upon the technical opportunity for audiences to control distant events on the basis of their own judgements. Whether it is the authenticity of a contestant on *Big Brother* or the talent of a performer on *Fame Academy* or the cultural value of an historic building on *Restoration*, interactivity has provided an experience of democratic control for which people are prepared to pay. Some of the current reality formats may well prove to be ephemeral, but interactivity will become a permanent fixture, alongside colour pictures and teletext (Coleman 2003).

Interactivity is the flip side of the 'look, but don't touch' deference of the 1950s. It heralds a media landscape in which touchability is the norm. Political touchability means that politicians can no longer just reach out, but must be reachable; policy-makers must no longer simply access the hard to reach, but must address the fact that the political elite are the hardest to reach of all.

## From place to space

Media occupy places and put us in our place. The BBC, for example, is symbolically as well as physically in and of Britain. When we are in France and listen to *Any Questions* or *The Shipping Forecast*, although the disembodied voices we hear are with us, we know that they originate in and belong to a place that is called Britain, the Britishness of which is defined and reflected by the BBC. With its symbolic appeal to 'we-ness' and its nuanced sense that the rest of the world is somewhere out there, the BBC represents place and holds its audience in place. If print helped us to imagine community (Anderson 1991), broadcasting helps us to feel it.

As global communication has become a reality, national media have come to look and feel more like local media: they remain good at representing the peculiarities and specificities of culture, but less convincing in addressing the grand themes that everyone must know about. 'Everyone' no longer resides in any one country (except the USA, where even scholars persist in using Americans as a synonym for human beings), but is everywhere, globally.

The civic role of the public broadcaster within global media space must be radically re-thought. As national broadcaster, a constitutional structure of legitimate authority and necessary accountability framed the democratic agenda. In a global space of often illegitimate and unaccountable organisations and agencies, sometimes exercising far more power than national governments, who are the democratic media

supposed to represent? In media spaces that anyone can enter and anyone can leave, who are the citizens and what are the rules? To be more direct about this problem, where in the global media landscape does one go to question the World Bank or the WTO or the UN Security Council? Where are the spaces for debate and deliberation about risks to our common health or security or environment? What is the global equivalent of *Any Questions?* To whom do we complain if the world wide web becomes a disturbing and confusing space?

## From distance to deliberation

Since its inception, representative democracy has been characterised by the tyranny and the mystique of distance. The tyranny of distance was a principally technological problem. As long as it took too long to travel from the centre of governance to far-away constituents, the represented had simply to trust those whom they sent to speak for them. Distance also refers to the mystique of cognitive superiority and symbolic exclusivity. At one level, we elect representatives precisely because they are not like us.

The spontaneous transparency of live media has compressed physical distance and undermined the pretensions of deferential distance. Political representatives are increasingly expected to be one of us. The simulation of vulnerable ordinariness has become a political skill far more valued than the cultivation of demagogic distinction. In this sense, the media have helped to democratise representation.

For classical Schumpeterian political theorists, the only basis for representation could be aggregation. The media became obsessed by numbers: opinion polls, swings, majorities, parliamentary votes. The public were conceived as a vast provider of psephological data. As the world became more complex, democratic values less uncritical, citizens less deferential and mass disengagement more conspicuous, a turn from counting to accounting democracy took place. We have come to realise that people have voices as well as votes and that the health of democracy can be measured in accordance with how well voices are heard.

Experiments in public deliberation, ranging from citizens' juries to deliberative polls to consensus conferences all pointed to the strong suggestion that public preferences were less fixed than political realists had believed. When exposed to information, diverse narratives and public reason people can and do change their minds. As importantly, once introduced to a culture of debate, people's sense of efficacy increases and they feel motivated to participate more.

The interactivity of digital media makes two-way accountability possible for the first time. The rise of two-way digital communication erodes the role of the representative-ventriloquist and suggests a new dimension of accountability in which citizens give their own accounts, in their own words. An account-giving notion of accountability involves much more than transparency: it calls for views, policies and

actions to be explained, contextualised and related to social experience. To be democratic, public accountability must transcend the traditional rituals of consultation with 'the usual suspects' and find ways of actively collecting accounts, even from those who might think they have no accounts to give.

## A civic commons

What, then, should be the role of a public broadcaster in the twenty-first century? Such a role should embrace two principles. Firstly, the unique requirement to provide universal access to content that is in the public interest. This ranges from news bulletins and weather forecasts that are of universal significance, to minority public interests that would not otherwise be catered for by commercial media. Secondly, a recognition of the new context for public communication: that such communication can no longer be conceived in terms of broadcast transmission, but must embrace the broadest opportunities of interactive communication; that public communication must relate to the reality of global networks and cannot be confined to territorially-bounded audiences; and that there is a normative democratic function for public communicators, not simply to report the workings of democratic institutions, but to inspire and facilitate public participation in its own governance. These principles have several policy ramifications, but the concluding objective of this chapter is to make the case for one practical proposal for sharpening the purpose and relevance of public communication in the twenty-first century.

There is a need now to give new and extra meaning to public service communications. Just as in the 1920s, Europeans realised that public service broadcasting organisations were essential if the new medium of radio was to serve public purposes at all well, so today an area of the internet should be given over to a new public service framework, designed to enable and organise consultation and deliberation between citizens and political institutions over issues of public policy. Jay Blumler and I have argued that there is a need for a publicly-funded, independently-managed online civic commons. The body running this communications initiative for the age of interactivity would:

> Be charged to elicit, gather and coordinate citizens' deliberations upon and reactions to problems faced and proposals issued by public bodies (ranging from local authorities to parliaments and government departments), which would then be expected to react formally to whatever emerges from the public discussions. The resulting 'electronic commons' would be neither a talking shop in splendid isolation nor a replacement of representative by direct democracy. It would be instead an open-ended, institutionally-backed extension of people's opportunities to make contributions to public policy on those matters that specially concern them (Blumler & Coleman 2001).

The creation of an online civic commons addresses both the crisis of public participation and the exploitation of the democratic potential of the new media. From a citizens' perspective, it would address the frustrating disconnection between public action and political consequence. Zygmunt Bauman laments 'the blatant inconsequentiality' of anything that takes place in contemporary public spaces:

> Assuming for a moment that the extraordinary happened and private/public space was filled with citizens wishing to debate their values and discuss the laws which are there to guide them – where is the agency powerful enough to carry through their resolutions? The most powerful powers float or flow, and the most decisive decisions are taken in a space remote from the agora or even from the politically institutionalised public space; for the political institutions of the day, they are truly out of bounds and out of control (Bauman 1999).

Not only are members of the public disconnected from institutions of representation and governance, but these institutions are cut off from the spaces of the public, adrift in a sea that is only calm because there is nobody else in it.

A space for civic participation must be constitutionally connected. The civic commons should be run by an independent agency, funded by government, but accountable to the public. This agency would be charged with promoting, publicising, regulating, moderating, summarising, and evaluating the broadest and most inclusive range of online deliberation via various new media platforms, including the web, e-mail, newsgroups, and digital TV.

Politicians are constantly asking for public debates. 'The time has come for a much broader *public debate* about how we effectively regulate modern communications and strike the balance between the privacy of the individual and the need to ensure our laws and society are upheld' (David Blunkett) 'We would welcome a *public debate* [on funding of political parties] and members of the cabinet should be free to take part in that debate without necessarily first reaching a collective line and then seeking to impose that collective line on the party, parliament and public.' (Robin Cook) 'The Government wants a genuinely open and balanced discussion on GM. There is clearly a wide range of views on this issue and *we want to ensure all voices are heard*.' (Margaret Beckett)  These calls are uttered as if the mechanisms for such a process have only to be switched on for public voices to be heard. In reality, public debate is more likely to comprise a series of interviews on *Today* and *Newsnight* and some exclusive exchanges between civil servants and the usual suspects. The public is largely ignored in such great debates.

There could well be a key role here for the BBC. It has been granted a very broad remit to innovate online and has developed a successful web presence. Between 16

and 20 million unique users access BBCi each month and over 1 million messages are sent to BBCi message boards each month. The BBC has not, however articulated a clear notion of a public service remit for its online presence, with the consequence that grassroots initiatives are often squeezed out. The BBC has faced widespread criticism for providing various online services, including search, education and entertainment. It could seek to defend its position in economic terms, but, as Andrew Graham has argued, the case for public broadcasting need not rely solely on arguments about market failure; there are equally powerful arguments for public communication based upon the economically intangible interests of citizenship, community and democracy (Graham 2003). These so-called externalities are not easily measurable or quantifiable, but the qualitative effects of their absence or atrophy are soon perceived by all of us.

A central normative concept of contemporary social thought is that of the public sphere, defined by Dahlgren as 'the institutional space where political will formation takes place, via the unfettered flow of relevant information and ideas' (Dahlgren 2001). Too often talk of the public sphere falls prey to romanticism (we had it, but we lost it) and fatalism (there is no hope for the public or its spaces). A policy for public communication in the twenty-first century cannot ignore the public sphere for at least three reasons. Firstly, because there is an irresistible democratic case for doing whatever is possible to make the arena of policy formation and decision-making as socially and culturally inclusive as possible. Secondly, to redress the dangers of group segmentation and attitudinal polarisation which seem to be unavoidable effects of the fragmentation of the media audience and the ghettoisation of single-issue and narrow-communal politics. Thirdly, because in an increasingly complex world the experiential and expert inputs of those outside the formal policy circle are necessary in order to make sensible decisions.

The BBC might respond that, important though such attention to the public sphere might be, it is not its job to provide it. Then whose job is it? Government is manifestly unable to create such a communication space and attempts to promote government-sponsored deliberation would not be trusted by citizens. The BBC is trusted, knows more than most about how to help the public to articulate its views and is in need of a role in the age of interactivity that befits its sense of high social purpose. As an agent for civilised public debate and authentic connection between people and their representatives, the BBC could surprise its critics by having an even more important role in the twenty-first century than it had in the twentieth.

## Acknowledgements

# 8. Public service interactivity and the BBC
Mike Bracken and Alex Balfour

The BBC is well known as a public service broadcaster, but in this paper we examine it is a provider of public service interactivity (PSI). It is important that we first explain the strategy that drives development of PSI providers and defines the characteristics of a PSI and then see how they apply to the BBC.

The strategy that underpins PSI development is characteristically emergent, short to medium term in nature and focused on delivery of key tasks. There are no precedents for PSI services but many precedents for PSB supply. Therefore content-based broadcast strategy tends to fashion PSI strategy and PSI services tend to be content heavy.

PSI services are free to use, usually offer something for global, national and regional audiences, and are increasingly available across many electronic or Internet-enabled devices. Increasingly PSI offers a two-way path which is the key to true interactivity and many PSIs have begun the process of developing applications as well as content.

As strategy is so often unclear the majority of PSI services are not transparent in terms of cost or performance and this is particularly true of the BBC. Market relationship and competition issues in the PSI area threaten to choke innovation as supply and demand lines are unclear.

In summary, the characteristics of PSI are strategically emergent, broadcast based, not user-defined and without clear marketplace positioning.

The BBC has followed an emergent strategy, for example BBC News Online was a 'below the radar' service launched only with the full support of the then Director General, (Kung-Shankelman 2000)[1], failed with grand plans, for example, ICL/Fujitsu and beeb.com and has grown incrementally across access channels, interactive TV. Yet its financing and internal accounting have not always been transparent, it has been over-reliant on content and offers little in the way of industry-standard usage data or analysis. Its regulatory environment is unclear,[2] the BBC Board of Governors have only taken a belated interested and the Department for Culture, Media & Sport (DCMS) has been slow to instigate examination.[3] Reithian principles are usually used as post-launch justification for what are sometimes truly public value services, but are just as often hard to justify, departmental pet projects.

The BBC is the model for public service interactivity in the UK. This is why we choose to use it as a basis for our policy recommendations. However, we hope that our framework can be applied more widely across all publicly funded interactive services.

## History

In April 1994 the BBC Networking Club, a bulletin board run by BBC Education, was launched. It lasted around 18 months.[4] The next initiative was a partnership between the BBC and ICL/Fujitsu to create beeb.com and move many online properties into the commercial sector. Unfortunately a last minute decision, under substantial pressure, to retain both News and Sport properties for non-commercial distribution fatally undermined this project.

The BBC began to develop the vastly successful BBC News Online site in November 1997 with a growing sports site under its wing. This was closely followed by the launch of BBC Online, the cross-corporation web platform to bring programming and other non-news services into the new medium. Simultaneously, BBC Education and World Service flourished online and BBC Worldwide began to build online syndication activities into its commercial portfolio.

Another grand plan, Freebeeb, a BBC ISP, was launched in 1999 by BBC Worldwide. This was largely unsuccessful as was an attempt to establish beeb.com as an e-commerce operation. Interactive TV services began to appear concurrently, although from a separate department. Belatedly the BBCi brand was developed and applied to all these offerings and incorporating new web-based applications such as search and directory services.

Each of these ventures were based on eminently sensible, if expedient, task-based plans grounded in shifting technological changes in the new media environment. Controversially, however, they were supported by a combined budget of hundreds of millions pounds.[5]

In hindsight, two of the key features of the history of BBC Online are an unspoken commitment to content delivery and an apparent absence of demand analysis. In some cases, such as BBC News Online, estimating the existence of demand before launch was accurate and simple, although it was hugely underestimated so expensive infrastructure had to be developed post launch. In others, such as beeb.com and BBC Online with its high cost yet minimally interactive portfolio largely derived from key TV content, demand was more difficult to justify.

Although the BBC would argue, with some justification, that it was pursuing innovative development, what is less easy to defend is the absence of demand estimation before launch, measurement of usage and analysis of participation. The most common reason for this was that development was departmentalized and too limited in scope.

As a result, delivery of effective public services was irregular at best, depending on the ability of a department to deliver. Of course, some departments fared better than others. Its effectiveness was measured, where it was measured at all, by of the number of 'hits' or pages served. Definitions so hazy as to be useless apart from to show the inevitable increase in usage as connectivity spread.

Internally, the BBC continued to value entrepreneurship and development within departments. To some degree this continues today, with the barely manageable 'petal' approach to budgets acting against the interests of content sharing, centralisation of underlying technical services such as single sign-on and personalisation across all properties. Indeed, with the exception of News and Weather, it is largely impossible for BBC services to create and share content.

Externally, these emergent strategies were largely accepted throughout a period of goodwill regulation, whereby the development and success or failures of interactive services were not presented to regulators as discrete costs. While we think this was probably for the good, as the cost of failures were outweighed by the long-term value of defining the marketplace, today's position is unsatisfactory. There are three key factors:

● Duplication, mismanagement, technical development and true innovation were often hidden from view. Lessons learned at a substantial cost in one area were not understood elsewhere.[6] Innovation beneficial across the organisation was not used widely due to departmentalism and a culture of ownership rather than sharing.

● The BBC's relationship with the marketplace was compromised. As a result of the growth described above it had in some cases to make markets (BBC News Online), in others to distort markets by launching new services (This was the main thrust of the educational software vendors when the Digital Curriculum award was made to BBC Education by the DCMS in January 2003) and in others to restrict markets by not launching full services (many in the Sports sector believe this to be the case).

● Finally, the catch-all idea that all content would one day be integrated and converged media so regulation of new digital channels would fall within current regulatory frameworks in time was used as an excuse not to examine these services in detail. Unfortunately, there are many today who still cling to the 'one day it will all be on television' approach, including European legislators. That this has not happened yet and that it is unlikely to happen for at least another decade shows the limited scope of this regulatory framework.

While the BBC can now suggest 'Connect' as a new addition to the Reithian trinity, there is little examination of market relationship and regulatory change to accompany it. Indeed, there seems to be a reluctance to accept that Online requires a different approach.

## From content to data

PSI is not a broadcast medium, but a many-to-many interactive medium. In this realm user-created content, trusted application delivery, localised information services and user identity and authentication are the key dynamics. This is fundamentally different to the broadcast model. And it leads to the conclusion that broadcast characteristics, values and performance measures are inappropriate for PSI.

Secondly, PSI is measurable. But not just in broadcast terms, reach, viewing figures, segmentation and percentages, but also via metrics that are more flexible and appropriate to an interactive medium. Participation replaces reach; participative local services replace broad regionalisation; and effects-based production and service delivery can be monitored and constantly improved.

Once we accept this distinction, it is clear that the current ecology, emotional and cultural definitions of PSB are not appropriate for the interactive element. To ask whether online activity is fulfilling the Reithian Trinity is a false question.

The one striking feature of interactive service deployment is the availability of precise user data. It is relatively straightforward to identify which services users use, when they use them, how long they use them for, which services they use before or after, and where each user lives. It follows therefore that the provision of interactive services should be relentlessly data driven. However PSI strategy is rarely driven by usage.

It is our simple contention that the subjective public values that should be applied to interactive services need to become objectives that can either be proved or disproved by measurable user behaviour patterns, usage and participation.

There are a number of measures by which PSI activity can be assessed. The most commonly used terms for measuring web activity are hits, page impressions, accesses, unique users, and unique hosts. Unfortunately the terms are often confused and are used inconsistently.

For example, the number of hits, which is often confused with accesses and page impressions, is or should be a measure of the number of times all the elements that make up a web page, whether users request text or graphic files. The number of page impressions is the number of times a page is requested by users.

In its submission to the DCMS (BBC 2003) in anticipation of the Independent Review of BBC Online, the BBC reports both unique users determined by Nielsen Research, which are based on a survey of a few thousand Internet users, and also unique users identified by its own monitoring software which are based on unique IP addresses which may or may not equate with what a layman would consider to be sovereign individuals. It also mentioned hits, accesses and page impressions.

It is outside the scope of this paper to offer a detailed explanation of common misunderstandings but it is probably instructive to offer a solution. It is unfortunate that the industry persists in using and confusing multiple terms when so much data is

available. It is doubly unfortunate when both an industry owned auditor, ABC Electronic, and an industry standards body, Joint Industry Committee for Web Standards in the UK and Ireland (JICWEBS[7]) that have agreed standards for web measurement, already exist.

The newspaper industry has long accepted that ABC audits give a reasonable measure of circulation. Television and radio usage is also measured by a common system even if, in the case of radio, the credibility of the system is under attack. But the online industry has been very slow in embracing a common solution to measure usage. Very few publishers commit to a regular audit. For example, the last BBC ABC audit took place in September 2002 and the one before that was in March 2001. Sky.co.uk, the website of BSkyB, was last audited in 1998. As a consequence two third-party research companies, Nielsen Net Ratings and Hitwise, produce regular comparative analyses of web site usage and enjoy undue influence. Though both systems have their qualities they are far closer to the broadcast model of measurement in that they extrapolate conclusions from limited data sets so what they offer is not an audit but market research. Neither system accounts for every user that visits key sites as a full online audit can.

As the UK's leading PSI supplier the BBC has the opportunity to set an example to the industry by both having regular audits and in adopting and using common, JICWEBS approved, definitions of measurement terms in all its communications. This would seem a relatively straightforward step to take, which makes it all the more extraordinary that the BBC did not take it five years ago.

In addition to measuring absolute usage numbers it is also possible to measure both user behaviour, for example how users navigate around a site and at what times of day, and the number of times users participate by, for example, filling in a form, clicking on a link or contributing to a forum, as a result of what they see online. Combining this information with absolute usage data provides a clear picture of how interactive services are used. The challenge is to use the combined data to both inform and drive strategy.

The BBC has been spectacularly successful with some sites, particularly BBC News Online that were, at the outset, supply led. We now contend that PSI delivery should be driven by usage and user demand.

Content and services should be regularly judged against publicly available usage and participation thresholds, which may be set in the light of market failure and specific audience size. Where they fall short they should simply be discontinued. Where they exceed expectations they should be developed further. Content and service performance should also be judged in relative terms so that there is a sensible balance of content aimed at minority as well as majority interests and those minority and majority interests are determined by evaluation of usage data, not market research.

Setting targets for participation in particular will be a time consuming process. For example there is a qualitative difference between succeeding in encouraging a user to contribute to a government consultation and soliciting an opinion about the performance of a pop band. We do not rule out a continued role for inspired supply-driven services, but currently the emphasis is weighted in favour of supply and any form of publicly available objective standards however lacklustre would, at this point, be a huge and welcome change in the PSI environment.

## User-created mandate

The main underpinning of these recommendations is that the user leads and the supplier follows. Public service values have been a supplier led issue for decades. But now interactive public services should be driven by usage, user demand and delivered by various suppliers. The user base is increasingly mature and feels at ease with interaction, but interaction with each other, not just with public service broadcasters. The nations conversation is happening all around us in environments and message boards that PSIs cannot hope to match in terms of diversity and specificity. So why try? Why not recognize that the user leads and begin to measure demand and the effects of supply.

Demand can come from users. It can also come from within the organisation to meet stated strategic goals, or it can be prompted by the marketplace in response to a stated strategic ambition. No new major BBC or other PSI supplier should create products without clearly presenting that there is a demand for such a product or that it delivers a measurable and performance based need. Once agreed and developed the only issue then is to measure performance and value. Existing products need reviewing in light of demand analysis: What demand are they serving? How well? How cost effectively? How can they be developed, replaced or widened to include the commercial sector? All these answers can be ascertained by rigorous study of data supplied by users. Commercial organisations do this continuously as standard. It simply requires a consistent technology platform for service delivery and one-off investment not in content but in back-office applications such as identity databases, user based preference services and communication applications. We have all used these services when accessing free web-based emails. There is a danger that public service organisations will pour money into 'content' without establishing any meaningful criteria for its success.

