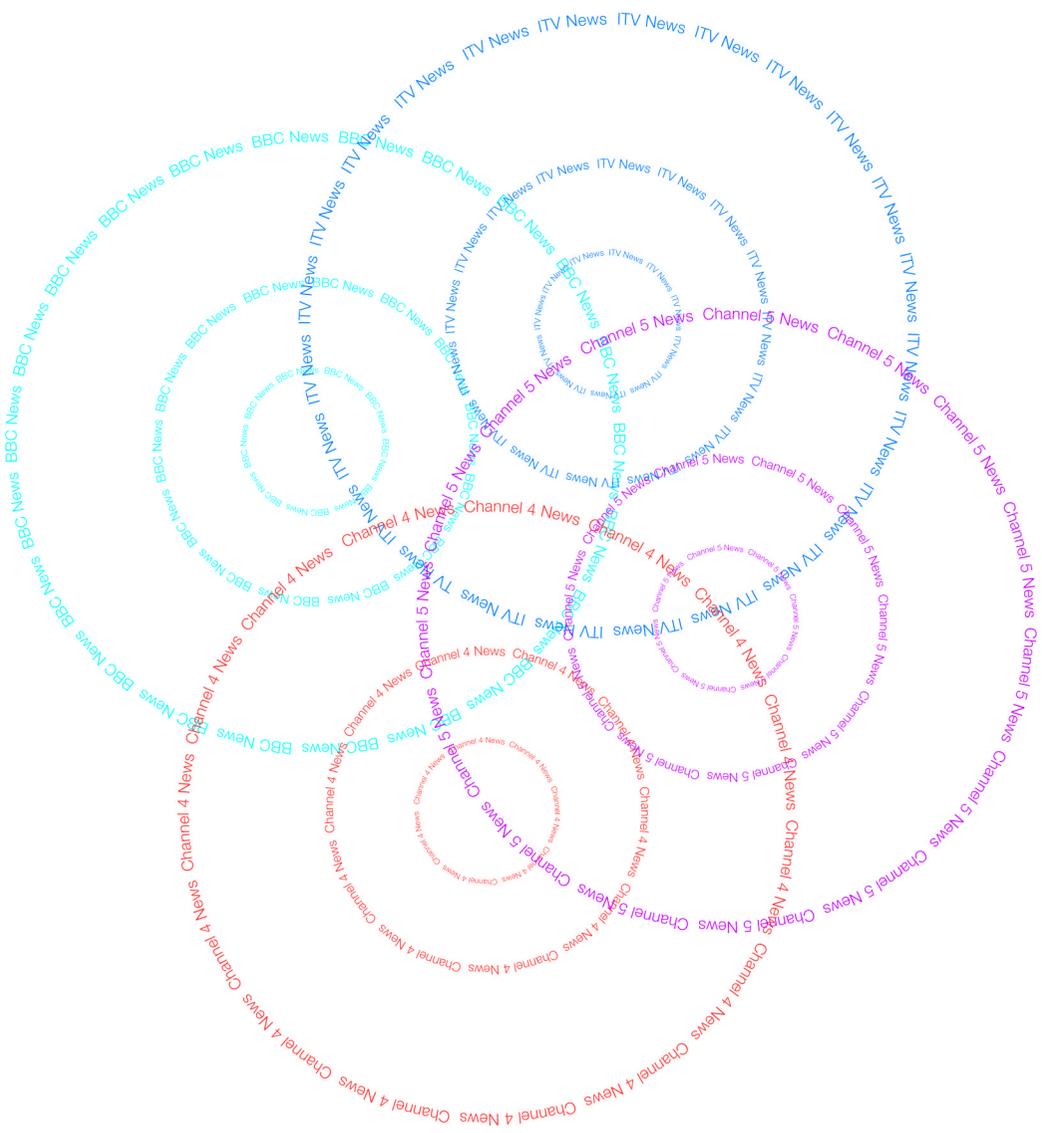




News Broadcasting in the Digital Age

The need for PSB genre licences

Ann Rossiter



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News Broadcasting in the Digital Age

Ann Rossiter

¹ Patricia Hodgson, Chief Executive, ITC, Introduction in *New News, Old News*, eds. Ian Hargreaves and James Thomas, (Cardiff: ITC and BSC, Oct 2002).