If we apply a rigorous interactive service metrics, based firstly on demand analysis then on cost and performance, to the BBC's current portfolio, it will give us a true picture of the PSI environment in the UK. We can publish not only which pages were viewed, but by whom. We can then find out which services were used. Instead of applying vague Reithian notions to answer questions of whether discussion forums or

message boards should be used we can answer clearly – of course they should, they are a fundamental part of the medium and their demand can be measured instantly.

The answers for the future mandate of PSI lie in posing the correct questions.

Is it likely the market can provide a better more compelling version? Is the current service cost effective and successful? How many users go on to participate in a local event, political service or interact with their councillor? How many communities have grown and thrive using one of these services? If it fulfilled a democratic role by enabling citizen participation we need to show the results. Which citizen? What did they do? Will they do it again? Did they get an answer or information to help? Instead of defending an interactive service by claiming it adds to social cohesion we need to go down a level and demonstrate how. For how many people? Where are they? Are they the target group? What was the follow-through? Where they in the correct demographic group aimed for?

## Competition

The simple justification for PSI market entrance is 'market-failure'. Market entrance is a problematic issue, yet the debate is often conducted at a pantomime level for online services. On the one hand is the 'oh yes we can' broadcaster claiming market entrance validity based on existing public service values, and on the other hand is the 'oh no you can't' reaction from industry groups claiming that the market will provide. And to make matters worse, this criticism is often laced with a distinct anti-licence fee flavour.

This stand-off position must be altered radically, with an informed regulator acting as mediator if necessary. The marketplace and PSIs should be in a mutually dependent relationship that grows the marketplace for interactive services based on specific user demand. The clue here lies with establishing latent demand and creating parameters of involvement for public and private players to supply it. The question should not be market entrance but sharing the growth of the market. And to do this requires two changes. The first is that the PSIs need to think not just in terms of content provision, but in terms of applications and environments which allow users to create content supported by traditional media they can trust. This is not only desirable, but more economic as users rarely require a fee for creating content. The second, new market entrance needs to be commercially dependent, aware of the marketplace dynamic and their impact on it. This can only be achieved through an informed dialogue rather than the current stand-off.

To be justified new market entrance needs to be commercially aware or commercially dependent. The market can be pro-active and work with the BBC to fulfil this need. The polarised relationship between the BBC and its competitors is counter-productive. For too long the emergent strategies of various BBC departments has seen new products launched to loud complaints from publishers and industry

bodies. And whilst some of these complaints are valid, many complainants are unable to launch services because of market constraints, yet instead seek to criticise the BBC. Add into this mix relaxed internal governance and the absence of an informed external regulator willing to intervene or mediate, and what we have is a three-way stand-off. The only result of this can be that the marketplace receives largely what the BBC chooses to release, and the possibility to develop applications jointly and tap latent demand is removed.

A dialogue benefits the commercial sector in two ways: it clarifies the parameters of competition and it also makes clear to the marketplace what services the BBC will likely buy from the commercial sector, this validating commercial development costs and moving the marketplace forward in a coherent and interdependent manner.

## Economic value

It strikes us as odd that leading economists can pose the question 'Are BBC Online services worth a fiver?' and then base their answers on non-transparent subjective values rather than clear economic indicators.[8]

Given that this medium allows us to make decisions based on accurate, regionalised, personalised interaction, given that it allows us to measure the knock-on effects rather than praise the likely social impact, given that the cost and benefit, both individual and societal, are staring us in the server logs, surely the reliance on subjective and emotional criteria for many, but by no means all, aspects of public service value is absurd?

We recognise that the economic value of BBC's activities has for a long time been a contentious issue, yet we also believe that the economic analysis of its interactive services can lead to a clear social and financial cost benefit analysis. Again, to do this requires consistent sets of data derived from users based on their identity, preferences and recognising the delivery channel.

So instead of asking questions such as 'Is a particular service a merit good, or even a public good?', in the case of interactive services we should be asking 'How much exactly is merit within the good?' since the BBC has the capacity to measure and publish not only its usage but the cost of delivery. Interactive services often, but not always, allows us to hurdle subjective definitions of merit goods and to base our view of merit on a combination of cost of delivery, usage by relevant group or individual, and outcome of usage, such as measurable next steps.

For example, currently BBC News Online publishes local news. It is consumed by an online audience, although by whom is not known. By adding new functionality and mixing it with the content base the BBC can allow end users to take an action. For instance, that same local news, when coupled with the 'create a campaign' facility within the new iCan service, becomes part of a new data driven, user-led service which

then allows for interaction with, say, the local council about the news issue. This in turn could lead to the creation of a pressure group or involvement in the political process. In doing so the BBC is allowing its content to drive a bottom-up strategy. The irony here is that the BBC is delivering this functionality but not adequately measuring the participation, usage and knock-on outcome in order to justify economically the service's development in the first place. And the activity, the outcome of all this, is the value.

This may be fine for new ventures based on cost-benefit and using a cost analysis, but what about the issue of market failure, where the economic driver is the lack of commercial attraction to other providers?  In this case it is justified for the BBC become active in Online markets to counter market failure? With one caveat: It is justified if it is measurable, partially application specific, cost effective and user-centred.

This does not necessarily mean filling the market with content but should  mean providing a branded, assured or monitored application to allow users to develop a local theme or issue. The BBC has plenty of content reserves and, as this years commitment to 'ensur[ing] that over 85 per cent of our budget is spent on content' (BBC 2002) shows, it has a standard content-first reaction to entering the marketplace. This is increasingly inappropriate.

In these cases there may not be a cost-benefit analysis which could justify market entrance. In this case the measurement of data and usage should be used to justify that market failure has been addressed post launch. For instance, if an interactive service is aimed at specific demographic group current levels of usage may indicate an appropriate level of take-up. But by whom? Are the people using the service those who the market had failed. Using data and usage material this can be checked so that the value of the service can be assessed.

## Internal structure

The curious history of the BBC's development has allowed a departmental ownership culture to develop around interactive services, which leads to a lack of scope when planning underlying data services, measurement and cross-pollination of services. The result of this is a host of services with very narrow, departmental definitions of success or failure, and multiple user log-in and identity authentication services which do not work across services, demonstrate to users that they are dealing with a disconnected organisation and show a wasteful level of duplication.

The creation of a suite of internal applications, user identity, single log-on services, which every new service would be required to deploy would solve this to a great degree while implementing the much needed integration between the legacy services which exist.

Another aspect of the internal culture is internal entrepreneurship. The creation of a fixed strategy where new service developments are agreed will remove the desire for internal secrecy and give a mandate and budget to the internal entrepreneur and department. This will remove the unattractive tendency to cover over spending on new projects which failed to achieve launch or critical mass post launch.

Finally, the internal budget management system should be regularly reviewed. The 'petal' model allocates the interactive budget to departments that are then coerced into funding joint development and following an organisation path of service delivery. Inevitably with the resulting departmental tussling and personality led issues it is virtually impossible for the nominal budget holder to forge a clear strategy. Also, this results in a slower development cycle, interminable multi-departmental boards and the occasional rogue project which takes the BBC further away from the consistent data and user identity environment it requires to implement the new wave of services.

The budget holder must be seen as a strong department head authorising recommendations from departments based on a consistent set of guidelines, not attempting to justify the duplication and post-launch rationalisation of an organisation that currently has no fixed strategy. For instance, the authority to control budgets and say no to powerful TV departments, can only come with the natural respect created by an overarching strategy which meets the diverse needs of the organisation.

So budgets must have a single controller, with departmental spending meeting set criteria, not setting spending criteria. This will help provide the necessary accountability, transparency and value for money whilst making a new scrutiny and auditing regime more workable.

## Regulatory environment

Currently the DCMS requires the BBC to provide an essential resource and wide-ranging unique content, use the net to form new relationships with licence fee payers and strengthen accountability and provide a home for licence fee payers and act as a trusted guide. While appropriate in PSB terms, they fail to determine whether the market could or should provide some of these services. It asks the BBC to form a new relationship with the user, but fails to specify how and to prove results. Finally, the wording of these requirements invites the BBC to determine what the public wants and gets. This is the very antithesis of PSI service delivery based on usage and participation, and it is inappropriate for every public service communicator not just the BBC.

The BBC's online activities require limited strategic regulation to set the precedents of partnership with the marketplace, stressing data and user demand. There is no need for armies of regulators to oversee this, rather a culture of compliance should emerge through regular project-based tactical meetings involving the marketplace and BBC.

## Conclusion

The BBC has been a market maker for interactive services in the UK. The success of BBC News Online has vindicated the use of the Internet for public service delivery of content. The BBC's online radio and interactive TV services have lead the way in redefining the scope of online public service delivery. The BBC has embraced the new medium of the Internet with considerable élan.

But there are three challenges to the traditional broadcast-centric view of public service delivery that the new medium presents which the BBC has yet to meet. These are, petition (user demand), participation and partnership.

It is no longer appropriate for online public service providers to be guided solely by top-down strategy when bottom-up demand can easily be taken into account and participation of each and every user can be measured precisely. Market failure and immaturity can no longer justify the BBC's predilection for building everything in-house without recourse to a clear strategy and with precious little conspicuous accountability.

The BBC's public service interactivity supply should pursue a strategy which takes account of user demand, be combined with publicly available and standardised usage data and be subject to a transparent financial audit. Partnerships with third party commercial operators can and should be used by the BBC to deliver public services. And finally a new charter for interactive services and regulatory structure should be created to support public service interactivity supply.

At the same time we believe the BBC must make a strategic shift. The BBC will only continue to be the social glue that holds together consumers in a diverse digital world if it shifts its focus from content to applications and users. The BBC has already begun the process by encouraging user-created content and developing distributed application services. We applaud this move to a new era of user-defined and created services. It must be underpinned by the creation of a single identity for individuals and households in a multi-channel environment. It must also secure the support of government, the market and its users in pursuing this strategy.

## Recommendations

We have eight recommendations:

### Take a user survey

There are many forthright views circulating in the public domain about the future of the BBC's Online operations. Many of these views are influenced, often unduly, by the author's relationship with the BBC, particularly when they originate from direct

competitors or media and technology players with a vested interest in determining future BBC policy. Very little consideration has been given to the needs and wants of licence fee payers.

Therefore a substantial research programme which seeks to ascertain user demands should be undertaken. This should be a national, high volume programme rather than the sort of product specific user testing in which the BBC currently engages. The online community is now large and mature enough to demand online services and products without reference to prototypes and supply-led innovation. User demand should, of course, inform strategy (see below).

## Standardise and publicise usage and participation data collection and analysis

For too long the BBC has pursued a content-first online strategy that is an inevitable legacy of its broadcasting roots. This broadcast model is inappropriate for the online market and may partly explain the apparent reluctance of the BBC to collect, collate and disseminate data about its online operations efficiently and consistently.

Just as viewing figures inform broadcast strategy, so usage and participation numbers should inform online strategy. Furthermore as part of its public service remit the BBC should publish some or all of this data for public inspection.

## Develop a new charter for public service interactivity supply

The Reithian principles of public service broadcasting – to educate, inform and entertain – still hold for the online medium but their interpretation is in need of revision. Traditional broadcasting seeks to appeal to the collective but the online medium can target the individual. Traditional broadcasting champions supply and consumption but the online medium champions usage and participation. Traditional broadcasting thinking encourages subjective consideration of what educates, informs and entertains because it is very difficult to know how far any broadcast truly succeeds in educating, informing or entertaining. The online medium however permits relatively precise examination of cause and effect so traditional broadcast strategy is inappropriate for public service interactivity supply.

Though it is true to say many BBC Online services fulfil a public service function, it is nonetheless clear that a new and unique Charter is required for BBCi.

## Develop a fixed strategy

The days of emergent strategy when several BBC departments developed similar online services in parallel without a clear mandate should be consigned to history.

The BBC must produce a fixed clearly stated strategy indicating areas of key development and, crucially, areas where no development is planned. Despite the importance of data collection, usage and participation the BBC should continue to develop content, especially content which complements its broadcast content in the interactive TV area.

The BBC should invite comment from both the public and commercial rivals. This process should allow the marketplace to suggest different outcomes and, if the regulatory body approves, set aside a specific time for their deployment by commercial companies.

## Develop partnerships

The BBC should be much more proactive in developing partnerships with best-of-breed partners in two areas:

- *Content:* The BBC should promote third party content to its users more actively. External links and the BBC search engine offer some third party promotion but not enough. The BBC should encourage third parties to integrate content and services into BBC environments. Partnerships would both stimulate and improve the quality of the content creation market.

- *Production and technology services:* The culture of 'build before buy' was appropriate in the mid to late 1990s, but there is little reason other than the prevailing culture and a misplaced sense of ownership which keeps much online production, development and distribution within the BBC. Although great strides have been made with BBC Technology we recommend a quota system and a more transparent procurement system that will engage independent producers of online services and associated technology. The use of external production agencies to deliver new online services will stimulate the UK's creative market, raise production standards within the BBC and regulate costs across the organisation. The use of external technology suppliers is straightforward. The use of them to establish open standards by which other companies can utilise BBC content and services should also be encouraged.

Furthermore, other broadcasters and commercial companies are capable of delivering public services online if dedicated funding is made available. Given that funding for online services is currently defined by the larger Charter funding process, and assuming the BBC is required to apply for online funding based on a fixed strategy of content and application development, why should other public service broadcasters not bid for funding using the same criteria, albeit within the framework established and adhered to by the BBC?

The Government, by creating a three-way regulatory environment involving PSIs, the commercial sector and an enlightened regulator, could create a structure which would use the licence fee more flexibly.

## Introduce external auditing against financial performance criteria

The thorny question of value for money can only be addressed by a thorough assessment of the funding of BBC Online.

The BBC has an online budget and publishes top-level costs, but a lack of transparency and reporting means that even the BBC Board of Governors is incapable of assessing whether the services BBC Online delivers represent good value for money.

An enlightened auditor would identify any anomalies such as excessive technical duplication costs, convoluted internal processes and undirected headcount costs which dog the output of the BBC's online services.

We recommend that this auditor is not currently employed by the BBC in any other capacity and that it undertakes an independent audit along the lines of an Audit Office review of Government departments.

## Create a single log-in and identity for each user linked to licence fee payment

BBC Online currently lacks a clear integrated user data policy. As a first step the BBC should create a single log-in service for all BBC Online and Interactive products. A version of 'single sign in' is in development for some BBCi applications. The extension of single sign-in to all interactive output is inevitable and necessary. The BBC should however allay any user fears that this information may be used for commercial purposes.

## Update the regulatory environment

It is difficult to see how BBC Board of Governors can be sufficiently engaged to manage the effective implementation of these recommendations or indeed BBCi in general. Nor do we believe that simply dumping the problem in Ofcom's lap will produce the right results.

A possible solution is to create an advisory board reporting directly to the DCMS and informing Ofcom of its recommendations. This board should consist of current and ex-BBC employees, BBC Strategy and Policy representatives, public representatives, a public policy expert, representatives from the Governors, independent analysts and representatives from commercial media, creative and technology companies.

Its chair would a be appointed on a three-year contract and would be chosen by the DCMS. The board would primarily be a steering body informing internal BBC operations (and other public service interactive providers where appropriate) and

would have the power to adjudicate on service delivery and creation issues when there is no consensus.

## Future recommendations

These recommendations are for the medium- to long-term, and depend on accurate data collection, user identity and usage measurement and changes in the current funding structure and process.

● *Outcome related funding*

 Outcome related funding for specific online services such that funding is allocated on a performance basis.

● *Develop a 'trusted third party' policy*

 The BBC should develop a data policy that will enable it to recognise individuals and households within the UK based on user defined encrypted data which can then be used to authorise service delivery and licence fee billing. This information could be shared with third parties for non-commercial user authorised purposes.

● *Define the role of BBC within the e-Government agenda*

 Is the BBC's role to enable joined-up government, and if so, how? No matter how unintentionally, the BBC must be careful not to politicise its service delivery, especially not to deliver Government services without a mandate. This is dependent on combined review of the changing e-Government agenda (the e-envoy role) and a clear understanding of services that entail user created content combined with BBC assets such as the recently launched iCan product.

## Endnotes

1    This clearly displays how emergent strategy led by internal champions and protected by top management enabled BBC News Online to succeed, when some of the more publicly-stated strategic enterprises failed, such as beeb.com.

2    Lord Currie stated that Ofcom would not have regulatory control over the BBC's Online operations at the Oxford Media Convention, Said Business School, 13 January 2003.

3    Proven by nearly a years delay in announcing the review of BBC Online and appointing Philip Graf.

4    For a detailed chronology of technical development see http://support.bbc.co.uk/support/history.html

5   Due to the lack of transparency in internal project funding it is impossible to estimate the amount spent on BBC online and interactive services.

6   As an example, while BBC News Online created a superb Content Production System, many less successful ones were created at substantial cost.

7   See www.jicwebs.org/webtraffic.html

8   From notes from a private BBC Board of Governors Seminar to Review Online Services, London, March 26 2003.

# 9. Learning from abroad: regulating public service broadcasting in Germany, Japan and the UK
Nanne Priebs

## Global communications policy challenges

> *By learning about others, one learns about oneself.*
>
> Japanese Proverb

As public service broadcasters operate within a genuine market, there is a pressing need for to agree a more transparent definition of public service communications. In the past in the UK, the BBC and other public service broadcasters were relatively secure and independently regulated. Therefore it was not necessary to clearly define them in relation to the rest of the market. But where commercial providers exist in abundance, the concept of public service requires a robust justification, in order to be able to demand subsidy at the same time as maintaining government support for new services.

The regulatory challenge is not an easy one, as it cuts across issues normally considered soft or subjective. A major criticism of the BBC is to what extent the quantity of new services has been used to excuse diminishing quality or 'dumbing down' of traditional public service values, issues that are extremely difficult to regulate. But the demand for a robust system of public regulation is clear. The rising costs of public service content which commercial competitors claim to be able to provide for free undermine the role and remit of public service broadcasters and may in the future potentially cause a growing share of the population to question their willingness to pay licence fee, or indirectly subsidise those broadcasters who do not pay a market price for spectrum.

It may come as a surprise in the UK, which congratulates itself on 'the best television in the world' to hear that similar debates; on 'dumbing down', the necessary size of the public intervention in broadcasting markets, value for money, and independent regulation are also happening in Germany and Japan. Germany's two public service broadcasters have been struggling for the last two decades. Consequently, in the mid-1990s, an auditing system was developed, complemented by clear codes of conduct to provide independent evaluation of value for money. The Codes of Conduct in Germany, the Communications Act (Communications Act 2003) and the BBC Charter Review process aim to put into concrete terms what public service broadcasters' contribution to the changing communications market should encompass. And in Japan, the regulation of license fee funded NHK has again come

under scrutiny. This chapter will outline some aspects of the public service broadcasting (PSB) context in Japan and particularly in Germany, and outline some of the key regulatory solutions.

## Public service broadcasting in Japan and Germany

Broadcasting regulation emerged in close relation to the political and historical background of different nations. How other public service broadcasters achieve their objectives and how they are coping in an increasingly international competition framework is determined by the public service broadcasters room for manoeuvre within their national regulatory framework.

| Table 1 Basic facts | | | |
|---|---|---|---|
| | *UK* | *Japan* | *Germany* |
| *Public service broadcaster* | BBC | NHK | ARD, ZDF |
| *Service portfolio* | TV: 8 Channels (terrestrial and satellite) Radio Online: content, services Other: 3G | TV: 5 channels (terrestrial and subscription satellite) Radio Online: content | TV: ARD, 9 ARD 'Third' Channels, ZDF; (terrestrial and satellite) Radio Online: content |
| *Audience share* | 37.6% (BBC1 + BBC2) | Audience's weekly reach: 77.6% tuned in to some of NHK's channels. NHK viewing is at 1 hr 13 min (2 hrs 31 mins for commercial broadcasters) | 30.6% (ARD + ZDF) |
| *Funding model* | Licence fee (£10 per month), commercial service BBC World: advertising + sponsorship, additional governmental funding (eg Digital Curriculum) | Licence fee (£7.20 per month) (pay services: digital TV channels) | Licence fee (£10.80 per month) + advertising. Online service funded by licence fee only. Ratio of advertising to licence fee: ARD 3.97%; ZDF 12.06% |
| *Licence fee income (2002)* | £2.5 billion | £3.48 billion (£108 million 'other' income) | ARD: £3.2 billion ZDF: £1.0 billion |
| *Number of households* | 24.5 million | 45.5 million | 38.7 million |
| *Total budget* | | | |
| *−Income* | £3.3 billion, external income: £210.7 million | £3.58 billion | ARD: £16.0 billion (2001-04) ZDF: £4.9 billion (4-year period) |
| *−Expenditure* | £3.5 billion | £3.54 billion | ARD: £15.5 billion (4-yr period) ZDF: £4.8 billion (4-yr period) |
| *Regulatory model* | BBC Charter (1996); BBC Licence Agreement (1996): self-regulating, codes of conduct, funding reviews, DCMS | Broadcasting Law (1999); Governmental Guideline (2002): self-regulating, broadcasting law, (last amended 1999), no independent auditing  2004: codes of conduct | Constitutional Court's interpretation of A.5 of the Constitution in its landmark decisions; Interstate Treaty (2002/2004): self-regulating, auditing commission, (review every 2 years), |
| *Competition framework* | commercially-funded public service broadcasters; commercial broadcasters | commercial broadcasters | commercial broadcasters |

## Japan: Nippon Hoso Kyokai (NHK)

Competition framework and total audience share

NHK, like the BBC, enjoys wide public support. Japanese citizens still spend more time watching and listening to services provided by NHK than to all other national broadcasters' services combined.

Service portfolio

Under the 1999 Broadcast Law[1], NHK's broadcasting is required to 'inform, educate and entertain'. Although the wording is similar, the interpretation of the remit expressed through NHK's television programming differs significantly from the BBC's application of Reith's trinity. Information and educational content are broadcast on NHK's core public service channels. Entertainment content is broadcast by a separate subscription service. Of NHK's five national television services, two are terrestrial and the other three are subscription satellite services[2], which, between them, have attracted over nine million viewers. NHK also provides an international service, consisting of NHK World TV, NHK World Premium and NHK World Radio Japan.

   NHK's publicly funded terrestrial channels focus entirely on information and educational content. NHK's pay satellite services are dedicated to different entertainment channels. For example, of the terrestrial services, General TV and Educational TV, aim to provide a balance of news, education, culture and entertainment content. In 1997, the breakdown of the schedule on the General TV channel was 41 per cent news, 19 per cent education, 29 per cent cultural programming and 11 per cent entertainment programming. In the same year Educational TV broadcast 77 per cent educational content with some cultural programming (20 per cent). Of the subscription satellite services DBS-1 focuses on news, documentaries and sports, while DBS-2 is more oriented towards entertainment, the arts and culture.[3]

Income and budget

The monthly colour licence fee in Japan is 7.25 GBP per month. Article 9 (4) of the Broadcasting Law prohibits NHK from making profits. While Germany's ARD and ZDF have been forced to cut expenditure and to introduce new measures to sources of revenue[4] the NHK has not faced the same pressure. The licence fee, 98 per cent of NHK's total operating income, is spent each calendar year (McKinsey 1999).[5]

## Germany

German public service broadcasting has three key characteristics. Firstly, Germany, like Spain and Australia has more than one state funded public service broadcaster. Germany has three separate public service broadcasters. These are ARD[6], ZDF[7] and DeutschlandRadio.[8] Secondly, both ARD and ZDF carry advertising. Some regulatory decisions can be explained by the fact that ARD and ZDF[9] are the youngest corporations examined in this chapter, their role and remit in the German audiovisual landscape is a product of the post-war rulings of the German Constitutional Courts rather than tradition. NHK and the BBC, on the other hand, both trace their roots back to the mid-1920s.

Apart from these three features, the internal structures of both ARD and ZDF are similar to the BBC. This is because the BBC served as the model for both ARD and ZDF in 1945.

### Service portfolio and share of audience

ARD and ZDF each provide one national channel as well as several special interest channels, including, a children's channel,[10] a parliamentary channel[11] and a Franco-German cultural channel[12]. In addition, ARD provides a regional programming for each state (*Länder*)[13]

The market share of ARD and ZDF's general interest channels rank ? in the top three throughout the day. ZDF takes a 17.8 per cent share from 5pm to 8pm, while ARD's regional channels take a 17.1 per cent share, and a 15 per cent share with ARD's general interest channel from 5pm to 8pm.[14] Nonetheless, partly due to the fact that the German public experiences ARD and ZDF as two different channels, satisfaction with the public service broadcasting tends to be lower than in the UK and Japan. This is seems to be related to the market shares for each of the two public service broadcasters individually rather than the overall combined market share of ARD and ZDF of around 30.6 per cent, comparable to the BBC and NHK.

### Regulatory model

In Germany, the principles of PSB have been defined by the Constitutional Court's broadcasting decisions while law has regulated the essential regulatory aspects. Regulatory requirements define the organisational structure and procedural mechanisms that are the most suitable means to carry out regulatory objectives. They are content-neutral and do not interfere with editorial independence. Organisational and procedural aspects are regulated through *Länder* laws that have been harmonised by the Interstate Treaty on Broadcasting (*Rundfunkstaatsvertrag, RStV*).[15]

In Germany what is regarded as the 'special nature of broadcasting' means that a pure market system would be un-constitutional.[16] According to the German constitution, because commercial broadcasters tend to seek mass appeal and disregard minority interests, a 'basic provision' has to be provided by public service broadcasting.[17] The public service broadcasters' complete programming defined by the Constitutional Court's decisions must consist of universal reach[18], opinion and factual diversity[19] and finally must act as a means of ensuring that the other two elements can be fulfilled[20]. At a fundamental level the Constitutional Court has held that PSB must be sufficient with regard to democratic requirements and that commercial broadcasting can only be regarded as a supplement to PSB.[21] The main difference between the German and the UK system in law is clear. German PSB is required to provide basic coverage not a range of high quality programming.[22] Therefore, unlike the UK, where the BBC aims at delivering 'the best of everything', in Germany it is basic coverage of the relevant topics that justifies ARD and ZDF's public status.[23]

## Funding model, breakdown of income and size of budget

Under German Constitutional Law, the law stipulates the principle of 'guaranteed funding' for PSB (*Finanzgarantie*).[24]

Due to the public service broadcasters' dependency on adequate funding the German Constitutional Court stresses the dangers of politically biased PSB provision. The Court's verdict was that the licence fee evaluation process is rather a technical than a political task. Therefore, in 1994, the Court required the legislature to establish a structural framework for funding decisions rather than content-based legislation. The ruling is known as 'the licence fee decision' and stipulates principles and a three-stage procedure for determining the licence fee appropriate for the provision of public radio and television services.[25]

The Constitutional Court has ruled that the licence fee should be the predominant source of funding for PSB. However, due to rising investment costs, mixed funding was introduced as a source of funding for ARD and ZDF in the interstate treaty of 1989. Therefore, ARD and ZDF are, in return for a balance in the dual funding system, subject to more restrictive regulation. An independent auditing commission scrutinises the public service broadcasters on a biannual basis to ensure value for money.

## Competition framework

In Germany commercial broadcasting began in 1984. In accordance with the standards for PSB, commercial broadcasters were obliged to provide a 'full programme' (*Vollprogramm*), however, lower diversity standards are applicable, as the Constitutional Court relied on the expected external diversity provided by the

market as opposed to the internal diversity required of PSB. Today, cable television households have the choice of approximately 33 television channels both public and private. The expectations of external diversity regarding quantity have been exceeded.

## The continuing relevance of the public service remit

In October 2001, the European Commission adopted guidelines on the application of state aid rules to PSB (EC 2001). The Amsterdam Protocol as part of the EC Treaty expressly strives for a balance between public and private provision by stressing that, on the one hand, public funding must not affect trading conditions and competition within the Union to an extent which would be contrary to the common interest and, on the other hand, that public service broadcasting is essential to the democratic and cultural life of the Union; the latter meaning that a balance must be struck between the two principles, allowing the fulfilment of the PSB remit and the functioning of the audio-visual market.

The key element of any classic public service remit is content. From this it follows that PSB must be separate from the state.[26] It follows that state authorities cannot prescribe in detail what content, or what programmes, PSB should offer. Accordingly, if there is a legal definition, like in the Japanese Broadcast Law or the Communications Act, it is described in fairly general terms.

## Regulating the remit: quantifying quality

In Japan, as the law stipulates no mandatory obligation to conclude a licence fee contract, NHK, unlike the BBC or ARD and ZDF, is directly dependent on the public support.[27] In this context, it is even more surprising, that NHK has grown into possibly the world's best funded public service broadcasting organisation. Programming decisions have been in line with the demands of the audience whilst maintaining strong traditional PSB values

Establishing criteria to define quality by quantification has not produced satisfactory results to-date, as discussion tends to get bogged down in discussions about the futility of 'quantifying quality'. A shortcut to establishing value for money may be procedural: could alternative systems of audit and review provide the UK with any reassurance?

Under German broadcasting law, the funding guarantee, derived from Article 5 of the German Constitution, doesn't encompass unlimited support for an expanding service but provides for limitations by law.[28] Consequently, even if ARD and ZDF are not restricted to providing only 'basic provision' not every possible programme or service has to be financially rewarded or encouraged.[29]

## The German auditing procedure

Unlike the BBC, every two years, ARD and ZDF have to open up their accounts to independent auditing in order to justify the public funding awarded to them on the grounds of the last licence fee settlement and to apply for future funding. The auditing commission, *Kommission zur Ermittlung des Finanzbedarfs der öffentlich-rechtlichen Rundfunkanstalten* (KEF), was formed by the 1975 inter-state treaty and issues a bi-annual progress report where the detailed criteria applied to KEF decisions are published in the interests of transparency.[30] For the reports, the KEF scrutinises the financial need per balance period commenting on the public service value of programmes and the consequent need for future licence fee funding.

The KEF's auditing starts with a request from ARD and ADF for a statement in which they state their planned expenditure on content and other services.

The auditing process is structured into three phases:

1.    Calculation of current costs[31]

2.    Calculation of development costs[32]

3.    Proof of value for money[33]

The phases are themselves systematically independent but co-ordinated and conclude with the KEF – recommendations that are forwarded to the *Länder* Governments. These recommendations are qualified as binding as long as the suggested licence fee payments remain socially acceptable.[34] After deliberation in the *Länder* parliaments the KEF agreement is adopted as formal law.

All PSB decisions involving expenditure are examined to establish if they are in accordance with the remit. If a service is not covered by the remit either it is self-sustaining, like any other service on the market, or the public service broadcasters have to drop it. By these means, it is ensured that a publicly funded service does not interfere with the market.

In March 2002 ARD and ADF were denied additional funding for online services. The extent to which the remit would cover the expanding online offering of the broadcasters could not be determined by the KEF. ARD and ZDF have been asked to provide their justification for their online services[35]. Once the codes of conduct describing ARD and ZDF's online remit have been agreed upon the KEF will re-evaluate their funding requests.

## Statutory provision and composition of the KEF

The 1997 interstate treaty stipulated that each state has to name one delegate for the KEF 16 member committee. KEF members are entirely independent. They are experts

derived from different backgrounds such as broadcasting law, media economics, or a technical broadcasting. Committee members are not allowed to be employed by any European committee, the German *Bundestag* or state governments, or to be employed by the public service broadcasters.

The commission regularly meets for plenary sessions to discuss the outcome of the five continuous working groups[36]: programme expenditure, personnel costs, operational expenses and investments. The fifth group integrates the conclusions of the working groups. The members of the different teams co-operate closely with the public service broadcasters' delegates to the KEF. The group's recommendations form the basis for the KEF report and its recommendation for the licence fee settlement. Before the official publication of the KEF's licence fee recommendation the public service broadcasters are given the opportunity to comment on the recommendation and co-operate towards an adjustment. The public service broadcasters' comments are required to be included in the final KEF report.

## The KEF's three steps to licence fee recommendations[37]

The KEF review is restricted to reviewing compliance with objective criteria of value for money. The review does not involve comments on programme-related decisions.

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**Table 2 KEF Modus Operandi**

**PSB's bids to the KEF**

Every two years, the German PSBs ARD, ZDF and DeutschlandRadio place bids for public funding. This enables monitoring cost development and sets a timeframe for the licence fee review. The next review will be published in spring 2004.

**Processing of the bids within the KEF**

- 16 members, divided into 5 groups
- KEF mission: to examine PSB expenditure
- parameters: whether the PSB's decisions are covered by the remit and the principle of value for money.
- Licence fee = [current costs + development costs – (deficiency of cost reductions + other revenues)] ÷ number of licence fee-paying households in Germany

*1st Step−Calculation and adjustment of 'current' costs*

'Current' costs include:
- programme expenditure
- personnel costs
- materials

Index:
- programme: broadcasting specific rate of increase
- personnel costs and old age pensions: rate of increase in state personnel costs
- non-programme related expenditure and costs of licence fee collection: GDP
- other: GDP

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*2nd Step—Calculation of 'Development' Costs on the Basis of Applications for Projects*

Examples for projects to date:
- ARD and ZDF children's channel ('KiKa')
- DAB (digital audio broadcasting)
- DVB-T (digital terrestrial television)
- online/multimedia

Case-by-Case and Standard Allowance Evaluation:
Development Report, Calculations and Invoices for the Projects
(Checklist-Procedure)

*3rd Step—Verification of value for money*
- limitation of cost due to potential cuts in expenditures
- if these potential cost reductions are ignored by PSBs, they have to face budget cuts

Case-by-Case and Standard Allowance Evaluation
Quantitative verification of value for money

**State governments**

KEF-Report issued to the state parliaments including the licence fee recommendation
- The states conclude an **interstate treaty** on the subject of 'the licence fee agreement'
- Discussion of the interstate treaty in the **state parliaments**
- Passing of the interstate treaty as a **state law**

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## The first step

The first step of the KEF procedure is to adapt current costs to an index-based method, which has been developed especially for this purpose.[38] For example, the public service broadcasters' bid for programme expenditure is evaluated on the basis of a cost increase rate developed for the broadcasting sector.[39][40] Modelled after the general cost-of-living-index, calculations are based upon a 'basket of goods'. For this purpose, the elements in the basket are primarily related to broadcasting matters, so effectively monitoring the rate of broadcast-specific price increases. The derived rate constitutes the major instrument for the revision of programme bids.

Since 1994, indices have been introduced to audit expenses for programmes, staff, non-programme-related tasks as well as investments:

- Public service broadcasters' staff costs are revised by measuring them against the proposed increase in staff expenditures of the *Länder* civil servants. These are used in comparison with salaries for similar positions in the industry.[41] Where significant deviations can be expected due to the characteristics of the broadcasting sector, they are taken into account.

- For material costs the financial need is extrapolated from the size of Gross Domestic Product. Based on the 1997 figures, continued expenditures of 4.2 per cent were granted to ARD and ZDF and continued at an annual rate of increase of 1.5 per cent for the period 2001-2004.[42]

An investment quota derived from investment expenditures in the past eight years monitors investment costs. The commission calculates the mean share of investment in the overall financial need and extrapolates this for the upcoming licence fee period.

## The second step

In the second step development costs are assessed on the basis of specific projects that have been applied for by the broadcasting corporations.[43] The projects are new features put forward by the broadcasting corporations to then be accepted by the commission. The main area of dispute between the KEF and public service broadcasters is the broadcasters habit of describing every development in programming or technology as a 'project', while the commission tends to classify this rather as continued existence. This is best exemplified by the technological innovations such as DAB, DVB-T and Online that are currently classified as 'projects'.

## The third step

An essential part of the procedure aims at introducing cuts due to potential economies: The public service broadcasters are expected to continuously engage in efforts to optimise value for money and to maximise productivity. The public service broadcasters are obliged to document their efforts to the commission. The KEF then introduces cuts in the public service broadcasters bids if they discover that efficiency measures have been neglected.[44]

   The public service broadcasters' total needs are calculated by adding the continued existence and development expenditures. Then, neglected efficiency measures as well as advertising and sponsoring revenues are subtracted. The resulting sum for ARD, ZDF and DeutschlandRadio is then divided by the number of licence fee households in Germany, equalling the monthly licence fee payment per participant.

## Recommendations

Discussions on how to establish value for money in the UK's public service broadcasting have failed to move forward. The case studies above of Germany and Japan have shown that more pragmatic approaches to achieving value for money can work in practice.

*Procedural measures to assess value for money*

In the UK, statutory requirements in respect of existing programmes are the principal measure to maintain a quality-costs equilibrium. But the effect of legal regulations on

programme quality is often seen as limited. The current debate about 'dumbing down' exposes the weakness of this form of regulation.

- Firstly, enforcement fails to establish transparent benchmarks for quality. Given that the main focus of the Communications Act and the BBC Charter is content, introducing even more content-based criteria will not move us out if the current impasse.

- Secondly, from looking at NHK's public service remit and its programming policy, the challenge beyond choosing appropriate criteria for evaluation is clear. Even if the remit establishes criteria considered to define quality broadcasting, the chances for a similar programming outcome are limited. While a broadcaster concentrating on news and educational content might sound like traditional public service, the UK audience's expectations of PSB content have been formed by BBC's service up until now. There is little doubt that the UK's viewers would reject a PSB solely devoted to news and educational content.

## Effective auditing: installing an incentive

As demonstrated by the requirements for KEF auditing in Germany, effective auditing requires an *ex ante* perspective with an assessment of past programming decisions. Under the system described above, many of the objectives could be met. To safeguard editorial freedom and to avoid censorship, the evaluation process is based on content-neutral criteria and a defined auditing interval. The criteria as well as the interval must not be subject to political debates but must to be stipulated by law. Only then can transparency be guaranteed and the public service broadcasters' as well as commercial competitors' interests are ensured.

Auditing requires procedural mechanisms to ensure functioning of the system. Traditional enforcement mechanisms applied to public service broadcasters' decisions raise the same dangers of external political influence over independent and impartial regulation as content based criteria.

The objective must be to establish a quality-orientated conscience within the public service broadcasters. To achieve a change in PSB policies, it is in the decision-patterns where external auditing can introduce a system favouring public service orientated programming without interfering with editorial independence and freedom of opinion. Guaranteeing a core budget, this could include the introduction of financial rewards for the delivery of core functions to discourage further 'dumbing down' while counter-productive decisions will not generate financial support.

The importance of size

It has been suggested that a strong public service broadcaster would encourage commercial competitors to achieve equally high standards, both in programming and in diversity of content (McKinsey 1999).[45] The market has proved this wrong. If a country favours a strong public service broadcasting ecology, as all three case studies in this paper have shown, it must take measures to control the impact that government measures and the allocation of public funding have on the market.

The budget allocated to the public service broadcaster would define its room for manoeuvre. Again, the mechanism must not compromise PSB independence. The budget has to be agreed at a reasonable level, then be adapted at the rate of a broadcasting specific price index. The public service broadcaster is then encouraged to re-evaluate existing programmes whenever new services necessitate more funding than can be justified by pure public service aspects.

## Conclusion

> *For a man, who has something to say but cannot find an audience things look bad; however, things look even worse for the audience which it cannot find anyone to listen to.*
>
> Brecht Radiotheorie[46]

The commercialisation of broadcasting has been accelerated by competition from the multi-channel[47] services. Many of the public service broadcasters programmes and data services are designed primarily to boost profits and audience share. The danger that only the most popular and mass-appeal programmes will survive is evident. No one would claim that the change from terrestrial broadcasting to satellite, the change from analogue to digital or the potential in online presentation would automatically produce more quality. Public service broadcasters cannot rely on horizontal expansion but need to work on meeting the technological challenge through offering a vertical integration of quality services.

## Acknowledgements

## Endnotes

1    Law No 132 of 2.5.50. Available at www.mpt.go.jp/policyreports/english/laws/bc_index.html.

2    DBS-1 focuses on news, documentaries and sports while DBS-2 is more oriented towards entertainment, the arts and culture. Hi-Vision, the third subscription service, is a high definition sound and picture service that began broadcasting in 1994. Available at www.nhk.rog.jp.

3    NHK's website: www.nhk.or.jp

4    ZDF's measure to introduce commercial partnerships to fund PSB online services – strongly opposed by commercial competitors (VPRT) – was commended by the auditing commission, KEF at the 2002 Symposium on the controversial online services, 13th KEF report.

5    NHK's operating income in 1999 was 3.471 Bn. GBP, which puts it closely behind Germany and in front of the UK.

6    'Arbeitsgemeinschaft der öffentlich-rechtlichen Rundfunkanstalten der Bundesrepublik Deutschland' (ARD) www.ard.de

7    'Zweites Deutsches Fernsehen' (ZDF) www.zdf.de

8    Deutschland Radio (DLR) www.dradio.de; DeutschlandRadio provides Radio services concentrating on information and 'service', with culture and education as runners up and 'classical music' ranking third.

9    The ZDF was established in 1963 by an interstate treaty to provide a second nation-wide general interest channel.

10    Kinderkanal

11    Phoenix is a channel dedicated to political issues and broadcasts live parliamentary debates. See www.phoenix.de.

12    The German-French channel 'Arte'

13    Besides these, there is a German international broadcaster, the Deutsche Welle.

14    AGF/GfK Fernsehforschung in *epd medien* No 10, 8.2.03

15    Also, there are media-dependent laws for different aspects of PSB (eg MediendiensteStV and TelediensteStV) as well as interstate treaties for each PSB (ARD StV, ZDF StV and DLR StV) and two separate interstate treaties regarding PSB's funding and the licence fee: *Rundfunkgebuehrenstaatsvertrag*, *Rundfunkfinanzierungsstaatsvertrag*, ARDStV, ZDFStV, Interstate Treaty Deutschlandradio.

16    BVerfGE 31, 314 'sales tax order'

17    BVerfGE 74, 297 'Baden-Württemberg order'.

18    'Technical element'

19    'Content element'

20    'Administrative element'

21    BVerfGE 74, 297 'Baden-Württemberg order'

22    Public service broadcasters are neither restricted to, nor are commercial competitors prohibited from, providing this 'basic provision'. But only the public service

broadcaster will receive state aid for delivering that kind of 'complete' programming as that is enough to counteract market failure.