“Access to trustworthy, informative news can no more be taken for granted than clean air. It requires conscious acts of public policy to guarantee it.”¹

Introduction

On 31st December 2006 the BBC's seventh Royal Charter comes to an end. The period of the BBC's eighth Charter, if given once again for a ten-year term, will see rapid changes to Britain's broadcast ecology, changes which are already well underway. An increasing number of homes will gain access to digital services and to a plethora of other ways of accessing content. Those with access to digital television are already in a majority.² The implications of this for terrestrial commercial broadcasters are significant, including an accelerating loss of advertising revenue as competition from digital channels bites. The strain on these channels' public service broadcasting (PSB) obligations is already apparent. The *quid pro quo* for commercial broadcasters (ITV and Channel 5) has been an agreement to meet these obligations in return for their privileged place on the analogue spectrum. However, digitisation cuts away that advantage, something that Ofcom has had to recognise already (although some may argue that the regulator is being too lenient with ITV over its public service obligations). One thing is clear: Ofcom's ability to hold commercial broadcasters to their public service broadcasting obligations is already declining.

These trends will culminate with digital switchover. Whilst the date set for this is a subject of some uncertainty,³ it is likely that it will occur during the early stages of the next decade (it is currently scheduled for 2012).⁴ Once this occurs, many of the certainties of the current broadcasting environment will disappear. At present, despite fairly rapid uptake of digital television by British households, there is still a clear division between the digital "haves" and "have nots". While a substantial number of people still do not have access to digital TV, even if they are in the minority, the arguments for the status quo in terms of funding remain strong. However, within the next ten years, these will

6 *Foreword to the Ofcom Review of Public Service Broadcasting Television, Phase 1* (Ofcom, 21 April 2004) available online at www.ofcom.org.uk.

7 Proposals are contained in *Ofcom review of public service television broadcasting, Phase 2 – Meeting the digital challenge* (Ofcom, 30 September 2004). This is distinct from proposals for "an Arts Council of the air" which would fund PSB output on a programme by programme basis. Instead, Ofcom proposes that the PSP would distribute as well as commission PSB content using a variety of technologies. It would receive public funds and would commission from a range of independent producers. The franchise to run it would be awarded after a competitive bidding process for a fixed period, possibly ten years. Funding could come from general taxation, an enhanced licence fee or a tax on broadcasters.

2 *Driving Digital Switchover: A report to the Secretary of State* (Ofcom, 5 April 2004): p. 29, available online at www.ofcom.org.uk.

3 One in eight people say that they will never be convinced to take up digital television. It is not clear how the Government and other parties driving switchover will overcome this opposition. *Attitudes to Digital Television: Preliminary findings on consumer adoption of digital television* (London: DTI, January 2004).

4 *Driving Digital Switchover: A report to the Secretary of State* (Ofcom, 5 April 2004), available online at www.ofcom.org.uk.

5 *Ofcom Review of Public Service Television Broadcasting, Phase 2 – Meeting the digital challenge* (Ofcom, 30 September 2004): pp. 76-79, available online at www.ofcom.org.uk.

have been overturned.

As Ofcom has recognised in its review of public service broadcasting, planning for the new and fragmented broadcast market must therefore precede the renewal of the BBC charter.⁵ This paper takes the view, shared by the majority of commentators, that the current PSB settlement with the commercial public service broadcasters will no longer be sustainable as digital take up rises and then switchover takes place.⁶ After digital switch over, it will become increasingly difficult to maintain the public service provision of ITV and Channel 5. As a public corporation Channel 4 is in a slightly different position since it can, in theory, be held to its PSB obligations even after switchover, although the economics of a fully digital environment will have a similar impact. Ofcom's response has been to issue proposals for a new Public Service Publisher (PSP) to commission public service programming.⁷ These proposals are not yet fleshed out – it is not clear yet whether a new PSB channel or whether some other form of body is envisaged.

Apart from a widely disliked proposal for an "Arts Council of the Air", this is currently the only mechanism being considered to bolster PSB. However, there is another option – one or more 'genre' licences to fund specific areas of PSB content. This paper presents proposals for this and argues that this has fewer drawbacks than a PSP and would protect the mostly highly valued form of public service content.

News provision in a digital environment

The area of PSB we should be most concerned about is news, specifically appointment news.⁸ There are two reasons for this. First, it is *the* most significant of the PSB genres in societal terms. The consumption of news has a critical role in allowing citizens to hold government to account and informing them about the world in which they live. Second, it is the genre that will be most susceptible to the increased pressures the commercial PSBs will find themselves under. Their current obligation to broadcast news during peak hours is already proving onerous, as is illustrated by ITV moving its nightly news from its ten o'clock slot. Whilst commercial public service broadcasters are likely to continue to provide some PSB programming generally (notably in more popular genres), the problem for Ofcom is that the relatively low rates of return generated by news broadcasting will produce a commercial rationale (given competition for advertising revenue) to move news and current affairs programmes away from peak slots. There is a danger that without intervention, there will come a point at which news provision in Britain is wholly dominated by the BBC, with very limited competition being offered by Sky and ITV's 24-hour news channels. This would exacerbate a situation in which the BBC is already a very dominant presence with around 80% of all TV news viewings being taken by the BBC. In contrast, the reach of ITV's news programmes has plummeted.

This paper argues that the post-switchover market will fail to produce an adequately plural provision of appointment news at peak viewing times. As a result, thought should be given to how to fund impartial appointment news in addition to that

⁸ News provided in a designated, time bound slot.

⁹ The former BBC 9 o'clock News drew an equal share of audience from across the class board. Evidence from the Broadcasters' Audience Research Board (BARB), online at: www.barb.co.uk. Ian Hargreaves and James Thomas, eds., *New News, Old News* (Cardiff: ITC and BSC, Oct 2002).

¹⁰ *Tuning in to Consumers; Public service broadcasting in the digital age* (National Consumer Council, December 1999).

¹¹ *Measuring the Value of the BBC: A report by the BBC and Human Capital* (London: BBC, October 2004).

¹² Jane Sancho, *Public Service Broadcasting: What viewers want* (ITC, Jan 2001) online at: www.itc.org.uk

¹³ Pippa Norris, *A Virtuous Circle: Political communications in post-industrial societies* (Cambridge and New York: Cambridge University Press, 2000).

¹⁴ Martin Brookes, *Watching Alone: Social capital and public service broadcasting* (London: Work Foundation in partnership with the BBC, May 2004).

provided by the BBC. Some public intervention in the market for broadcast news looks inevitable.

The public value of television news

Television news is an important source of information for British citizens, both in terms of volume and levels of trust. In a survey produced by the ITC, television was found to be the primary source of news for 65% of respondents irrespective of social class. The same survey found that television news was also the most trusted source of information (70%).⁹ Television news is a particularly important source of political news.¹⁰

The value of television news is recognised by viewers. Attempts to quantify the value of different aspects of public service broadcasting to consumers found that news is the most valued PSB service.¹¹ In an ITC research paper, members of citizens' juries agreed that alongside drama, news was the most important genre that ITV should continue to broadcast.¹² The same juries agreed that a range of news programming was a key element of public service broadcasting. Regional news is a key part of this picture. The same paper found that 89% of viewers think that ITV should be obliged to show regional programming in peak time and news is the most valued genre in regional programming. Broader analyses also place considerable value on news because of the role it plays in informing citizens and fostering democracy. A survey found that recent decades have seen a broadening of the social background of news audiences internationally, and that 'use of the news media is positively associated with a wide range of indicators of political knowledge, trust and mobilisation'.¹³

The BBC, in attempting to quantify the value that it brings to the UK, argues that it creates value in five different ways. Of these, two are very heavily dependent on news and current affairs - democratic value and global value - while news also has a role to play in the other three specified areas - education value, social and community value and cultural and creative value. This is echoed in other analyses of the benefits of public service broadcasting, like that of Martin Brookes, whose argument that public service broadcasting generates social capital is heavily reliant on the benefits that news brings.¹⁴

Loss of plurality in news provision

Why then, if news is so highly valued by viewers, should we be worried that commercial broadcasters will not continue to show it within the new broadcasting ecology? The main reason is that, whilst ITV's weekday news broadcasts receive approximately 4.2m viewers, other programme genres would earn the channel greater audience share for less production spend. In other words, advertising value is not directly concomitant with consumer value. Small audiences may not deliver the degree of revenue necessary to pay for news since it is expensive to produce compared to other formats.