23  BVerfGE 74, 297 'Baden-Württemberg order'

24  BVerfGE 90, 60 (91) 'Gebührenurteil'

25  BVerfGE 90, 60ff 'Gebührenurteil' Through a complaint about infringement of the constitution (Verfassungsbeschwerde) on the authorisation of additional fees for cable pilot scheme (Kabelpilot-Projekt), the Constitutional Court had reason for examining the licence fee evaluation-process's compliance with constitutional law.

26  Recommendation R(96) on the guarantee of the independence of PSB

27  Article 32 of the Broadcast Law stipulates no imperative: 'Any person who is equipped with a receiving set capable of receiving broadcasting provided by the Corporation (NHK) shall conclude a contract with the Corporation with regard to the reception of its broadcasting. However, this shall not apply to those who are equipped with a receiving set only for the reception of radio broadcasting (broadcasting of voice and other sound transmissions and not coming under television broadcasting and multiplex broadcasting), or a receiving set only for multiplex broadcasting.' The fees are paid for broadcasting only, a 'satellite colour' or 'special' contract costs extra.

28  Hartstein R, Ring W-D, Kreile J, Dörr D and Stettner R *Rundfunkstaatsvertrag Kommentar* May 2001, A2.2 No 11

29  BVerfGE 90, 60 (92)

30  The most recent being the 13th KEF-report, dating from March 2002. The next report is due to be published in spring 2004.

31  Evaluation and development of the 'continued existence' (*Bestandsbedarf*) 'continuation of existence' (*Fortschreibung des Bestands*)

32  Evaluation of the financial need for further development (*Entwicklungsbedarf*)

33  *Wirtschafltichkeit und Sparsamkeit*

34  BVerfGE 90, 60, '*Die Heranziehung der Rundfunkteilnehmer, die die Mittel für den öffentlich-rechtlichen Rundfunk vor allem aufbringen müssen,' ist „nur in dem Maß gerechtfertigt, das zur Funktionserfüllung geboten ist*'; see Knothe M and SchwalbaM 'Die Positionierung des öffentlich-rechtlichen Rundfunks im digitalen Zeitalter' in *Media Perspektiven* 3/99, S111 (114); see Knothe 'Die neue Intitution des Rundfunkstaatsvertrages zwischen Rechtsaufsicht und Staatsfreiheit'.

35  On German PSB Online Services see Priebs N 'Eine Prozent-Lösung zur Finanzierung öffentlich.rechtlicher Online-Angebote?' in *Zeitschrift für Urheber und Medienrecht* 8.9.02

36  *Arbeitsgruppe*

37  Example of KEF determining the need for raising the licence fees on the basis of the 12th KEF report of December 1999. The KEF recommended raising the licence fee by 3.33DM to a total of €16,15 (£11.05) starting 1.1.01. In time for the next

report due to be published around March 2004 PSBs claim the a financial need equalling a rise of £1.34 to €18,15 (£12.40) per month has been announced.

38  *Indexgestützes integriertes Prüf- und Berechnungsverfahren zur Feststellung des Finanzbedarfs der Rundfunkanstalten* The conversion method/procedure is laid down in the Appendix of the 12th KEF-Report, Appendix 1, II.

39  The idea, that the continued evaluation of the licence fee can be monitored by an index, serves as a basis for the development of the procedure. This idea resulted in extensive discussions which arose as early as 1990. Hoffmann-Riem W, *Indexierung der Rundfunkgebühr* Symposien des Hans-Bredow-Institutes, Band 13, 1991.

40  In its 1994 decision, the German Constitutional Court stressed that by applying an index-based procedure to certain disciplines the evaluation could become more objective. A reassessment of the *Länder* showed that applying the procedure to the entire evaluation process would be difficult by constitutional terms. Consequently, the procedure was applied selectively 12th KEF-Report, Appendix III.

41  In Australia, an approach of this kind is used successfully, too.

42  12th KEF report, Tz16

43  Current Projects include ARD and ZDF children's channel ('KiKa'), DAB (digital audio broadcasting), DVB-T (digital terrestrial television) and online/multimedia.

44  12th KEF report, Appendix 1 VIII

45  The study was, however, commissioned by the BBC.

46  'Ein Mann, der etwas zu sagen hat und keine Zuhörer findet, ist schlimm dran. Noch schlimmer sind die Zuhörer dran, die keinen finden, der ihnen etwas zu sagen hat.'

47  Those services and channels not delivered through analogue terrestrial broadcasting.

# 10. Public service broadcasting: too much of a good thing?

Richard Collins

> *Public service broadcasting is being threatened across the world. Its future is threatened by new technologies and by governments eager to privatise public sector institutions. Rejecting privatisation of the BBC…[we] argue that the BBC can find a new role…it will need reform: as the country's largest quango, it must be accountable; as a public service with commercial goals, it must be given commercial freedoms, but be prevented from cross-subsidising to the detriment of competitors.*
>
> (Collins & Purnell 1995: 1)

Once upon a time, anxious academics were very worried about the BBC. They thought the BBC risked death either quickly from abolition or slowly from insufficient funding. Anxious academics are still worried about the BBC but now they fear that the BBC's too well funded. Too little, too much or just right? How can we be sure that the BBC is properly funded?

British debate about public service broadcasting (PSB) over the last two decades has been dominated by the notion of market failure. In 1986 the Peacock Report (Peacock 1986) looked forward to a future, before the end of the 20th century, when technological change meant intervention would no more be required in broadcasting than in print. Market failure, and thus the need for PSB, would come to an end. In response, Andrew Graham (Graham 1999), and others built a powerful 'standard defence' arguing that market failure in broadcasting and thus a need for PSB, despite technological change, would continue.

De Long and Froomkin's (de Long & Froomkln 1998) account of the 'new economy' suggests why the 'standard defence' is powerful. They proposed that the new economy, notably the information sector (including broadcasting), is intrinsically different to the 'old economy' because the new economy doesn't conform to what they identify as the three pillars of the market system, excludability, rivalry and transparency. The 'new economy is an economy of non-excludability and non rivalry. Free-to-air broadcasting is an outstanding case in point. It is non-rival because one person's consumption of a broadcast does not deny another a consumption opportunity. If I eat an apple it is not available for someone else to eat but if I watch a television programme it is still possible for others to watch it without loss to me (or anyone else). It is non-excludable because a free-to-air broadcasting service makes

available to all what it makes available to one. In contrast, pay television returns to the old economy by excluding potential users who could enjoy the goods and services offered at no additional cost were they not artificially excluded from doing so. Welfare is reduced and additional costs are built into the system as the intrinsic non-excludability of the broadcasting medium is circumvented. Pay television converts a public good – as economists call this class of non-excludable goods – into a private good.

However, this standard defence of PSB might be thought to prove too much. For it applies as much to free-to-air commercial broadcasting as to PSB and also applies to other elements of the new economy such as printed works (the new economy is of course not quite as new as many of its proponents assume) which are also non-rival and whose excludability depends on law, notably an effective copyright regime, rather than their intrinsic properties. The standard defence therefore customarily invokes another gambit and refers to information goods which confer long-term benefits but which no individual thinks worth paying for. Examples of such merit goods, include high culture, scientific research and education. Because free markets tend to undersupply merit goods it is generally accepted that the state should provide them, hence public funding for education, the arts and research among others. And because broadcasting is a good way to distribute merit goods, state intervention in support of public service broadcasting is necessary and desirable.

However, though the standard defence successfully justifies PSB it neither provides a yardstick for knowing how much intervention is required nor a guarantee that public service broadcasters will either stick to their task or discharge it effectively. There are thus inescapable problems of proportionality and governance in broadcasting policy and finance that the standard defence does not address. Just as Goldilocks was vexed by the too much, too little or just right question so too is broadcasting policy. Latterly the Goldilocks question has been asked more and more insistently.

Indeed, at the time of writing Andrew Graham's term standard defence has come to seem a misnomer. PSB is on the attack and the standard defence now provides the ground from which the '800-pound gorilla', as the Director General of the BBC described the Corporation (Dyke 2003), has attacked and achieved a string of recent successes. Notable among them have been securing a generous licence fee settlement (RPI +1.5 per cent to 2006) and the licences for a portfolio of Digital Terrestrial Television (DTT) channels based on a BBC dominated platform Freeview[1]. These successes are complemented by public service broadcasters' command of a large share of UK broadcasting consumption and revenues and are, some argue, sufficiently large to distort the broadcasting market and, in a self-validating way, create the market failure it exists to rectify. UK PSB is of course not wholly congruent with the BBC: formally, all terrestrial television channels (BBC1 and 2, ITV/Channel 3, Channel 4/S4C and Five are public service broadcasting channels. In radio, the BBC is the only

PSB presence and accounted for 53 per cent of radio consumption in the final quarter of 2002.[2]

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**Table 10.1 UK television revenues and shares 2002 (per cent rounded to nearest whole number)**

| Channel | Revenue £bn | % Revenue | % Share |
|---|---|---|---|
| All | 7.6 | 100% | 100% |
| PSB (ie BBC, C4/S4C, ITV and C5) | 4.2 | 55% | 78% |
| BBC | 1.8 | 24% | 38% |
| ITV (inc GMTV) | 1.7 | 22% | 24% |
| C4/S4C | 0.6 | 8% | 10% |
| C5 (Five) | 0.2 | 3% | 6% |

Source: Independent Television Commission [ITC] 2002a

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If the level of intervention in the broadcasting market is a guide to the level of failure, prima facie, the UK broadcasting market fails comprehensively. The Director General of Fair Trading (DGFT), John Vickers, recently observed that the BBC's funding is 'not far off one day's gross domestic product for the U.K' (Vickers 2002: 4). And McKinsey, in a study for the ITC, concluded that (ITC 2002b: 26) UK public funding per head for broadcasting was the highest of the 13 countries[3] surveyed and estimated total UK funding per head for broadcasting to be second only to that of the United States[4]. Whether this level of resourcing is proportionate to the scale of market failure is difficult to determine. To know whether PSB is appropriately funded we need to know what we mean by PSB and what we want public service broadcasters to achieve. And, unfortunately, the UK has treated this problem of definition like the emperor's new clothes. We have pretended the problem of definition has not been there. The Davies Panel is a good case in point claiming that, though the panel could not 'offer a tight new definition of PSB', its members were confident they 'knew it when [they] saw it' (Davies 1999: 10).

Unfortunately not everyone has been blessed with so acute a vision. Those of us who are, in comparison to the Davies Panel, sight impaired might ask what is it that makes Five public service broadcasting and not Artsworld, History Channel or Discovery?[5] Or we might ask why are *Robot Wars* and *Celebdaq public service* programmes?[6] What is it about these products and services that justifies and necessitates public support? What do they have that rival products and services, which may seem to have superior merit good characteristics, do not? Reassuringly for those worried that their myopic vision does not measure up to the Davies Panel 20/20

standard, the Davies Panel acknowledged that 'too often the BBC in effect behaves as if public service broadcasting is everything the BBC chooses to put out' (Davies 1999: 139). References to the optically challenged aside it is clear that there is real uncertainty about what constitutes PSB and this uncertainty makes discussion of PSB policy particularly difficult. If there is no shared definition of objectives it is unlikely there will be agreement about performance.

## Dumbing down?

A particularly intractable debate centres on whether the BBC has 'dumbed down'. To decide on the justice of the claim demands a larger corpus of longitudinal research and analysis on programme content and schedule composition by commercial and public broadcasters in the UK than we have. A critic of the BBC might instance a day when the BBC2 schedule was choked with snooker, and BBC1's was filled with soaps and 'Diet or Die' programming (see Collins 2003), to substantiate a contention that the BBC pre-emptively mimics a commercial broadcasters' programming and scheduling. But, against such an argument, a BBC proponent might adduce, as did Greg Dyke to the Joint Parliamentary Scrutiny Committee on the Communications Bill (Puttnam 2002), the *History of Britain*, a *Panorama* programme on Ireland in the 1970s and a BBC2 series on paedophilia as exemplars of the BBC's distinctive public service programming. Quite simply, more research is needed to establish how far the BBC's television output differs from that of a profit maximising broadcaster. But, in the absence of a decent sized corpus of such research, what other evidence is there to consider?

First, Merrill Lynch's 2002 recent study on UK Free-to-Air Television compared channels' programming expenditure to their share of viewing in order to construct a measure of commercial effectiveness. Merrill Lynch identified (using 2001 data) a 'Viewership Power' ratio of 1.07 for ITV, 0.81 for Channel 4, 1.00 for BBC1 and 0.89 for BBC2 and commented:

> as a public service broadcaster, the BBC might be expected to have a materially lower viewership/programme spend ratio than the commercial sector. Interestingly, BBC1 has only a slightly lower Viewership Power Ratio than ITV at 1.00 compared to 1.07 for ITV. No other Public Service Broadcaster in Europe has such a high Power Ratio, which indicates that the BBC is either very commercial in its approach, or very successful at commissioning programming, or both (Merrill Lynch 2002: 25).

Merrill Lynch's comparison of relative efficiencies, measured by turnover per employee, of UK broadcasters found the BBC to be less efficient than Channels 4 and

Five and the two principal ITV companies, Carlton and Granada. The BBC achieved less than £200,000 turnover per employee whereas Channel 4 and 5 scored more than £800,000 per employee and Carlton and Granada scored £290,000 per employee.[7] These two fragments of evidence are not sufficient to draw a very firm conclusion, but the balance of probabilities suggests that the BBC is more likely to be very commercial in its approach than very efficient at commissioning programming.

Second, we have Mark Thompson's view that the BBC may have 'dumbed down' the schedule or, as Merrill Lynch put it, adopted a very commercial approach. Thompson, formerly Head of BBC Television and now Chief Executive of Channel 4, in his celebrated speech at the Banff Television Festival 2000, argued that the BBC had indeed 'dumbed down' and stated that,

> The charge [that the BBC has seriously weakened its scheduling of classical music] that these critics make, which is that there's much less than there once was, fewer hours, less impact, fewer risks. And they're right. (Thompson 2000: 6).

Thompson's music example was particularly telling. The Annan Committee had claimed that 'More than any other single influence the BBC has transformed Britain from a *Land ohne Musik* to a great centre of music making' (Annan 1977 para 8.2). There is then a case to consider. But to progress the argument we must first consider how PSB may be better defined.

### Definition

> It is of the utmost importance that there be, at the outset, a clear precise definition along with control of the public service's compliance by Member States (Feltkamp 2001: 40).[8]

The problem of definition is a concrete policy issue not least because EU Directives give considerable commercial advantages to PSB, for example, in granting PSB services must carry status on cable networks. Moreover, neither the boundaries between PSB and commercial broadcasting nor the role and remit of PSB are fixed. Ten years ago the BBC defined itself as: a 'complement [to] the enlarged commercial sector' (BBC 1992: 19). Now the BBC, with 53 per cent of final consumption of radio and 38 per cent of television, is considerably more than a 'complement' to the commercial sector. Fifteen years ago the BBC faced a break up. The majority of the Peacock Committee recommended separation of Radios 1 and 2 and outsourcing of 40 per cent of television programme production. Five years ago the Davies Panel recommended the separation of BBC Resources. Where do the boundaries of public

service broadcasting lie? How may we know whether intervention in the broadcasting market is proportionate to its failure and whether public service broadcasters effectively discharge their PSB remit? Can we go beyond 'we know it when we see it'?

I propose that public service broadcasting should be defined as a redress of market failure in four principle domains. We can identify these under the acronym QUID. They are:

- Quality;

- Universality;

- Independence;

- Diversity.

How can QUID be embodied in clear targets for public service broadcasters and how can the extent to which QUID is achieved be assessed?

## Quality

> the one issue in broadcasting that resists, more than any other, a definitive and rational answer (Mulgan 1990: 5).

Quality is, as Mulgan suggests, the most difficult criterion to define and his discussion, albeit more than a decade old, remains the most thorough treatment known to me. Quality is a key element in any merit good argument for PSB but has been tainted by use of the term to 'legitimise, and disguise, the narrow tastes and prejudices of a small, metropolitan, cultural elite' as Mulgan put it (Mulgan 1990: 5). Mulgan identifies seven types of quality in broadcasting:

- Producer quality and professionalism;

- Consumer quality and the market;

- Quality and the medium's aesthetic;

- Television as ritual and communion;

- Television and the person;

- The television ecology;

- Quality as diversity.

Seven different types of quality seem a lot. How can objectives be set and performance measured against so many criteria?[9] Moreover, none of Mulgan's seven types of

quality are straightforwardly identifiable. However, we can reduce seven types of quality to four:

- *Producer quality and professionalism.* Though implementation of a governance regime based on this conception of quality might be vulnerable to elite capture and special pleading, expert judgement and broadcasters' commitment to high standards are desirable and worth nourishing.

- *Consumer quality and the market.* What consumers want and what they judge to be good must have a very significant part in any policy for quality. However, at least some classes of consumers are not good judges of what's in their interest and so this conception of quality can't be the only type used in governance.

- *Television and the person.* This conception of quality recognises that we must develop our competencies, rather than rely on innate faculties, if we are to live free and fulfilled lives. Broadcasting should be good for us, it should educate and its power and performance to do so is a legitimate criterion for assessment of its performance.

- *The television ecology.* Broadcasting should be truthful. Even if consumers are fooled, and are happy to be so, mendacity is the enemy of quality. True, some kinds of mendacity may be unexceptionable, but only when known to be so. The tabloid newspaper headline, World War II Bomber found on Moon, is acceptable because we know the newspaper in question to be unreliable. Others, such as Sky News faking a report of a missile launch from a Royal Navy submarine during the 2003 war in Iraq, are not.

These criteria refer to programme quality. But this is not the only relevant locus of quality issue. Another, for example, is technical quality of transmissions, though this is more readily quantified and measured. However, it is programme quality that's particularly difficult to conceptualise and for which it is particularly difficult to devise assessment criteria. However, the following could act as quality indicators:

- Audience appreciation indices;

- Audience share statistics;

- Peer review: TV and radio critics' assessments, prizes at international festivals.

These indices of quality are, not surprisingly, already used. However they are not used systematically, their weightings (relative importance) are not explicit, they are not linked to review of objectives and do not explicitly influence funding decisions.

## Universality

The objective of universality is conceptually less difficult than that of quality (though it may be costly and intractable to achieve, for example, in digital rollout). The core objectives of universality resolve to two distinct types of universality:

●     geographical

●     social

All should, at affordable prices, be able to receive a range of broadcasting services sufficient to enable them to participate fully in the social, political, economic and cultural life of the UK. Some groups, whether socially or geographically defined, will not be well enough served by commercial services and it shall be a particular charge on PSB to provide service to these groups. Targets can be defined and achievement assessed.

## Independence

Considered as a system UK PSB may be seen to be independent. No single vested interest exercises control of all PSB sources. Moreover, the significant presence, and increasing availability, of alternative commercial information sources means that viewers (if not listeners) are able to access news and information from several sources, though PSB is vital to pluralism in some instances, for example, the provision of political news in the west of Scotland. Diversity in supply and funding is friendly to independence.

However, within the PSB system there are effectively only two sources of news the BBC and ITN/IRN. Each of these has a plausible claim to be considered independent. The ownership of ITN is diversified and no single interest is permitted to own more than 20 per cent of the company.[10] BBC news is accountable to the, notionally, independent BBC Board of Governors and this, together with a strong tradition of journalistic independence makes BBC news reasonably independent. However, there are grounds for supposing that corporate governance of the BBC should be improved and its independence of government strengthened. As the Institute for Public Policy Research (IPPR) stated in 1995 'The BBC should be able to pass the Berlusconi test… governors should be elected, their role clarified and the results of their deliberations made public' (Collins & Purnell 1995: 2). I return to this question below.

**Diversity**

In respect of diversity, there are well-established models, notably, the United States' Federal Communications Commission's (FCC) Herfindahl-Hirschman index (see Napoli 1999) and Hellman's model (Hellman 2001) of relative entropy and deviation indices (drawing on Swedish and Finnish research and practice). Assessing what constitutes diversity is not straightforward. Is a choice between several different types of programme at any particular time better than choice between several different examples of the same type of programming? Is diversity within programme types more important than diversity between programme types? Ideally both are desirable but, depending on which type of diversity is prioritised, mirroring of PSB and commercial services programme and schedule mixes may be seen positively or negatively.

The FCC approach is to assess source diversity by measuring market share both in programme supply and in hours of programming consumed transmitted by a particular broadcaster.[11] The high PSB (especially BBC) share of viewing and listening and the internal sourcing of the majority of PSB programmes could be seen, using FCC methodology, as hostile to source diversity. There is often a presumption that source diversity, although desirable in itself, necessarily leads to diversity in programming. But US research suggests this may not be the case. Napoli states 'the expectation that increased diversity of sources leads to increased diversity of content is far from a certainty' (Napoli 1999: 18).

Unsurprising to those familiar with the Hotelling effect[12], Napoli's survey of US research on the relationship between the extent of competition in sources (few or many broadcasters in a particular market) and the extent to which a number of different types of programmes were offered provides no clear conclusion. Source diversity may not lead to programme diversity. Napoli states:

> Levin (1971) found, that within individual television markets, diversity of programme types increased with the number of television channels available... Levin's findings are, however, contradicted by the results of a more recent analysis of 41 US broadcasters and cable networks (Grant 1994) (Napoli 1999: 20).