General financial pressures on commercial broadcasters are already strongly in evidence. ITV has undertaken cost cutting which has involved the rationalisation of production outside London, due both to the severe downturn in advertising revenue from 2001 and to a progressive loss of audience share.

As audiences continue to fragment in the run up to switchover, pressure to compete over broadly the same pool of advertising revenue will rise. Emerging commercial channels will not face the public service obligations that the terrestrial ones currently do. In a market of two hundred plus channels, the commercial broadcasters asked to renew or retain these obligations may find their revenue stream diminishing. It will become unreasonable to expect ITV and Channel 5 or indeed their shareholders, to continue to lose market share with no significant recompense. For Channel 4, broadcasting news or current affairs in peak hours will involve an opportunity cost.

Wider use of Personal Video Recorders (PVRs) and Electronic Programme Guides (EPGs) will compound the limitations of funding these channels by advertising alone. As regulation of the commercial public service broadcasters' output becomes increasingly unfair and unsustainable, a system of incentives will need to replace the current system of obligations to produce appointment news if we are to avoid a situation similar to that in New Zealand. There, the deregulation of the broadcast market in the late 1980s saw a considerable fall in the quality and provision of serious news and current affairs programming.¹⁵ Whilst the number of viewers in Britain far exceeds those in New Zealand, there is no reason to suggest that the British market would not follow a similar, if less severe,

15 Paul Smith, *Warning to British about NZ-style broadcasting deregulation*, New Zealand Herald, 23, June 2004, available online at www.nzherald.co.nz

16 Ian Hargreaves and James Thomas, eds., *New News, Old News* (Cardiff: ITC and BSC, Oct 2002).

trend. As well as a reduction in the provision of news full stop, there is a very real worry that, whilst news and current affairs programmes are still produced, they will only be broadcast outside peak hours in a dumbed-down fashion, losing much of their public service value. At the same time, commercial channels will stick to low risk formats and limit innovation. In this new broadcast ecology viewers will be restricted to receiving their highly valued news and current affairs programming from the BBC and 24 hour providers.

Is this a problem? David Mannion, a former editor of the ITN News at Ten, argues that appointment news, where one can collect all of the day's main stories together in a designated period, is a 'very different animal' to 24 hour broadcasts. It allows strong journalism to flourish and provides the audience with an opportunity to reflect on the day's news as a whole. For these reasons, he suggests appointment news plays a key role in a democratic and accountable Britain.

Appointment news also has a role in maintaining audience numbers. Audiences can easily be discouraged from following the news by frequent disruptions to schedules, as has been the case with ITV.¹⁶ ITV's decision in 1999 to abandon the 10 o'clock and early evening news slots (decisions later partly reversed) weakened ITV's competitive position in news, produced a shift in the composition of its news audiences and caused sharp falls for many ITV early evening regional news programmes.

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The need for plurality

If we agree that appointment news has an important role to play in public service broadcasting, is it enough to rely on the BBC to become the sole major provider of peak time, appointment news? The Hutton report highlighted the dangers of relying on a single news provider. News stories, in which the news provider itself plays a key role, give us a clear example of the pressures that can be placed on editorial independence. In such circumstances, a lack of diversity in television news provision would be damaging. More broadly, TV news needs to be presented in a range of styles and levels of detail if it is to be accessible to all sections of the British population. For some, the BBC's approach to news is too establishment¹⁷ and ITV's accessible approach to news will be more appropriate, while for others, the relative sophistication and depth of Channel 4's 7 o'clock news programme will be attractive. Following switchover, we will face a particular problem with regional news, since without ITV's contribution, we would be left with the BBC as the monopoly provider of regional news.

The most effective means of ensuring a diversity in the supply of news is competition. Competition also brings benefits in terms of overall quality and efficiency. At present, the BBC keeps the other PSBs honest by forcing up quality. At the same time the commercial PSBs keep the BBC honest by showing cost efficiency. As the BBC itself says "The commercial sector keeps the BBC on its toes".¹⁸ This finds expression in the considerable diversity we have in terms of news content.¹⁹

The importance of plurality in news provision was recognised by those putting together the 2003 Communications Act, which aimed to maintain at least three UK television news providers: BBC, ITN and Sky. However, a plurality of providers without adequate viewing figures is meaningless. Already, the BBC's position is strongly dominant. It is the only broadcaster covering certain important political occasions live, such as political party conferences and by-elections. Its weekday news programmes command average ratings of around 6 million viewers, which converts to an audience share of approximately 32%. By comparison weekday news, produced by ITN for the three commercial PSBs, commands audiences of around 5.3 million viewers in total. In turn, these dwarf the viewing

17 Ian Hargreaves and James Thomas, eds., *New News, Old News* (Cardiff: ITC and BSC, Oct 2002).

18 *Building public value: Renewing the BBC for a digital world*, (London: BBC, June 2004).