UK commercial services provide some diversity in programme supply but possibly underserve groups that are not attractive to advertisers and lack an ability to pay for subscription services. Moreover, commercial services tend, relative to UK PSB, to underprovide high budget original programming in core PSB categories such as news, investigative and iconoclastic documentaries and drama. But, it may be argued, if PSB was not there commercial services might fill this gap.

Research and theory therefore provide no firm guidance on whether, in the long term, PSB augments or diminishes diversity. However, there are clear UK cases, for example, South Wales and west central Scotland, where, assuming entry is not foreclosed by the presence of PSB, ending PSB services would seriously diminish diversity. Again target setting is important. What sort and level of diversity do we require of our broadcasting system? What gaps should PSB fill? For example:

● How many separate sources of news in each TV home do we require?

● How much representation of different groups and interests to each other? How much programming from Scotland, Wales and Northern Ireland should be available to English viewers? And vice versa?

● How far should PSB contribute to overall programme diversity?

Across the four elements of QUID we need clearer objectives, so we can know how much support is proportionate to PSB's tasks, and regular assessment of performance using as objective a set of indices as can be found. Not all measures will be equally reliable but as experience of such a system grows objectives and assessment methodologies can be refined and improved in an incremental and iterative process. The sketch above suggests how such a process could begin.

## Governance

In 1995, IPPR (Collins & Purnell 1995) proposed several improvements to the governance of the BBC, notably:

● Election of the BBC Board of Governors to make them more responsive to the public.

● Separating the BBC's commercial and public service elements to improve efficiency and reduce conflicts of interest.

● Strengthening the BBC's independence of government.

Nothing in the succeeding eight years makes these recommendations less desirable. Indeed, concern about the potential for anti-competitive behaviour by the BBC, not least cross subsidy of its commercial by its public service activities, has grown and the conflicts between BBC and Government over the BBC's reporting of the 2003 war in Iraq and the events which preceded and followed it have also focused concern on the Governors' difficulties in simultaneously acting as the BBC's regulator and advocate. No less clear are the recent reminders of the dangers of improper and excessive Government influence on the BBC's news reporting.

Specifically, IPPR proposed a new governance structure that would identify the BBC's Board of Governors as a supervisory board responsible for defining the BBC's strategy and objectives and for ensuring the BBC's management discharged satisfactorily the Governors' mandates.  The Board of Governors would shed their functions as regulator of the BBC.  Ofcom is the obvious and best body to assume the Governors' regulatory functions and define and publish a mandate for the BBC with performance indicators (PIs) against which the Corporation's performance would be retrospectively assessed. Nearly a decade later, there is room for second thoughts about whether the Governors or a body outside the BBC is better fitted for the task of assessing performance and I return to this question below when considering governance.

But whoever is charged with the duty of assessing performance, there should be explicit, public, criteria for performance linked to reward. The BBC Board of Governors, to limit consideration of operationalisation to one public service broadcaster, should publish an annual plan, specifying the volume (number of hours) and salience (position in the schedule and channel mix) required for different types of programme. Targets for QUID should be linked to the programming specified in the plan. Hitting targets, assessed against objective indices, would be the responsibility of the BBC's Board of Management whom the Governors would reward, or not, depending on their achievement in hitting a target mix in all four areas of QUID. For example, in the case of quality, measures such as audience share and appreciation and peer approval would be used to assess how far the four types of quality derived from Mulgan had been realised; in the case of diversity the BBC's achievement in augmenting diversity would be assessed using relative entropy and deviation indices etc. The criteria should be applied differently to different types of programmes and for different categories of listeners and viewers.  Some consumers are more competent than others to make judgements in their own interests and some types of programmes should be judged less exactly against some criteria than others.

To improve accountability, the Board of Governors should follow the example of the Bank of England Monetary Policy Committee and publish the minutes of their meetings and they should be elected to their office, perhaps by an electoral college of, say, 60, drawn from three groups equally. First, a group would be nominated by broadcasting societies, an institution borrowed from Dutch public service broadcasting governance, in proportion to the broadcasting societies' membership. Second, a group by the House of Commons Select Committee responsible for broadcasting. Third, a group by members elected by regional advisory boards. The electoral college would then elect, say, twelve Governors paying due attention to ensuring their representativeness for example, by ensuring that there were representatives of education, of the trade unions, of minorities. Once chosen by the electoral college Governors would keep in touch with and be guided by public views identified through active processes of consultation and deliberation such as citizens' juries.

## Size and structure

The standard defence of public service broadcasting leaves unanswered the key operational questions of 'what?' and 'how much?' – the questions of definition and proportionality. They are most acute in respect of the BBC but extend beyond it. For the most watched, and most widely available, UK television channels, BBC1, BBC2, ITV/Channel 3, Channel 4/S4C and Five are all classified as public services and benefit accordingly. UK public service broadcasters enjoy, through a combination of regulatory requirements and a historical accumulation of mutually reinforcing advantages (including, comprehensive roll out of analogue transmission infrastructure and universal distribution of analogue receiving equipment), the widest and cheapest availability of access to consumers. Not surprisingly, in spite of the large number of channels available in the UK across different transmission platforms, they dominate the UK market for final consumption of broadcast services. Their market power raises competition concerns that are most acute in the case of the BBC because of its size, mix of commercial and PSB roles and its access to licence fee funding.

Size matters as Greg Dyke's gorilla metaphor suggests. But bigger may not be better. In 1995, addressing both competition and efficiency concerns, IPPR proposed structural separation at arms length of programme scheduling, programme production transmission (which has already been effected) and the commercial exploitation of the BBC's assets. Latterly, Barry Cox has also proposed some structural separations in the course of his interesting argument for changes to the governance of the BBC (Cox 2003).

The context in which the BBC operates has changed considerably since the mid-1990s. The BBC has successfully increased its commercial revenues and, subject to the competition concerns considered below, this is highly creditable. It is clearly in the public interest for sleeping assets to be exploited and other assets sweated. But the scale of the BBC's commercial activities, depending on how intra-group transfers are treated, amount to the equivalent of three to five times the size of Five, and the fuzzy boundary between the BBC's public and commercial activities have meant that the BBC's impact on competition has become a widespread cause for concern. The BBC's size, abundant funding, aggressive entry into new markets and potential to exercise its power in a variety of markets with possible anti-competitive effect, and possibly adverse impact on the diversity and pluralism of UK broadcasting, has aroused concern far beyond the cadre of the usual anti-BBC suspects.

The Director General of Fair Trading's (DGFT), comments are representative. Because, he stated, 'broadcasting is a multi-layered industry, in which market power at one level of the supply chain may have far-reaching effects at other levels', the size of the BBC and range of its activities along the whole broadcasting supply chain from inputs to programme production to supply to final consumers gives the BBC the

potential to act anti-competitively. 'All this is relevant for analysis of competition in the sector' as the DGFT stated instancing 'the increasing tendency of the BBC to launch services or markets beyond its traditional public service remit (which) could raise difficult competition issues' (Vickers 2002: 4).

But why should a public broadcaster, such as the BBC, be motivated to behave anti-competitively? At first sight, it may seem that a not for profit organisation has no reason to distort competition. But public enterprises may act anti-competitively not through a desire to maximise profits but through a desire to maximise output (Lott 1999; Sappington & Sidak 2000). It must be fun to have control of an 800-pound gorilla; doubtless more fun than that offered by control of a 400-pound gorilla. That being so, a public firm may behave more aggressively than would an otherwise equivalent investor-owned firm in excluding competitors from markets and/or weakening their ability to compete. A public firm may expend resources to eliminate or weaken a competitor, without the expectation of long-run positive returns (Sidak 2001; Sappington & Sidak 2002). If, moreover, the public firm's expanded activities are subsequently validated through a higher licence fee, the incentives to grow are likely to be even stronger.

The theoretical concerns acknowledged by the DGFT echo complaints about the BBC expressed by, amongst others, PACT, IPC magazines and ITN[13]. Here it is important to acknowledge that there is no smoking gun. The BBC has weathered successfully all competition cases thus far brought against it. Nonetheless, prima facie, the BBC is at or close to a position of dominance in a number of markets:[14] not just in final consumption markets but in neighbouring markets further up the supply chain. It is sometimes forgotten that the BBC provides programmes to its channels in contrast to the separation of programme supply from channel scheduling and broadcasting of C4 and ITV, inputs to programme production such as facilities, subtitling and orchestras and that in many of these markets it also supplies to third parties. The BBC has a number of wholly owned subsidiary trading companies,[15] including BBC Resources,[16] which provide services both to the BBC and, on commercial terms, to third parties along the whole broadcasting supply chain from inputs to programmes through sale of programmes to provision of channels to final consumers. These factors have led to claims that the Competition Act is insufficient to deal with both the BBC's, and other 800-pound broadcasting gorillas', dominance.

Reviewing the distinctive features of broadcasting, which make competition regulation less straightforward than in some other sectors the Director General of Fair Trading identified four issues and hinted that he would favour Ofcom regulation of the BBC:

●     The relationship of high fixed and low variable costs.

●     Stratification of broadcasting markets in virtue of different methods of revenue

generation (where there is no direct financial nexus linking broadcasters to most viewers).

● The multi-layered character of broadcasting (which permits the leverage of market power in one sector of the supply chain to others).

● The status of the BBC.

The BBC accounts for around 50 per cent of the UK market for television programmes. Though it is required to source 25 per cent of programmes in qualifying categories from independent producers, PACTxvii has claimed that the 25 per cent quota is a ceiling rather than a floor and that the BBC treats the 75 per cent of the programme market that is, in theory, open both to in house and independent producers, as a guaranteed market for in house production.[18] PACT has also observed that the BBC's Fair Trading Guidelines do not cover programme supply and unfavourably contrast the BBC's trading terms with the ITV network's where programme acquisition and network scheduling is decoupled from the direct influence of the programme producing ITV companies. Moreover, the BBC did not meet its independent production quota in the financial year 2001/2.[19]

The impact of the BBC on established markets is not the only relevant consideration. It is also worth considering the potential for core elements of public service broadcasting to 'crowd out' provision by other suppliers with an adverse impact on diversity and pluralism. Crowding out is a difficult argument to substantiate for it turns on a hypothetical question: would 'y' have happened had not 'x' happened? But, the Davies Panel took the problem sufficiently seriously to consider the matter (see Davies 1999: 91-94). To clarify the issue, it offered three worked examples in one of which the Panel identified the possibility of using 'Licence fee money…to make programmes of a type which could perfectly well be left to the private sector' (Davies 1999: 92). The panel clearly deprecated such behaviour by the hypothetical public service broadcaster but acknowledged the difficulty in distinguishing between illegitimate 'crowding out' and fair and appropriate competition.

Crowding out, if a reality, has the obvious potential for public service broadcasting to create the market failure (undersupply of merit goods by the private sector) that it exists to redress. It is a form of self-fulfilling prophecy to which an output maximising regime of public provision is potentially vulnerable. John Hambley, Chief Executive of Artsworld, testified to the difficulty Artsworld, and other similar channels, experienced as a consequence of the mutually reinforcing advantages enjoyed by the BBC. The effect of these advantages was, he claimed, for the 'dominance of the BBC to lead to a closed circle of types of programmes made by the same programme makers working within a commissioning structure which narrowed choices for consumers'.[20] Among the BBC's advantages Hambley instanced:

- the privileged regulatory status of public service broadcasting whereby BBC channels enjoyed 'must carry' status, making it more difficult for competing commercial services to secure access to transport infrastructures of limited capacity;

- the extent to which policy makers relied on the BBC for expert advice (a relationship which he described as 'uncritical');

- the effect of the BBC's presence in a series of complementary neighbouring markets;[21]

- concern over BBC terms of trade in programme supply;[22]

- the BBC's ability to cross market and promote its activities;

- the scale of the BBC's marketing spend.

Overall, Hambley testified to the chilling effect of the BBC presence on market entry and the adverse impact of the BBC's expansion into digital services on Artsworld. In another related instance, Geoff Metzger, Managing Director of The History Channel[23], stated that he was 'very concerned' about the launch of the BBC's commercial service, UK History, and referred to the aggressive business plans foreshadowed by the director of UK History, Matt Tombs[24]. Metzger further stated 'anyone entering the market now[25] does so with knowledge of much greater risk'. The Chief Executive of Digital Classics[26], Chris Hunt[27], made the most powerful criticism of the BBC and stated that it 'had the market power and the will to take out the opposition'. Hunt further stated 'we would still be running were it not for BBC4'.

It is not possible here to undertake a full competition analysis of the markets in which the BBC is engaged. This would require a rigorous approach to market definition, followed by an analysis of each market thus defined. There is, however, *prima facie* evidence for concluding:

- that the BBC is at or close to a position of dominance in a number of markets;

- it is using this position to enter a number of horizontally or vertically-related activities;

- inevitably opportunities will arise for the leveraging of market power, to the detriment of competitors and consumer;

- and that neither the Competition Act nor the Communications Act provide sufficient remedies.

## Remedies

UK competition regulation has been strengthened considerably in recent years, through the Competition Act 1998 and the Enterprise Act 2002, the transpositions of a variety of EU Directives and the establishment of Ofcom with concurrent power to implement competition law in the electronic communications domain. However, these powers may not be enough to deal with the '800-pound gorillas' in broadcasting. The split in jurisdiction over the BBC between three regulatory agencies[28] is unlikely to ensure effective regulation of the single largest element in the UK's broadcasting system. Accordingly, either there should be a clear separation of BBC public service from BBC commercial activities[29] or the BBC should be brought unequivocally under Ofcom's authority.

The absence of a clear definition of the BBC's public service mandate and of a clear separation between the BBC's public and commercial activities has made possible the migration of services between public and commercial sides of the house in a way that seems anti-competitive. The BBC's news to mobile phone service provides a case in point. The service was launched first on a commercial basis but when found to be unviable commercially was reclassified as a public service.[30] Further potential problems include predation, refusal to supply, cross subsidy, abuse of buyer power and failure to trade fairly. Many of these potential abuses are motivated by leverage of dominance from one market into another.

Structural separation can, in many cases, prevent such problems, as Liddiment recognised when urging cutting 'the umbilical cord between the BBC and its production arm' (Liddiment 2002: 5). Separation options have been widely rehearsed in the utilities, where distinctions are made between accounting separation, legal separation through incorporation of subsidiaries and structural or ownership separation (OECD 2002). Except in cases where separation imposes heavy transaction costs (such as problems in co-ordinating investment decisions) separation is a good way of countering discrimination. An obvious possibility would be to reinforce the separation of BBC Resources enjoined by the Davies Panel (and not yet fully implemented) with a separation of schedule and channel management from programme production.

In the absence of structural separation, a stronger regime of *ex ante* regulation of the BBC is advised. The EU has recently adopted legislation for electronic communications services (excluding content) which authorise *ex ante* regulation in markets where dominance is found (exercised by a single firm, by firms jointly, or leveraged from the vertically related market). Criteria for ex ante intervention[31] are, amongst others, the presence of persistent barriers to entry, limited prospect of opening up of the market and demonstration of the comparative advantage of ex ante regulatory intervention over ex post competition law. Ex ante regulation, following the

formulation in the European Union Framework Directive[32] may appropriately be imposed when 'there are one or more undertakings with significant market power and where national and community competition law remedies are not sufficient' (European Parliament and the Council 2002).

The BBC has significant market power and its capacity to move activities to and fro across the boundary between its public service and commercial roles suggests that competition law is insufficient to still apprehensions that it may use its market power anti-competitively. Ex ante regulation would signal clearly what behaviour is likely to occasion concern and potentially provides a quicker means of constraining anti-competitive behaviour than would recourse to the Competition Act.

Accordingly, in the absence of structural separation, Ofcom should have specific *ex ante* powers to prohibit the BBC from:

● Cross subsidising commercial activities;

● Unduly preferring its own subsidiaries;

And to require the BBC to:

● Provide information;

● Give advance notification of commercial plans.

Moreover, there should be no more umbrella authorisations of BBC activities.

Finally, we should consider the BBC's place in the whole UK broadcasting context. Supporters of the BBC, not all self-interested, have argued for a strong BBC, an '800-pound gorilla' as a counter-weight to BSkyB, the other '800-pound gorilla' in UK broadcasting. And Greg Dyke (Dyke 2003) argued, in an excoriating critique of ITV's management, that ITV should strive to become a third gorilla. Is one gorilla worse than two; are two gorillas worse than three? Surely the best option is to have no gorillas at all. That is, no dominant firms levering power between neighbouring markets, no chilling of entry, no anti-competitive behaviour. To accept the terms of a debate based on counting gorillas is to accept the premise that a pluralised, diverse and competitive market cannot be achieved and specifically that there are no remedies for the dominance of BSkyB other than to mitigate it by maintaining the BBC's dominance, whether or not frosted with pieties about the resurgence of ITV. To argue in terms of the least worst number of gorillas is to argue that nothing can be done to improve the functioning of the broadcasting market. In 1995 IPPR warned that 'The Left should be wary of seeing market failure everywhere, and of constantly using it to justify promiscuous intervention' (Collins & Purnell 1995: 9). The warning is no less cogent today. Much can be done to improve the operation of the UK's broadcasting markets. Not least by taking the measures proposed here:

- Clearer definition of the BBC's PSB role;

- More accountable governance;

- Structure and regulation better fitted to address competition concerns.

Finally, it is important to acknowledge that the BBC is not the only gorilla, but it is a troublesome gorilla. To question the structure and behaviour of one gorilla, as done here, is not to support any other gorilla. The best number of gorillas in UK broadcasting is zero. This chapter is concerned with one particular gorilla, a different one is required to deal with any other gorilla(s).

## Acknowledgements

## Endnotes

1   Freeview is the name of the UK's Digital Terrestrial Broadcasting platform run by Crown Castle, the BBC and BSkyB. Freeview is free-to-air.

2   The BBC's radio share is overwhelmingly based on its dominance in the national radio market. BBC local and regional radio accounts for only an 11 per cent share of listening. Radio share data available at www.rajar.co.uk/INDEX2.CFM?menuid=9.

3   Australia, Canada, Finland, France, Germany, Italy, Japan, Korea, New Zealand, Spain, Sweden, the UK, the USA.

4   In 2001-2 the BBC received £2.7 billion in public funding.

5   These are all channels available on digital satellite and cable platforms. Artsworld broadcasts high culture (ballet etc). The History Channel broadcasts history programming and the Discovery channels specialise in documentary programming.

6   Both programmes are broadcast by the BBC at the time of writing. Robotwars involves contestants building robots that then engage in combat. Celebdaq is a television show integrated with an online game on BBCi, contestants buy and sell shares in celebrities in an online stock exchange.

7   The comparison with ITV is most relevant because of the higher degree of vertical integration in the BBC and ITV relative to Channels 4 and Five.

8    Ronald Feltkamp is a senior official in the European Commission Competition Directorate.

9    However others have identified more types of broadcasting quality, Nikken (Nikken 2001) for example found 19 different types of quality in children's television programmes.

10   When the Communications Act is implemented in 2002 a single owner will be able to control up to 40 per cent of ITN.

11   The Federal Communications Commission uses the Herfindahl-Hirschman index. This assesses concentration – diversity – in supply by squaring the market share of each supplier in a particular market and benchmarking an unconcentrated, diverse, market as one in which the summed scores are less than 1000 and scores exceeding 1800 indicate a concentrated, undiverse, market (see, Department of Justice and Federal Trade Commission 1992). I draw on Napoli (1999) for this information.

12   Hotelling proposed that economically rational competitors will always tend to crowd in the middle of the spectrum of consumer tastes rather than provide a diverse range of products. See Hotelling W (1929) 'Stability in Competition' *The Economic Journal* 64: 41-52

13   Educational publishers have also expressed alarm at the prospect of the BBC entering, and perhaps foreclosing, the digital online educational market.

14   The Puttnam Committee referred to the 'dominant market role' of the BBC (Puttnam 2002 para 212).

15   The principal BBC subsidiaries are BBC Worldwide (exploiting BBC intellectual property in the UK and overseas), BBC Technology (links from studio to transmitter etc) BBC Broadcast (subtitling etc) and BBC Resources.

16   The Davies Report recommended sale of BBC Resources (stating 'We...consider that steps should be taken to realise the value of the business for investment in improving the quality of BBC services') (Davies 1999, 100). However, at the time of writing in November 2003 BBC Resources has not been sold. Indeed, a significant part of BBC Resources was re-integrated into the BBC Home Services in 2001. A BBC source argued that the facilities market is oversupplied and in consequence little would be realised from a sale. Balanced against the loss of quality control and of reserve capacity that would be entailed in a sale the value likely to be realised would be insufficient to make a sale worthwhile. BBC Resources lost £13 million in 2000/1 and £6 million in 2001/2. It is open to question how a non-public firm would behave in like circumstances.

17   The Producers' Alliance for Cinema and Television, the trade association of independent producers.

18   Source, interview with CEO PACT, John McVay, 15.7.2002.

19   The BBC exculpates itself by claiming that the status of one of its suppliers changed during the relevant accounting period and could no longer qualify as an

independent producer. However, this suggests that the BBC treats the independents' quota as a ceiling rather than a floor.