19 Steven Barnett, Emily Seymour and Ivor Gaber, *From Callaghan to Kosovo: Changing trends in British television news 1975-1999* (Harrow: University of Westminster, July 2000); Jackie Harrison, *The Diversification of the British TV News Genre: A cause for comfort or concern?* (What's News Symposium, University of Syracuse, USA, April 2002).

20 David Elstein et al., *Beyond the Charter: The BBC after 2006* (London: Broadcasting Policy Group, February 2004).

21 Gavyn Davies, *The BBC and Public Value* (London: The Social Market Foundation, November 2004).

figures for the 24 hour news channels.

Plurality also has to mean plurality of news from public service broadcasters – those with a commitment to impartiality. Opinionated news is commercially popular in the US, which has led to Fox News and other US broadcasters to move away from a policy of impartiality. Competition from Al-Jazeera or Fox TV would not bring the benefits we seek.

Market failure and public service broadcasting

Some have argued that the move to a digital environment removes the need for subsidised public service broadcasting and that the market will provide.²⁰ They make the case that once we have moved from the analogue spectrum we no longer have a shortage of spectrum, plus the advent of digital allows people to be charged for the broadcasting they consume. On this basis, they argue that the market failures that public service broadcasting has been required to address no longer apply. I do not intend to rehearse all the arguments against this view here, since they have been well made by Gavyn Davies.²¹ Briefly however, it is worth noting that discussions of market failure take three main forms; informational asymmetries, the presence of externalities and a coordination failure.

On informational asymmetries: public service programmes are considered to be merit goods. Merit goods are goods whose benefits tend to be undervalued by consumers due to a lack of information. Paternalistic governments therefore try to encourage higher consumption of such goods. This intervention is complicated by the value judgements of changing governments. More convincing is the description of television programmes as experience goods. Viewers cannot perform an accurate valuation of a programme's worth until after it has finished. This will lead a commercial market to tend to be risk-averse in commissioning and scheduling programmes, and therefore to limited innovation. Commercial channels will stick to well worn genres, like police dramas which have a relatively low risk premium. A high quality current affairs programme may be undervalued prior to viewing and would only be produced by a public service broadcaster. Over time without well-funded PSB, quality standards would fall as expectations became lower and lower.

The second potential cause of market failure is the presence of positive externalities. When other people watch public service television I benefit from, amongst other things, their more active approach to citizenship, and their increased levels of tolerance and cultural understanding. I also benefit from being part of a well-informed society, which can keep its government and institutions accountable and democratic. The combination of limited prior information on programme quality and the presence of the positive externalities created by viewing public service programmes would give rise to considerable market failures in a deregulated industry.

The cause of these market failures is partly a lack of coordination known as the ‘tragedy of the commons’. Each individual viewer, as a citizen, is better off in the presence of public service television even if, on any particular day she chooses not to view any public service programmes. If it were left up to the market to decide on the quantity of public service programmes to produce, individual programme choices would tend to drive the market towards low quality, maximum profit, programme making, even though every individual would be better off with a market with lots of high quality public service programming. Each individual tends to choose established programme formats which primarily entertain in the short term. A deregulated market would therefore undervalue the public benefits of public service broadcasting. Public funding provides a way of coordinating our actions to produce a more accurate aggregated valuation of PSB.

Taken together, the presence of such market failures is enough to justify a well-funded, non-commercial PSB like the BBC. Indeed, the same market failures provide a compelling argument for the further funding of a second or third channel to continue to provide the one element of public service television the BBC cannot manage alone. That is, a diverse provision of news and current affairs.

Options for reform

The question remains as to which is the best mechanism to ensure a diversity of provision of appointment news? If you accept the argument that the market will not deliver these, the main options are regulation, spectrum pricing with rebates and contestable funding.