20  Interviewed 12.9.02. Artsworld is a UK subscription financed digital television channel carried on Sky's satellite platform. Currently, Artsworld has fewer than 50,000 subscribers and in mid-2002 there was serious concern about the prospect of the imminent closure of Artsworld's services.

21  He stated, 'the BBC has so much commercial power it distorts the market for all of us – especially small channels like Artsworld' and instanced the lack of salience given to non-BBC services in the BBC's magazine 'Radio Times'; the BBC's ability to cross promote its undertakings across a variety of platforms and media; the use of the abundant resources of the parent BBC to fund promotional activity, eg a launch party for BBC 4, which Artsworld and other small competitive channels, could not and cannot afford.

22  Hambley acknowledged that the separation of BBC Worldwide from the public service side of the BBC made it hard to formally sustain a case that the BBC was guilty of anti-competitive behaviour of refusing to supply programmes to a competitor. However, Hambley referred to negotiations with BBC Worldwide the previous year in which Artsworld expressed interest in acquiring rights to 50 BBC programmes from a list of 100 presented by BBC Worldwide only to be told that 46 of the 50 were no longer available because the BBC wished to reserve the programmes in question for subsequent transmission itself. The author heard a similar tale from the Chief Executive of another UK television channel in which the BBC declined to supply programmes from its catalogue because it might, at an unspecified future date, wish to transmit them itself. Such decisions might be lawful commercial behaviour but are not always easily reconciled with the general public interest in access to public service programming.

23  Interviewed 2.10.02

24  See Ariel 18.9.02, 6

25  That is, after the announcement of the BBC's 'UK History' channel.

26  An arts channel that went off the air in consequence of the BBC's impending launch of BBC4.

27  Interviewed 30.9.02

28  The BBC Governors, charged with regulation of the BBC's PSB activities as well as with advocacy and management of the BBC; DCMS, charged with responsibility for approving expansion and extension of the BBC's activities into new markets; and Ofcom, responsible for competition regulation of the sector as a whole as well as assessment of PSB performance as a whole and for regulation of a relatively small proportion of BBC activities).

29  Though it's important to recognise that IPPR supported the BBC's commercial turn. However, it argued the BBC could only discharge effectively its public service and commercial missions if 'new structures of management and accountability' (Collins and Purnell 1995: 5) were devised.

30  The BBC Annual Report for 2001-2 also reports other shifts of activities between commercial and public service sections, eg part of BBC Resources from commercial to public service and BBC Technology from public service to commercial (BBC 2002, 81).

31  Commission Guidelines on market analysis and the assessment of significant market power under the Community regulatory framework for electronic communications networks and services [2002] OJ C 165/6.

32  The terms of the Framework Directive do not extend to content issues.

# 11.   Measuring public service broadcasting
## Robin Foster, Jim Egan and Jonathan Simon

The measurement of public service broadcasting (PSB) is an emotive topic. Partly this reflects the difficulties involved: PSB is a multi-dimensional concept, which poses some significant challenges in its definition, measurement and valuation. But it may also reflect the high stakes at play in the PSB arena.

After all, we currently spend around £3 to £4 billion of public funds[1] on the provision of PSB in the UK each year. There is a clear public interest in ensuring that this money is spent effectively and in asking whether too much (or too little) is being spent compared with the benefits being delivered. There are also some powerful interest groups with a stake in the outcome of any such assessment, from the many producers, administrators and managers who depend on PSB funding for their own livelihoods and who are likely to have a vested interest in keeping the funding taps turned fully on, to those who feel that their commercial interests are threatened by the continued existence of the PSB sector.

In this paper, we argue that it is possible to take a considered and systematic approach to the measurement and valuation of PSB. Indeed, such an approach is an essential part of effective public policy in broadcasting, and should underpin key decisions about the scale and scope of PSB in the changing broadcasting market. We divide our approach into three parts:

- *Defining PSB:* we need to begin with an agreed position on the aims and objectives of PSB and the interventions needed to ensure that they are provided.

- *Measuring its delivery:* once the aims and objectives have been defined, we suggest a coherent approach to tracking or measuring the extent to which the current broadcasting sector and the PSBs within it are delivering to their remits.

- *Assessing the value produced:* as well as measuring its delivery, we need to be able to compare the benefits of PSB with the costs of provision in order to assess how effectively we are spending public funds.

We illustrate our approach with the results of pilot studies that have been carried out by the Independent Television Commission (ITC) over the past two years, and which are being further developed by Ofcom as part of its public service television broadcasting (PTBR) review. In particular, we present the outcome of a detailed study into the benefits and costs of the key PSB obligations imposed on ITV licencees.

## Defining public service broadcasting

Policy makers and academics over the years have tried to produce an objective and widely-agreed definition of PSB. Broadcasters themselves have also done much to advance rationales for public service broadcasting which, unsurprisingly, often serve mainly to support their own existence. But it sometimes seems as if little progress has been made. The economist RH Coase noted almost 40 years ago that broadcasting policy developed in a world 'in which ignorance, prejudice and mental confusion, encouraged rather than dispelled by the political organisation, exert a strong influence on policy making' (Coase 1966). In 1999, the Davies report, the most recent major government review of the funding of the BBC, concluded that it would be too ambitious in its six months to establish a new definition of the role of public service broadcasting, although it did conclude that 'we may not be able to offer a tight new definition of public service broadcasting, but we nevertheless each felt we knew it when we saw it'(Davies 1999).

In particular, we seem to have fallen in to a rather sterile debate between those who argue that PSB is all about market failure and those who argue that PSB should be rooted in cultural and social objectives, which have little to do with the effective operations of markets.
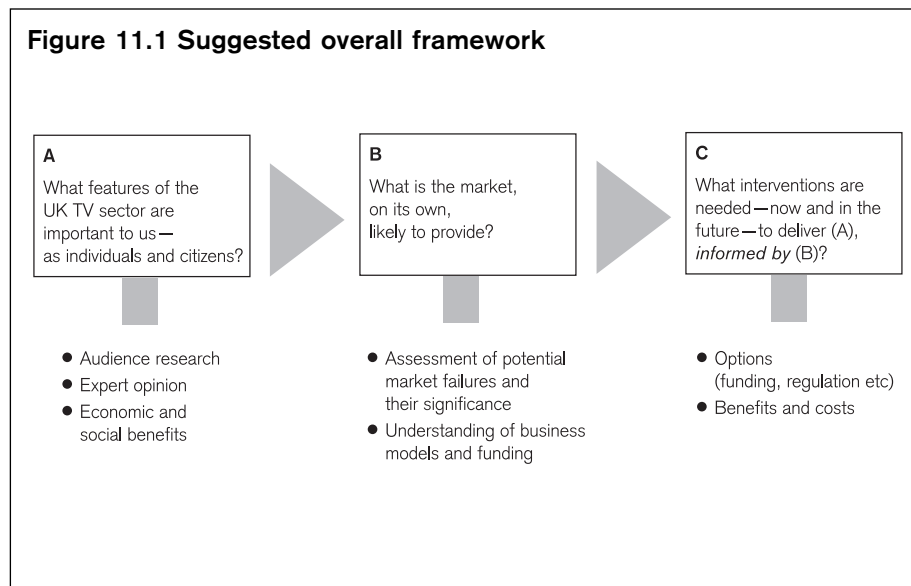
The market failure extremists argue that consumer sovereignty should be the key to policy making in broadcasting. Individuals are seen as being the best judges of their own well-being. In an effectively operating market, well-informed consumers will be able to express their preferences, acting individually or together, and suppliers will compete to satisfy those preferences. Resources will be allocated efficiently to their highest valued uses. To the extent that broadcasting markets might not work effectively, then some intervention may be needed but this is likely to be increasingly limited and narrowly scoped. Indeed, some of the key consumer market failure arguments advanced over the years in support of public intervention in broadcasting are now much less persuasive: broadcasting is no longer a pure public good, for example, as conditional access technology allows consumers to be excluded from services they have not paid for; and consumers have access to a vast amount of information about the programmes and services available to them, which reduces the problem of insufficient information, once felt to be a significant market imperfection. In a multichannel world, with a mix of pay and advertiser-funded services, the market will provide for most direct consumer demands.

Those who would take the opposite approach argue that broadcasting is too important to be left to the market. It has an unrivalled influence on our cultural identity, our way of understanding ourselves and the world in which we live, and on our ability to participate effectively in a democratic society. Given this, we cannot afford to rely solely on commercial provision, especially in the areas of news and current affairs. Rather, we need regulatory and institutional measures to ensure that

high quality, independent and challenging programmes and services are available to all, free of commercial and political influence.

Can a common framework be used which brings these two, seemingly diametrically opposed, approaches together? We think that this is possible. The market failure extremists, while appearing to take an objective approach to the subject, dodge a major question: are short-term consumer decisions, taken in a market with as powerful an influence on all our lives as broadcasting, likely to deliver a socially optimal long-term outcome? If the answer is no, then policy makers need to think about precisely what that socially optimal outcome should be and devise interventions to help achieve it which go beyond correcting pure market failures. Those who argue the case for wider social and cultural goals dodge an equally difficult question about funding and priorities: just how much intervention is needed and in what form to achieve their stated aims? To answer this question, policy makers need to understand what the market, left to itself, would provide.

Whichever starting point is adopted, the conclusions are the same: it is important to develop some regulatory policy consensus thinking about both a desirable longer-term outcome for broadcasting, this in the end will be a value judgement, informed by some clear thinking about the sort of society we want to live in and an understanding of what a market-based system might provide, given that markets are usually better at allocating resources and satisfying consumer needs than command and control systems, even those which come in the guise of a PSB. Policy decisions can then be made in the light of the desirable outcome, informed by an understanding of likely market developments.

**Figure 11.1 Suggested overall framework**

| A | B | C |
|---|---|---|
| What features of the UK TV sector are important to us — as individuals and citizens? | What is the market, on its own, likely to provide? | What interventions are needed — now and in the future — to deliver (A), *informed by* (B)? |

- Audience research
- Expert opinion
- Economic and social benefits

- Assessment of potential market failures and their significance
- Understanding of business models and funding

- Options (funding, regulation etc)
- Benefits and costs

## A research-based view

Identifying a desirable outcome requires making value judgements about the importance of specified social goals: for example, of the quality and type of news provision, encouraging social cohesion, and so on. Many of these aspects are captured in Clause 264 of the Communications Act (Communications Act 2003), which describes the fulfilment of the purposes of PSB as including, amongst other things, 'fair and well-informed debate'and 'comprehensive and authoritative coverage of news and current affairs'; and 'programmes that reflect the lives and concerns of different communities and cultural interests and traditions within the United Kingdom'.

While any interested party could produce a list of such desirable outcomes, a key missing dimension is an understanding of what the general public thinks the priorities for PSB should be. This is not a new idea. The Peacock report advanced the idea that consumers may have a considered view about the provision of aspects of broadcasting which they themselves might not directly consume in amounts sufficient to secure their commercial delivery, but which they would nevertheless like to see available for others to use, or for themselves to use at some stage in the future (Peacock 1986). Just as there is widespread support for the public funding of galleries, museums, theatres and other sports and arts facilities, so Peacock argued, there is likely to be public support for some aspects of PSB. It is an important challenge for policy makers to establish the depth and breadth of this support, for wide scale public funding of broadcasting can only survive in the longer term if there is a democratic will for it to survive. If popular support for the BBC dips below a threshold level, for example, then the long-term survival of the licence fee, which depends on an acquiescent public, will be called into question. At the ITC, some research has already been carried out to determine the extent to which the public can separate their own personal programming likes and dislikes from their support for 'citizenship' or 'social/cultural' programming. This research shows that social benefits such as protecting the public, for example, from rogue traders, and inclusion, delivering something of value to everyone irrespective of background and social circumstance, are regarded as being more important to viewers than many of the personal benefits that they were presented with.

If it is thought that the general public on its own is unlikely to have enough information on which to form a view about the desirable longer-term nature of broadcasting, similar research can be carried out amongst opinion formers and other interested groups. Parents and teachers, for example, could be asked about the importance of different aspects of children's and educational programming.

By taking these steps, it should be possible to construct a research-based view of the broadcasting world we would like to see in the UK, which, subject to appropriate debate and challenge, would help establish a more robust starting point for an assessment of PSB in future.

## Understanding the market

The second part of the equation is a clear view of how the broadcasting market might develop over the next few years. Informed by this analysis, we can then start to identify the nature and scope of intervention that might be needed to secure the desirable outcome referred to above.

In its PSB review, Ofcom will be conducting in-depth research and analysis of future trends in the UK broadcasting sector. Based on existing research, however, it seems plausible that the focus of concern may be in the following areas:

● *Concentration:* the likely emergence of a few powerful, possibly foreign-owned commercial players will pose questions about effective competition in the market, undue political influence, plurality of views, and a possible risk to UK-originated productions.

● *Fragmentation:* as audiences and revenues continue to fragment over the multitude of digital channels, there is likely to be an increasing risk to investment in content, and possibly a threat to quality.

● *Undersupply of certain types of programmes:* a combination of market imperfections and the existence of externalities or 'merit good' characteristics amongst certain types of programmes means that these programmes, for example, those with an educative element, may not be supplied in a sufficient quantity by the market.

Each of these concerns may call for different types of intervention. The policy toolkit could range from institutional solutions, such as the BBC, through regulatory rules, for example rules to ensure a certain proportion of UK originations is shown, to specific targeted interventions, for example the identification of specific programming types such as news and programme attributes such as impartiality which need to be supported and sustained by various means, including direct funding. The toolkit might also include interventions to foster particular market characteristics that are felt to be important, for example, universal availability of certain services, or competition across public service broadcasters for the provision of certain programme types.

## Is this still public service broadcasting?

The overall aim of this analysis would be to have a clearly-defined and agreed set of aims and outcomes for UK broadcasting. The extent to which the system as a whole is delivering these outcomes can then be measured and assessed. In effect, we are identifying the public interest in broadcasting and asking what public action is needed to protect that interest.

PSB as it is currently thought about in the UK is arguably a sub-set of this overall public interest. Alongside, for example, healthy competition, a thriving commercial broadcasting sector, and robust investment in programmes, we may wish to identify particular types of content which need special protection, and perhaps particular institutions which have a special responsibility for delivering that content.

With such an approach, there is no problem in recognising that there is much of value produced by wholly commercial broadcasters. But alongside the commercial sector, it may be in the public interest to sustain strong public broadcasters catering for a wide range of audiences through a variety of different types of programming.

## Measurement of delivery

Once we know what we are looking for we can set about putting in place effective systems for measuring its delivery, with a focus in particular on those organisations charged with special responsibilities. Indeed, this is a fundamental part of the regulatory process. The Communications Act requires Ofcom to conduct annual statistical reviews of the whole broadcasting market, and periodic major reviews of the main public service broadcasters and the extent to which they are meeting the purposes of public service broadcasting. These reviews are intended to be considerably more fact-based than has previously been typical of regulatory studies in the broadcasting sector, such as the annual ITC reports on the commercial public service broadcasters.

A number of concerns are raised when we come to developing a framework to measure delivery:

- *Inadequacy of available indicators:* how can harder-to-define aspects of PSB such as quality and innovation be measured? (This leads to the aphorism 'if you could measure quality it would just be quantity'.)

- *Distortions caused by the use of indicators:* once measures have been identified, broadcasters might overly focus on those indicators at the expense of the underlying performance that the indicators are attempting to measure. This leads to fears about the dangers of a return to 'box-ticking'.

- *Use of too many indicators:* there is a danger that by specifying indicators for everything that could conceivably be measured, the real story will get lost under the mass of indicators. This would be exacerbated if attention were to focus primarily on those indicators that are easiest to measure rather than more difficult ones that might be more revealing.

Notwithstanding the challenges that these issues raise, we believe that it is possible to conduct a useful and systematic review of the broadcasting sector to assess how

effectively different aspects of PSB are being delivered. Key to a successful analysis is the recognition that indicators are only useful if they contribute to the overall assessment or narrative. So the indicators used must be clearly linked to key questions or aspects of broadcasting which are important PSB aims or objectives. They should be thought of as clues or pieces of evidence in constructing the story. These indicators will include measures of output (how much is being produced), impact (how many people are watching, and how much they are appreciating the programmes) and efficiency (how cost-effective it is to reach the audiences).

Figure 11.2 shows one possible way of thinking about the different objectives of PSB, as set out in the Communications Act. For each objective, it is possible to devise measures that can then be tracked over time to build up a view of how effectively they are being delivered, and to allow comparisons between broadcasters and over time.



**Figure 11.2 Communications Act objectives of PSB**
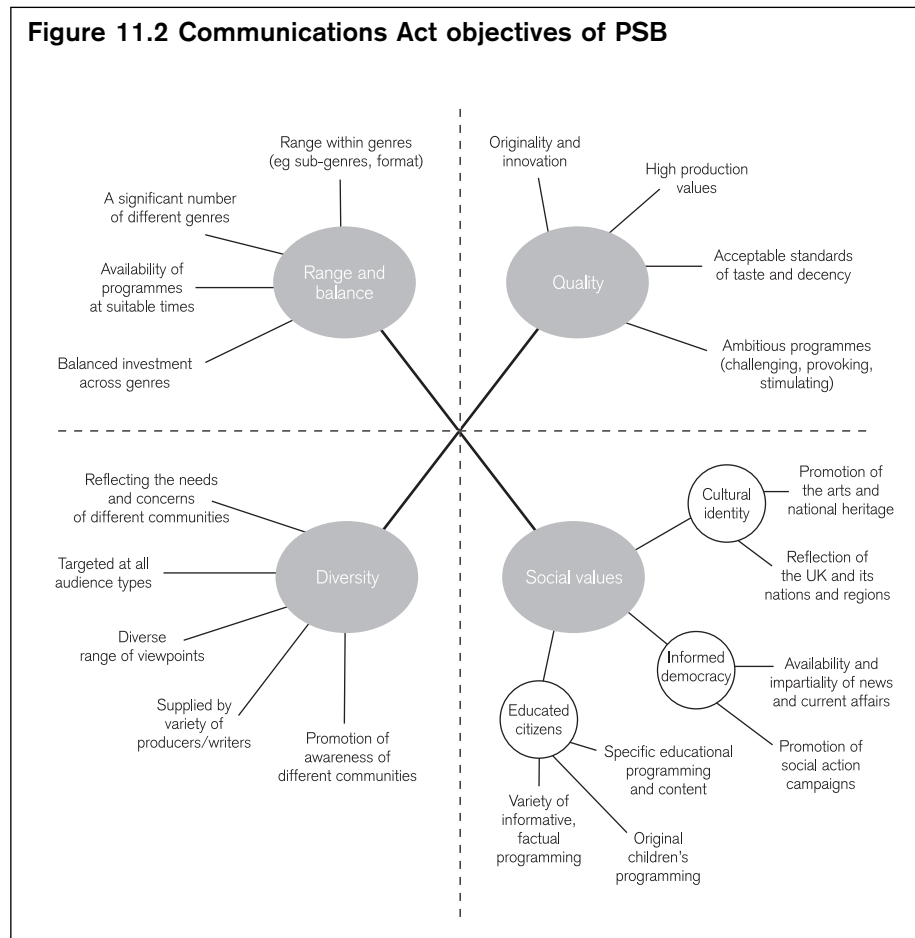
By way of example, consider the provision of news programmes. To consider the contribution of this genre towards range and balance, we might track the number of hours of output on each channel, in total and in peak-time, and expenditure on the provision of news. We might also measure the size of the audience for news programmes on different channels by socio-demographic group, to determine the extent to which the needs of different audiences are being met, as part of the analysis of diversity. Cost-per-hour data for news programmes will give a proxy for quality. We might also want to conduct a content analysis to measure the relative prominence given to regional, national and international stories; or to the focus on, say, political or show business stories (different broadcasters' news agendas may be seen to have an impact on range, diversity and quality). Finally, to look at informed democracy, we might use market research to monitor audiences' views on the extent to which news programmes promote fair and well-informed debate, are comprehensive and authoritative, and are regarded as being accurate and impartial.

An important additional dimension in the measurement of PSB must be the efficiency with which it is delivered. We are concerned not just with what is produced and consumed, but the resources used to produce and distribute it. Measures such as amount spent per viewer for each hour of broadcast (across different genres) can be useful here. This might enable us to monitor, amongst other things, the comparative effectiveness of different broadcasters in producing comparable type of programming.

The Ofcom review will mark the first instance such a comprehensive, evidence-based analysis of PSB will be conducted across the entire sector, covering both the BBC and the commercial players. This is a potentially powerful exercise, and should significantly increase the extent to which broadcasters become accountable for fulfilling the PSB purposes set out in the Act (and elaborated in the review).

## Assessing the value produced by public service broadcasting

Measurement of the delivery of PSB, as described above, will tell us about how effectively public service broadcasters are fulfilling the purposes set out in the Act. It will not, however, tell us how much the various components of PSB are valued by viewers, nor will it show whether the cost of the relevant PSB interventions is justified by the benefits ultimately produced. Measuring the costs and benefits of PSB should be the final part of our analysis. It is also possibly the most important, and almost certainly the most difficult, part of the work.

Its importance stems from the fact that in the current political and economic climate it is no longer excusable to justify such a major use of public funds as PSB without hard evidence regarding the value for money delivered by that expenditure. Few other forms of public spending have such an easy ride as PSB has enjoyed in the

past, arguably because few other forms of public intervention have resulted in the provision of services that are as widely enjoyed as PSB programmes.

The difficulty of the work is due in large part to the intangible nature of the benefits of PSB. As with many other publicly-funded services, such as defence and other forms of arts funding, it is extremely difficult to translate the benefits provided by PSB into a monetary value that could then be directly compared with a cost figure to provide a net benefit (or net cost) to society of PSB interventions.

Nevertheless, after examining a number of different approaches that might be taken to assess these benefits, we do think that powerful tools exist which can be deployed to shed more light than previous studies have done on the relative strength of the benefits of different components of PSB. This in turn may be used to inform decisions as whether money is being spent on the right things.

## The ITV1 pilot study

As an indication of the approach that might be taken, the ITC has carried out a pilot study that examines the costs and benefits of certain genre-specific PSB obligations imposed on ITV1. The purpose of the project, carried out with the help of consultancy firms Human Capital and The Knowledge Agency, was to calculate, for the first time, detailed estimates of the opportunity costs incurred by ITV as a consequence of its PSB programming obligations, along with an assessment of the benefits of these programming obligations enjoyed by UK audiences in their capacity both as consumers and as citizens.

This section describes the approach and results of the research, and concludes with a look at what the study seems to be saying about the overall value of PSB programming as currently delivered by ITV1.

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**Table 11.1 ITV1's genre-specific obligations in 2002**

| *Network* | *Annual programme hours* |
|---|---|
| News and Weather | 365 (obligation) |
| Current Affairs | 78 (obligation) |
| Religion | 104 (obligation) |
| Children's (excl acquired) | 391 (obligation) |
| Arts | 39 (indicative target) |
| | |
| *Regional − average across licensees* | |
| Regional News | 342 (all programming) |
| Regional Current Affairs | 29 (all programming) |
| Regional Other | 290 (all programming) |

## Approach to calculating opportunity costs

At the heart of our approach lies a simple but fundamental formula for calculating the opportunity cost[2] to ITV1 of showing PSB programmes. This formula aims to capture the true cost of PSB, which is not simply how much these programmes cost to make. Rather, it is the margin (or contribution) generated by these PSB programmes compared to what might have been shown if the PSB obligation did not exist. More specifically, the opportunity cost of a PSB obligation is made up of:

● the additional production costs of the relevant PSB programmes that were actually shown, compared to those of alternative non-PSB programmes that might have been shown in their place; plus

● the net advertising revenue (NAR) foregone by showing the relevant PSB programmes rather than more commercial non-PSB programmes.
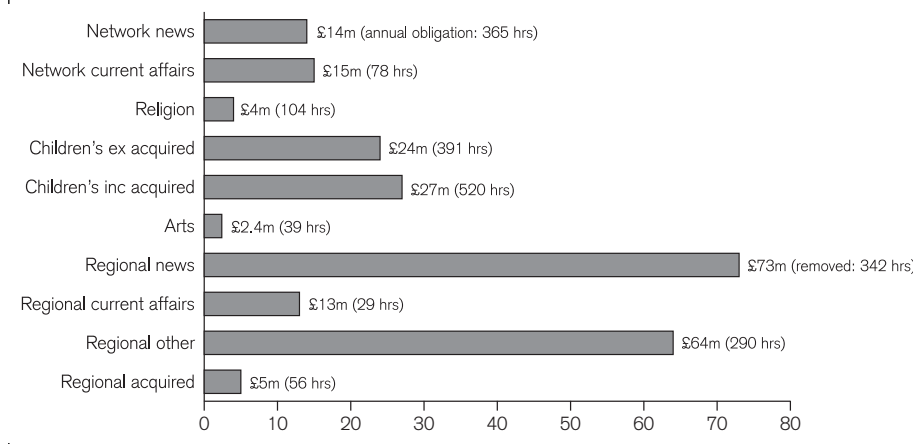
All further references to the costs of PSB are to this notion of opportunity cost.

In order to complete the specification of this approach, we needed to take a view on what types of programmes ITV1 might show if it were not under obligation to show PSB programming. We deliberately developed a mechanistic rules-based approach, based on the underlying principle that, in the absence of PSB obligations, ITV1 would simply show more of the types of commercial programming that it already shows in similar time slots. This approach has the merits, firstly, of simplicity (in conceptual terms); secondly, of objectivity, in that it avoids the need for subjective or arbitrary judgements; and thirdly, of being intuitively plausible (more so than other candidate rules that we considered).

We thus created a stylised schedule that represented the types of programmes that ITV1 actually showed in 2002, along with a series of alternative schedules showing what might have been shown had each of the PSB obligations not existed.[3] Using detailed data, provided by licensees to the ITC, along with BARB viewing data) we then estimated average costs-per-hour and revenues-per-hour for each programme genre, separately for each time of the day and each day of the week in the stylised schedules.

## Opportunity costs to ITV1

The results of this exercise are shown in Figure 11.3, which shows the total annual opportunity costs to ITV1 associated with each of the PSB genres. The chart also shows the number of hours of programming each year stipulated by each of the obligations.

**Figure 11.3 Opportunity costs of PSB obligations by genre, 2002 (£ million)**

| Genre | Value |
|---|---|
| Network news | £14m (annual obligation: 365 hrs) |
| Network current affairs | £15m (78 hrs) |
| Religion | £4m (104 hrs) |
| Children's ex acquired | £24m (391 hrs) |
| Children's inc acquired | £27m (520 hrs) |
| Arts | £2.4m (39 hrs) |
| Regional news | £73m (removed: 342 hrs) |
| Regional current affairs | £13m (29 hrs) |
| Regional other | £64m (290 hrs) |
| Regional acquired | £5m (56 hrs) |

The most immediate conclusion is that regional programming emerges as by far the greatest burden for ITV1. The explanation for this is relatively straightforward: this type of programming is inevitably expensive compared to alternative commercial programming given the regional variations required, with production costs incurred separately in each region. Moreover, a high volume of hours is required to be broadcast under the ITC's obligations, on average, the ITV regions each showed 660 hours annually across the three regional PSB genres. Moreover, regional news in particular is broadcast at times in the day when significantly higher revenues could be earned by showing more popular commercial programming. So both elements of the opportunity cost formula, extra cost of production and foregone advertising revenue, are significant when it comes to regional programming.

The chart shows that the next most expensive genre is children's programming, again due to a mixture of high opportunity costs-per hour and a large volume of output. Interestingly, further analysis showed significant differences between the costs associated with ITV1's children's output in its two main slots: weekday afternoons and Saturday mornings. The weekend programmes do not in fact impose significant opportunity costs to ITV1, while the costs associated with weekday slots are substantially higher than the all-week averages shown in the chart.

Turning to the other genres, network news and current affairs are relatively low-cost genres. For news programmes, this reflects average programming costs that are low compared to what might be shown in their place, particularly for the peak-time bulletins. Also, audiences and hence revenues for network news remain relatively high. For these reasons, the total annual opportunity cost of news provision remains low despite the high volume of output.

The costs associated with religion and arts programmes are the lowest of all the formal PSB obligations, due in part to their relatively low volume of output and to their off-peak scheduling, primarily Sunday lunchtime and late evening respectively.

Having discussed the main results, it is important to highlight some of the most important caveats to this work. The size of this list is an indication both of the complexity of the task and therefore the need to specify rules and simplifying assumptions to make it manageable and the care we have taken to be honest about the limitations of the approach.

- First, as an overarching point, although we believe the methodology to be robust and rigorously-applied, and the modelled data to be extremely comprehensive, the results remain estimates based on a series of both significant and minor assumptions.

- In particular, the results are highly dependent on the rule we applied for what ITV1 would show if it were not faced with its PSB obligations. We also considered alternative rules, such as replacing all PSB programming with acquisitions. While we believe such alternatives to be less plausible, it is important to realise that some of them would have generated substantially different results.

- We did not model the impact of inheritance effects, whereby a change in the schedule might have knock-on effects on the audiences of subsequent programmes. This means, for example, that we did not capture the entire potential benefit that ITV1 might enjoy, if it were able to drop its weekday afternoon children's programmes, by reconstructing its subsequent early evening schedule.

- We also did not model the impact of counter scheduling, whereby a change in ITV1's schedule might lead to a response by other broadcasters and a possible further response from ITV1. Whereas both this and the inheritance effect would inevitably have some impact on the true opportunity costs, note that these two effects will tend to work in opposite directions and thus cancel each other out to some extent. This means that excluding them from the model becomes less problematic.

- Our model was constructed to estimate the impact of removing each PSB genre separately, for two reasons. Firstly, this enabled us to estimate the costs for each individual genre. And secondly, this meant that the volume of programming being removed and inserted in each scenario would be much smaller than if all the genres were removed at once. This in turn means that the implicit assumption that average costs-per-hour and revenues-per-hour for each genre remain constant as the volume of programming changes is likely to be a reasonable simplification. This would not necessarily be the case if we were to remove all the genres at once, and so adding up the opportunity costs for each genre to reach an estimate

of the total cost imposed on ITV1 by all its PSB genre obligations taken together is likely to give a less reliable estimate than those for the individual genres.

● Finally, our pilot study was limited to analysing genre-specific programming obligations on ITV1. There are additional conditions that ITV licensees face, but which we excluded from the scope of the study, such as the requirement to maintain a network of regional production centres.

## Assessing the benefits of PSB programming on ITV1

The approach that we adopted to analyse the costs of PSB was conceptually straightforward, notwithstanding the laborious nature of such a data-intensive study. Estimating the value of the corresponding benefits, by contrast, is a much trickier task, as a couple of fundamental problems arise when it comes to determining an appropriate methodology. The first problem is that benefits cannot be captured by a simple formula, analogous to the one specified for the opportunity costs, which may be evaluated by collecting and analysing relevant hard data. Rather, market research tends to be the standard way to assess the benefits of PSB. And second, as noted above, the value of the benefits cannot readily be expressed in monetary terms. The benefits are typically assumed to confer some kind of utility on to consumers, and mapping utility on to a monetary scale is a far from simple exercise.

Given these fundamental problems, we felt that it should be feasible at least to calculate the relative benefits of different PSB genres: how important is network news compared to, say, children's programming. Of course, many studies in this area have been conducted in the past, including those by the ITC. An example of the types of results that are produced is shown in Figure 11.4.

**Figure 11.4 Example of results from earlier ITC studies**

Source: What Viewers Want, ITC, January 2001

Note that in this example the results are highly clustered, with five of the eleven genres generating scores of over 90 per cent. This highlights what we believe to be an important shortcoming of this type of study. Because of the nature of the questions that respondents face, there is no downside or cost to them agreeing (in this instance) that ITV1 should show every type of programme, as a result of which there will be a strong tendency for the percentage of 'yes' responses to be very high.

Our ambition was to address this issue by conducting research using a framework that forces people to make actual choices between different genres and reveal their real strength of preference between different PSB genres. Such an approach would put people in a position where they realised that they could not have more of everything for 'free' and would therefore have to choose what was most important to them.
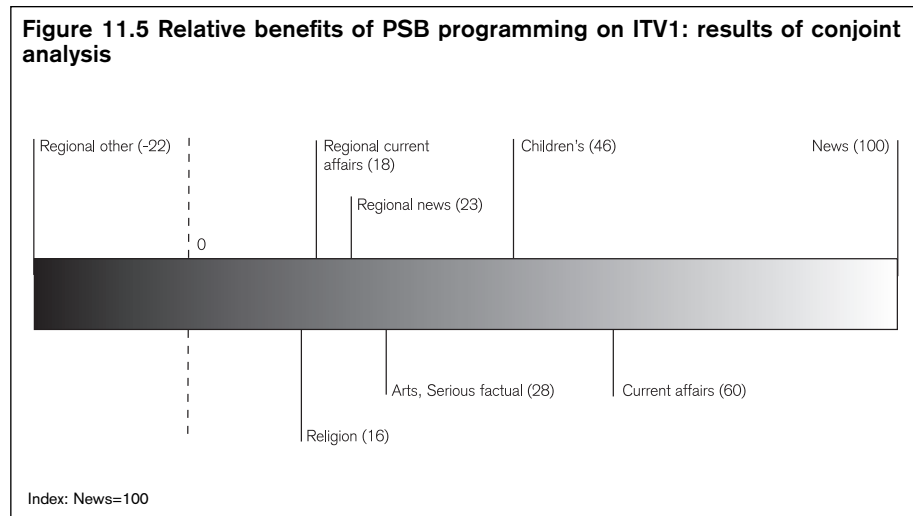
In order to do this, we turned to a market research technique called conjoint analysis. This technique is well-established in other areas of consumer products, and is used to help manufacturers and other service providers understand consumers' preferences over the attributes of products such as package holidays, bank accounts and cars. It does this by offering respondents a series of simple trade-offs between different levels of the attributes that make up the product. Using the classic example of cars, these attributes might include number of doors, safety features, specification of the in-car stereo, luxuriance of the interior, etc. The individual trade-offs are then aggregated to reveal consumers' relative preferences about the attributes of the relevant product.

For our purposes, the relevant product was PSB programming on ITV1. The challenge was to adapt a technique generally used for products about which consumers have to make conscious purchase decisions to a service that they receive for free. To add to the challenge, we also wanted respondents to think about the different genres not only from their own personal viewpoint but also from a wider societal perspective.

To this end, we sent a questionnaire to more than 4000 respondents across the UK[4], in which they were presented with a series of pairs of different scenarios about the amount of PSB programming that could be shown on ITV1 each week. Each scenario specified a certain number of hours of each PSB genre, with the number of hours in each pair varying across some or all of the genres. The nature of each genre was explained to respondents, with region-specific programme examples for each one. We asked respondents to decide, for each pair, which alternative they preferred both from their own position as viewers, personal or consumer benefits and also from the position of UK society as a whole, social or citizen benefits.

Relative benefits of PSB programming on ITV1

The aggregate preferences expressed by respondents as a result of the choices made in the questionnaire are shown in Figure 11.5. As there was no absolute measure, the results are expressed as a percentage of the total preference for network news (which itself therefore had a score of 100 per cent).

**Figure 11.5 Relative benefits of PSB programming on ITV1: results of conjoint analysis**

Regional other (-22)    Regional current affairs (18)    Children's (46)    News (100)

Regional news (23)

0

Arts, Serious factual (28)    Current affairs (60)

Religion (16)

Index: News=100

We found these constrained-choice results to be extremely interesting. Compared to previous research, the importance attached to network news on ITV1 is stark. Along with previous studies, this was shown to be the most valued genre. But what the conjoint analysis revealed was that, with the exception of current affairs (which was also highly valued), network news provides more than twice as much value to ITV1 viewers as any other PSB genre. Note the contrast between this result and those from the previous study, which showed news to be rated only slightly higher than other genres. The new results appear to indicate that network news really is the very bedrock of PSB on ITV1, with current affairs emerging as a strong second.

   The other results that stand out are those for regional programming. When forced to make a choice based on the actual delivery of regional programming, respondents appeared to place a much lower value on ITV1's regional programming than in previous studies. Indeed, the results imply that they would rather watch any other PSB genre than so-called 'Regional Other' which includes a mixture of regional sports, factual, entertainment and arts programmes. When asked about the importance of the various genres, however, regional programming scored highly, indicating that further work is needed to understand the key drivers of these results, including perhaps a review of the quality of the programming delivered.

## Weighing up costs and benefits

Bringing together the costs and benefits studies, it is possible to represent the results on a chart which gives some insights into the relative (but not absolute) performance of these genres on ITV1, shown in Figure 11.6.

**Figure 11.6 Comparing costs and benefits of ITV1's PSB obligations: pilot results**
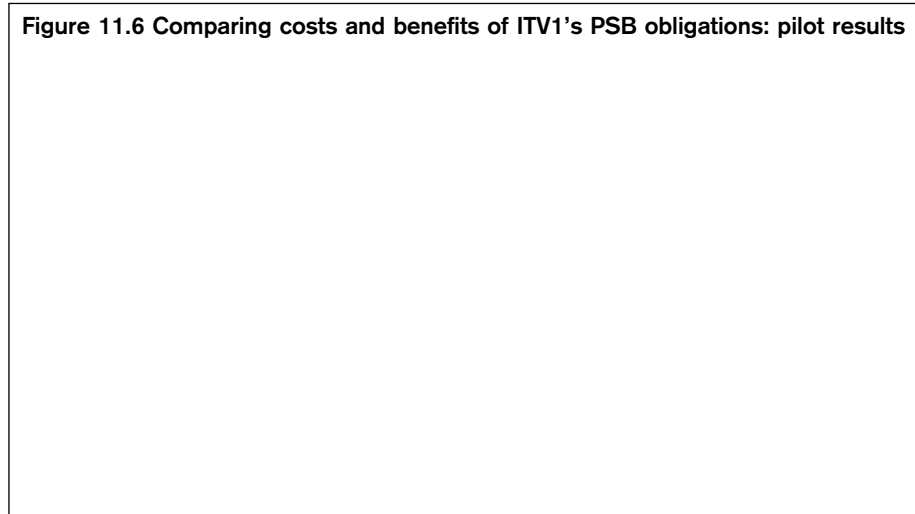
These results need to be interpreted carefully. Because the benefits are ranked relative to each other rather than in absolute terms, it is not possible to subtract the benefits score from the opportunity cost to derive a net benefit. Indeed, it is not possible to infer from this chart whether the net benefits for any genres are positive or negative. So we cannot state in absolute terms whether some genres are proving good value for money and others not. What we can do is draw conclusions about the relative performance of different genres. That is, we can say that genre X is performing better than genre Y by delivering greater benefit at a lower cost.

Bearing this in mind, three distinct groups of genres emerge. The first includes arts, religion and regional current affairs. While the personal and social benefits derived from these genres appear to be comparatively low, the opportunity cost of these genres is also low, so these genres are of least concern in terms of the burden imposed on ITV1.

The second group, network news, current affairs and children's, contains those genres which are most highly valued by viewers. Although the opportunity cost associated with these genres is not insignificant, they are certainly not the most costly genres and therefore these may be thought of as the best-performing PSB genres.

Regional news and regional other programming, which make up the third group, are the genres revealed as being of most concern, due to both the particularly high cost of delivery and the relatively low associated benefits. Interestingly, if the conclusion of ITC

research in 2002 (Sancho 2002), that viewers would prefer fewer hours of higher quality regional programming on ITV1, were adopted, we might see a move both upwards and to the left for these genres, into a higher-benefit, lower-cost area of the chart.

As with the costs work, it is important to note a few caveats to these results.

- First, to the best of our knowledge, this is the first time that conjoint analysis has been undertaken to assess different genres of television programming. While we believe that the approach that we have taken is robust (and was tested carefully with two pilot studies), the innovative nature of the work means that it has not been possible to cross-check the findings with other studies.

- Second, while we asked respondents to make their choices based on both personal preferences and taking a wider societal view, it is difficult to check to what extent the altruistic element informed their decisions. Further research could probe this further by conducting separate conjoint studies focusing on the personal and social elements.

- Third, a general concern that applies to all consumer-oriented market research is that the approach is based on the assumption that consumers are best-placed to judge the full extent of what PSB should provide. Consequently, this research does not identify the 'merit good' aspects of PSB, the benefits of which, by their nature, are not fully recognised by consumers. Moreover, there may be some wider social benefits that are not understood or recognised by individuals, even when challenged to include them in their responses. As noted above, it would be possible to complement this work by seeking the views of industry experts and/or of specialists in other fields directly relevant to each genre.

## Extending the work to other channels

Cost-benefit analysis of this nature could be extended to the other network channels, although varying approaches may be needed. The ITC has already undertaken work on the opportunity costs of the PSB genres on Five, and it would be possible to undertake research on the corresponding benefits along the same lines as the ITV1 study. However, this methodology does not translate so easily to Channel 4 or to the BBC channels.

Channel 4 faces a range of genre-specific obligations, like ITV1, but its remit also specifies a series of additional obligations, for example, to 'encourage innovation and experiment', that apply across all its output. Therefore, it is not so straightforward to split Channel 4's output into PSB and non-PSB programming. Also, as it is not intended to be a commercially-driven profit-maximiser, the assumptions regarding the programming that Channel 4 would show if its obligations were to be relaxed would

not necessarily be the same as those that applied to ITV1. For these reasons, some modifications to the approach would need to be made. For example, it may be necessary to hypothesise a profit-maximising schedule for Channel 4, rather than modelling incremental changes to the programme mix, and derive from this an estimate of the value to a fully commercial operator of Channel 4's licence.

Turning to the BBC channels, a different framework is likely to be necessary. As with Channel 4, the PSB elements of these channels cannot be reduced to specific genres. More fundamentally, given the nature and funding of the BBC, it would be difficult to apply an opportunity cost formula in the same way as was done for ITV1. One approach for assessing the value of these channels would be to conduct market research that presented respondents with a range of bundles of BBC services, consistent with different levels of the licence fee, and ask respondents which they would prefer. The challenges of such an approach would be to devise meaningful packages or bundles, and to elicit honest responses that were not biased in either direction.

## Conclusions

In this chapter, we have set out an approach to defining PSB, in terms of objectives and necessary interventions; to measure its delivery; and (more tentatively) to assess the value produced within a cost-benefit framework. We also presented in more detail the results of the pilot study that the ITC has recently undertaken to assess the costs and benefits of PSB obligations on ITV1.

We hope that – by setting out such an approach – we have helped to clarify the issues and challenges that relate to the definition and measurement of PSB, and have laid useful groundwork for future thinking and research in this area.

## Endnotes

1  Directly or indirectly, with the precise amount depending on how we value the radio spectrum being used by public service broadcasters.

2  The opportunity cost of a commodity is the value of the best alternative use to which those resources could have been put, the value of the productive opportunities foregone by the decision to use them in producing that commodity. Source:
http://www.worldbank.org/hsr/class/module1/glossary.htm

3  To give a simple numerical example, the stylised schedule might have shown that between 2-3pm on Mondays over the course of 2002, ITV1 showed 40 per cent of light entertainment (LE), 40 per cent acquired programming and 20 per cent regional current affairs PSB programming (these figures are purely illustrative, and are not intended to represent what ITV1 actually showed in that time slot). To

estimate what ITV1 might have shown in place of regional current affairs, if the obligation to show those programmes had not existed, we constructed the alternative schedule by simply removing the PSB programming and scaling up the remaining commercial programming, to 50 per cent LE and 50 per cent acquired.

4    A self-completion postal survey was sent to a broadcast panel recruited to be representative of the UK population in terms of age, sex, socio-economic class, working status, region and multichannel take-up (Quest panel). A total of 4,479 questionnaires were returned.

# Conclusions and recommendations

Jamie Cowling and Damian Tambini

Portents of a revolution in public service broadcasting continue to be heard in the UK as policy attention turns to BBC Charter Review, which must be concluded in 2006, and to the business of regulation under the new regime instituted by the Communications Act (2003). As ever, those who have the most to gain from a retreat of public service are the leading cheerleaders of change.

Looking back over the past two decades, however, it is now impossible to deny that public service broadcasting (PSB) policy must adjust to a radically altered landscape. The UK government has now set out a structure in which PSB will be regulated under the new Communications Act. But what of the BBC, and of the remaining questions about the regulation of commercial public service broadcasters? How are progressives, who are committed to the goals of public service broadcasting: in democracy, education, equality and empowerment, to respond as new channels and services take audiences and revenue from the traditional public service broadcasters? What values and objectives should govern decisions made now about the ultimate balance of public and private in the new communications environment and what policy levers are likely to be effective and proportionate?

The central challenge in public service communications remains the relationship with government, and with other centres of power in society. These issues are thrown into sharp relief during periods of change, when strategic decisions need to be made for the sector as a whole. As a signatory to Article 10 of the European Convention on Human Rights the UK will continue to be restrained in its management of relationships with communications providers and should act with particular sensitivity and restraint where public trust is at stake. But a commitment to independence and free expression should not be allowed to undermine or hinder a commitment to modernisation. The two must go hand in hand.

The contributors to this book generally agree that with Government support for digital switch-over by 2010, and a minimum of 24 channels available to most UK homes by that point, UK broadcasting is experiencing not incremental evolution, but a genuine step change. With around half UK households now equipped with digital television and internet access (ITC 2003), many argue that the harbingers of change, such as Alan Peacock (Peacock 1986), were not wrong, they were just ahead of their time. Whilst in broad agreement about the parameters of change, the chapters in this book do not offer a consensus view on the way forward.

The recommendations made later in this chapter are the opinions of the book's editors and not of the other authors published here.

## The pressures for change

By the 1950s it was recognised that competition in public service television would bring greater benefits than monopoly provision. Since then the UK's television broadcasting system has been predicated on the premise that independent regulation would ensure competition for quality as well as competition for audiences. Since the 1980s there has been a steady liberalisation of structural regulation but successive administrations have argued that the maintenance of tight content restrictions would maintain the UK's system of public service broadcasting. But the UK's public service broadcasting ecology may be close to breakdown.

Technological and social change has altered the conditions for both reception and funding of public service broadcasting in the UK. Increasing viewer choice and control has fatally weakened the traditional methods of delivery of public service broadcasting. Viewing of traditional public service genres, such as arts and religious programming, declines precipitously when viewers have more choice in multi-channel homes, both in the UK and in more mature multi-channel markets such as Germany (Tambini, this volume). Furthermore, the need to maintain audience share reduces public service broadcasters' ability to take risks and innovate (Bergg, this volume). The commercially funded public service broadcasters must maintain their share of the audience in order to attract advertising revenue. As the value of terrestrial spectrum declines and the relative cost of the traditional public service broadcasting genres increases the historical bargain between the commercially funded public service broadcasters and the state may no longer be viable (Cowling, this volume).

Justifications for market provision of broadcasting goods have traditionally been founded on the promise of increased consumer choice and diversity of content. Whilst the reality of the situation is hotly contested, market providers continue to argue that the current levels of public intervention dull the rainbow that could be if only the market was left to provide. If the market is to deliver innovation and these lasting questions are to be answered how should progressives who believe in public provision address this question? There is a clear need for policy to provide certainty for investors on the actions of the publicly funded organisations to avoid crowding out market provision. This is intimately related to the question 'what is the optimal size for the BBC?', or what Richard Collins describes as the Goldilocks problem: how much BBC is not too big, not too small, but just right. In a dynamic and changing market, we have seen that what may have seemed a just licence fee settlement seems more generous as commercial revenues are eroded as has happened in advertising since 1999. The market power

of the BBC where it competes with other broadcasters is therefore difficult to predict and control.

The BBC faces continuing challenges with regard to its independence from the Government and not only in the direct sense of government criticism of the BBC's news output. Over the past decade, there has been regular negotiation between the Government of the day and the BBC as a series of government reviews and approvals for new BBC services has enabled the BBC to develop a radical new digital strategy. However, in previous periods, when ministerial decisions regarding whether to approve a BBC launch were extremely rare, the potential to compromise the independence of the Corporation could be tolerated. But in the context of rapid technological change, the BBC is likely to be in permanent government review for some new service or other, a position that is not acceptable if we are to guarantee the independence of the BBC. Another principle form of 'accountability' for the BBC has been the annual report to Parliament. Parliamentary scrutiny is welcome, but the yearly ritual of the report to Parliament should not be mistaken for genuine regulation or accountability.

The current structure of review of public service communications institutions needs itself to be reviewed. A new structure for managing innovation in neither of government's nor the BBC's interest is required for the future.

## The real challenges for public service communications

The debate on public service broadcasting has been conducted between diametrically opposed world views. On the one hand, there are what Robin Foster *et al* call the market extremists, who argue that public intervention in broadcasting markets can only be justified on a narrow definition of market failure (Bracken & Fowler 1993). On the other, some, such as Steven Barnett in this volume, who forcefully argue that broadcasting has and will continue to have in the future a unique ability to advance social and cultural goals. Andrew Graham and Gavin Davies' traditional justification for public service broadcasting tried to steer a course between both poles allowing them to proclaim at once that public service broadcasting 'can only be justified in terms of market failure' and that broadcasting has a unique social and cultural role that makes public intervention necessary (Davies 1999; Graham & Davies 1997). However, as Richard Collins argues, that traditional defence is increasingly under attack (Collins 2003). As several authors in this book have noted, the debate about public service communications is moving on. It is no longer concerned merely with narrow market failure but returns to first principles, and the civic role of communication.

Both sides of the debate, whilst professing to speak the language of markets on the one hand and culture on the other, have in reality been arguing about the need for an

institution, such as the BBC, rather than the need for public intervention in broadcasting markets per se. They have been confusing the means and the ends. Markets are a means to an end, they foster innovation and efficient allocation of resources. However, market solutions, even if possible are not always acceptable or desirable (Kelly & Muers 2002). Rationales for public service communications are located within broader policy objectives, such as the need for trusted information and other merit goods. The appropriate means of delivery should be those that are most effective in achieving these goals (Kelly & Muers 2002).

To be truly effective in serving the new public interest, public service communications must address the broader societal challenges of the 21st century. Such as the danger of growing disenfranchisement with the political process and the danger of a digital divide between the information 'haves' and the information 'have-nots'.

The one-to-many broadcasting paradigm was based on the model of a small number of mass broadcasters and a passive public, but such broadcasters find it increasingly difficult to connect with all members of society. Crucially, whilst broadcast news has been extremely successful in providing the majority with a trusted source of information on which to base their public decisions. it has also left many behind, often the most vulnerable in society. The young are turning off from broadcast news, as are the socially excluded and ethnic minorities (Hargreaves & Thomas 2002). Michael Eboda, Editor of *New Nation* in a recent editorial commented, 'Many are asking why they should pay their licence fee when BBC programmes are so glaringly unrepresentative of their culture' (Norris *et al* 2003).

Addressing the danger of a digital divide between the information rich and information poor will become more important not less (Strategy Unit 2003). The digital divide is usually conceptualised in policy debate in terms of access to hardware and to skills, but the central civic challenge of access is access to trusted information.

The ability of citizen's choices to drive up standards in public services, for example in schools and hospitals, requires citizens to have access to trusted sources of high quality, impartial, information on which to base their decisions. If high quality, impartial information fails to reach the worst off in society the extension of choice in public services could serve to re-inforce conditions of social exclusion.

Public service broadcasting's mission to educate, inform and entertain must be renewed on the basis of empowerment. As Stephen Coleman writes in this volume, the interactive potential of public service communications can be used to address both the geographical and the social tyranny of distance. Public service communications through giving citizens a voice and requiring the centre to listen can reconnect atomised individuals to a reinvigorated public sphere (Coleman, this volume; Kearns 2003).

With fragmentation and segmentation of the market there come dangers of a decline in the 'social glue' role of broadcasting. It is not enough simply to say that we

should continue to support mass, mixed schedule broadcasters in this important role of social integration, because if consumers do turn away in droves, then high cost PSB genres such as home produced dramas will be increasingly difficult to justify. A glance at the weekly viewing figures for the major soaps shows that public service drama is flourishing, even in multi-channel homes. It is not drama but PSB genres such as religion and factual that experience more marked audience loss in the shift to digital (Tambini, this volume). Clearly, however it is possible that a tipping point could be reached in the process of fragmentation and segmentation and the water cooler attraction of this programming goes into rapid decline. This underlines the need for constant monitoring of public service broadcasting's public value and cost, along the lines of the schema being proposed by Ofcom (Foster et al, this volume).

A public service communications framework should address the key challenges of our time, such as the failure to articulate a legal or business framework to accommodate the great cultural revolutions of our time: the rise of peer to peer and file sharing. When a cultural movement reaches this level of critical mass, it must clearly be a priority for public policy to facilitate its decriminalisation. Internationally, the Creative Commons organisation is doing excellent work to develop a smarter approach to intellectual property licensing. The BBC's proposals for a Creative Archive must in that context be welcomed as precisely the kind of innovative visionary work that the BBC should be doing, but all players must review their approach to intellectual property policy[1] and adapt to, rather than criminalise, our changing culture.

The time has come to take stock, analyse, and make sure that a coherent framework is in place to permit the UK to lead the world in Public Service Communications. This framework should accept that there are a great variety of different players in the market, each of whom has valid concerns and a different interest: publicly owned, advertising-funded communications, small independent developers such as independent production companies, online services developers and games companies, grassroots not-for-profit content creators and large publisher broadcasters which have to balance public service with a responsibility to their shareholders. A healthy public service communications ecology will involve all of these types of players and more.

In the new context, new policy initiatives are required to enable the protection of public values through reform of the institutions of public service.

## Recommendations

The British Communications Corporation: updating the Charter for the 21st Century

We recommend that there is not a separate online section, but that changes should be across the board. Here are some elements of articles that need to be included in a new BBC Charter.

- Amendment of Charter at 3a to make provision of online services one of the 'Objects of the corporation' with the aim of removing online from the prior approvals process.
  - Charter definition of the aims of BBC's online services should include: performance against clearly defined objectives in interactive service delivery such as local empowerment and capacity building.
  - Efficiency of public service delivery.
  - Quotas for independent production of interactive content ('the participatory capital' fund).
  - Independence of editorial control from Government.
  - Universality of availability.
  - Facilitation of innovative new models of content creation and distribution.
  - Intellectual property policy to facilitate creative peer-to-peer use of BBC content.

- *A British Civic Commons*

  The Charter should be amended to enable the Corporation to form a public-public partnership with UK Online with control of editorial decisions firmly in the hands of the BBC, within a broad set of objectives to 'facilitate and encourage a broad and inclusive exchange of ideas with regard to government consultation along the lines recommended by Stephen Coleman in this volume. After a decade of civic experimentation in internet services, it is time to develop a coherent approach to the relationship between government information/consultation, publicly funded websites and publicly funded broadcasters. A large amount of money has been wasted on UK Online Citizen Space and other attempts to encourage citizen participation online. This money should be redirected to the BBC who should rise to the challenge of developing a genuinely independent approach to interactive government consultation drawing on the tradition of impartial broadcasting. Civic debate online should facilitate direct involvement of citizens with government consultations and pre-legislative scrutiny online (Toon 2003). The main vehicle for this should be a Public-Public Partnership between the BBC and the E-Envoy's office.

## Public Service Communications: the terms of funding

- *Following switchover, positive public service content obligations should be placed on all channels over a certain audience share*

  There is a danger that the traditional public service broadcasters may in the future be unable and unwilling to maintain their public service obligations. If public service content is to have a chance of being viewed it should not be

placed on channels where the audience is unlikely to see it, as with PBS in the US. Furthermore, given the importance of the principles behind public service and in order to establish a level playing field, all channels over a certain audience threshold (defined by relative share to the other available channels) should be required to broadcast public service content.

● *A contestable fund for public service communications*

A contestable fund, along the lines of an arts council of the airwaves, for public service communications content is unworkable. Rather than allowing all channels to bid for funding a sliding scale of obligations and benefits for those channels above a certain audience threshold (see above) should be established. The value of the benefit should be proportionate to the public service obligations placed on the channel. These benefits would include due prominence on Electronic Programme Guides, must carry obligations on delivery platforms, a reduction in spectrum charges and, if required, ultimately additional public funding.

● *'Top-slicing' of the licence fee*

'Top-slicing' of the licence fee should be resisted as a means of funding public service communications providers other than the BBC until the next Charter review process. If required additional funding for public service communications should come from communications providers' spectrum charges as in Finland.

● *Paying for public service communications online*

Currently those outside of the UK do not pay for access to the BBC's online content. Those outside of the UK extensively use the BBC's online content without paying for access, thereby reducing its availability for licence fee payers. It is becoming increasingly possible to identify the geographical location of internet users using their IP address. As soon as is practicable the BBC should, as with the BBC World channel, carry advertising on web pages and audio/video players accessed from outside the UK.

● *A progressive licence fee*

The licence fee is a regressive tax. It pays for a public service available to all but falls most heavily on those who least able to afford it. Bizarrely, the current methods of payment, such as the Cash Easy Entry Scheme, established to best aid the least well-off require a higher licence fee payment in total. This anomaly should be changed immediately. Non-payment of the licence fee should become a civil offence. This will prevent the needless criminalisation of a

significant number of people. Finally the Government should consider extending the over-75s concessions scheme to those on Incapacity Benefit, perhaps halving the total cost of the licence fee for these groups. Those on Incapacity Benefit are unable to work and have a greater need for access to public service television than most. In the long term the licence fee should become a hypothecated tax on income with reduced fees for all benefit claimants.

## Assessing value for money in public service communications

An assessment of value for money should: examine the *aims* of public service communications; an examination of the *costs* incurred by broadcasters in carrying out these obligations; an assessment of to what extent these aims have been *met*; an assessment if the subsidy delivered is *proportionate* to the costs incurred; and an assessment as to if the outcomes could have been achieved more efficiently by *other means*.

- *Internal Efficiency*

  Should be regulated through cost comparisons between commercial and public service broadcasters (Collins this volume). It is also necessary to combine efficiency measures with measures of benefit to the public. Robin Foster (this volume) outlines one such scheme.

- *Broadcast Outputs*

  The work of the international public service broadcasters group (Cavenett 2003) should be continued and key performance indicators and performance targets should be published annually. Output measures should include: hours of desired content; at what time; watched by how many people; universality of coverage; local content; diversity/range (Hellman 2001; Ishikawa 1996); indigenous/regional production (by hours broadcast and production spend).

- *Online Outputs*

  As Stephen Coleman, Mike Bracken and Alex Balfour argue in this volume, the online communications environment radically changes the relationship between service users and service providers. The online environment also enables far greater usage and participation data gathering. Therefore detailed criteria developed in conjunction with the regulator for online service usage and participation should be published in the future. As a first step usage and participation data collection and analysis should be standardised. Usage and participation data should include: click-through rates from entertainment to

educational content; quantity of user-generated content and user feedback data to establish demand and appreciation.

- *Quality*

  Whilst regulation for quality will always be contested regulators should put in place, as far as possible, objective performance measures. Whilst the measures set out below are not perfect, they represent a significant step forward from the current opaque situation where allusions to quality or accusations of 'dumbing down' take the form of lists of programmes. David Bergg, Richard Collins and Robin Foster *et al* in this volume have suggested measures for what these performance measures should include:
  - To provide a dynamic measure of user appreciation beyond absolute numbers simply watching a programme Ofcom should transparently publish appreciation indices for programmes provided by any broadcaster in receipt of public funds.
  - Public service broadcasters should be charged with maintaining and strengthening public trust in news and current affairs. Ofcom and the BBC Board of Governors should measure collect and publish survey data on an annual basis.
  - Peer review data should be collected and key performance indicators should be developed.
  - If public service communicators are to act as a nursery for creativity performance targets for innovation, in terms of formats and on-screen and production talent should be implemented.
  - The framework developed by Foster et al in this volume should be implemented, with the addition of the above measures, for all broadcasters in receipt of public funds.

## Audit and value for money: Innovation, new services approval and accountability

Constant government review of new BBC services compromises the BBC's independence. This should be replaced by a more detailed general remit for the corporation and independent audit of BBC performance including new services. Clearly there is a need to make the BBC Governors more independent of the BBC. However, the BBC should not be brought under Ofcom. Just as there is a clear rationale for a plurality of content providers there is a clear rationale for a plurality of content regulators, particularly in the sphere of news and information.

- *Strengthening the BBC Board of Governors*
  - Governors should be elected according to the formula recommended by Richard Collins (this volume).

- The BBC regulator should be independent from Ofcom, from Government and from the BBC. This could involve the following practical steps: the Governors should be a separate body from the BBC, housed outside the corporation and with a general obligation for transparency in the communications between Governors and the Corporation's management, and direct independent links to national and regional councils. In this context, the Governors could be given enhanced powers to fulfil their duty to hold the Corporation to account.

- *Approval and accountability*

  There is an unambiguous need to be able to encourage public service communications providers to innovate and experiment. The BBC, for example, has a remarkable record of innovation and success in online services as Mike Bracken and Alex Balfour make plain in this volume. Furthermore, as Phil Redmond makes clear, talent sometimes needs the assistance of a shop window with guaranteed funding and a mission to experiment in order to be able to develop to its full potential. On the other hand, the Government needs to ensure that the chilling effects of crowding out by public service providers do not stifle innovation and new services from commercial providers (Bracken & Balfour this volume; Collins this volume). Furthermore, the Government will want new services to offer real value to citizens.

  - New service approvals for any providers in receipt of public funding should follow the model set out by the KEF (Priebs, this volume).
  - New services should be announced earlier prior to roll out to provide future certainty for commercial providers.

- *News and information*

  Fundamental values of veracity and independence, and high professional standards in journalism must be backed up by credible regulation, whose independence both from regulatee and from the Government is beyond question. In the light of the changes outlined in this book, the following emerge as the most significant challenges for new Programme Codes, and for the structure of regulation.

  - Role of Governors with regard to BBC editorial standards. The BBC has achieved unparalleled success in developing traditions and guidelines on news quality and impartiality. Clearly, however there is a need for an independent arbiter of standards and complaints involving the BBC. This could be achieved either by making the Governors independent of the BBC (as advocated above) or by introducing oversight of the codes and standards of journalists by an independent body such as Ofcom. The

oversight of the BBC need be neither onerous nor direct, but could take the form of 'audited self regulation' whereby the independent regulator reviews codes, compliance and procedures administered by the BBC according to agreed standards. The overall aim should be to separate managerial from standards decisions.

- Regional news is expensive to produce and unpopular with viewers (Foster *et al*). This means that it is unlikely to be provided by the market. However, a lack of popularity with consumers should not lead us to neglect the social and civic value of regional news. The shift to digital offers the possibility of a renaissance of civic information on local and regional levels. It is likely that any review will have to take account of the view that news markets should match civic units rather than bureaucratic units or historical accidents of terrestrial transmitter position. Wherever possible in the more flexible digital environment news provision should be encouraged on a city, devolved, or regional authority basis.

Parliamentary Scrutiny

- A Parliamentary Commission should be set up to discuss the setting up of the British Civic Commons in collaboration with the BBC.

- A joint pre-legislative scrutiny committee should be established along the lines of the Puttnam Committee (Puttnam 2002) for the BBC Charter and Agreement.

**Endnote**

1    For a progressive view of how to do this see Lessig (2001)

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