Option 1 - regulation

Regulation of the public service output of the commercial PSBs has historically been thought of as the first best option. But the changes digital switchover will bring, make regulation in its current form impractical in the future. In the past, by providing the commercial PSBs with a privileged position on terrestrial television, it was reasonable for the government to require something in return. After switchover, maintaining PSB obligations will leave commercial channels giving much and getting little in return.

On the face of it, such a scenario is only a problem if a small group of channels are required to retain these obligations and others are given a free rein. In this setting, there is nothing to stop a new mass audience broadcasting channel with no obligations setting up and competing at an advantage to the existing channels. Regulation, if it were to be fair across all new and old channels would have to place PSB obligations on every single digital station. Unfortunately, the inefficiencies created by repetition of requirements for PSB content over up to 500 channels would be unacceptable.

Option 2 - spectrum pricing with rebates

A second option worth consideration would be to price the digital broadcast spectrum. The regulator could then provide rebates on the cost for those channels that produce

programmes regarded as having public service content. A menu of such public service programmes would be created and channels could place competitive tenders for individual genres. Unfortunately, if the rebates were to be effective in acting as an incentive to produce public service content, the size of the initial cost for digital spectrum would have to be so high that it would leave only the large, mass audience channels able to broadcast. The benefits of increased choice, provided by digital technology, would be effectively negated by a reduction in the number of viable channels.

Option 3 - contestable funding

There is a range of possible approaches that might be taken to provide contestable funding. These include an “Arts Council of the Air” as exists in Singapore and New Zealand, and as proposed by David Elstein and his colleagues in *Beyond the Charter*²²; the Public Service Publisher proposed by Ofcom,²³ or competition from providers to operate one or more specific genre licences to provide specified content. A final option, although not strictly contestable, is direct funding of Channel 4.

All of these options have their drawbacks. An Arts Council of the Air or Public Broadcasting Authority (PBA) would be the worst of all worlds. It would not allow for predictability of funding for commercial broadcasters, who would have little incentive to develop a culture which valued PSB or a resource which could deliver public service content. Competition would be open to all broadcasters to apply, and is therefore likely to have little impact on any one broadcaster – the funding would be spread thinly across the broadcasting world. In addition, the infrastructure and processes needed to deliver funding would be highly bureaucratic.

Within such an environment, there would be little incentive for a commercial broadcaster to bid for funds to produce a PSB programme which might attract fewer viewers than an alternative. However a strong incentive would exist for a commercial broadcaster to bid for funds for a programme which it believed would attract viewers, and therefore advertisers. This kind of ‘gaming’ is likely to result in the PBA subsidising programmes which would have been produced by the market

22 David Elstein et al., *Beyond the Charter: The BBC after 2006* (London: Broadcasting Policy Group, February 2004).

23 *Ofcom review of public service television broadcasting, Phase 2 – Meeting the digital challenge* (Ofcom, 30 September 2004)

24 *Ofcom review of public service broadcasting (PSB) television, Phase 1* (Ofcom, 21 April 2004) available online at www.ofcom.org.uk.

anyway. An Arts Council of the Air would also be open to greater political pressure than other forms of contestable funding. The body would be likely to be subject to on-going lobbying by interest groups and political parties attempting to influence the direction of subsidy. A PBA would represent a lose-lose-lose scenario, failing all three tests for a new intervention in the PSB field; that of

- a. maintaining a diversity of institutions with a public service remit and culture
- b. subsidising PSB which would otherwise have been provided by the market anyway and
- c. insulating public service broadcasters from political pressure and other forms of lobbying.

Some of these concerns also apply to Ofcom’s proposal for a Public Sector Publisher (PSP).²⁴ Ofcom has been deliberately vague about the form this might take, since it rightly regards the decision as primarily political. It could take the form of a contestable fund or the establishment of a new, separate PSB channel. It might also involve direct funding of Channel 4, although Ofcom does not seem enthusiastic about this option. If, for example, a new public service channel were to be established it would pass test (c) but fail test (b) since it is likely to need to replicate much of what is produced by current arrangements in order to develop any consistent audience. It is arguable whether or not it would pass test (a), since it would create a new channel in direct competition to Channel 4, which is likely to be weakened by its arrival.

So would the answer be to use the additional £300 million Ofcom is suggesting be made available to support Channel 4, as some are suggesting? Clearly this solution would pass the key tests (a) and (c), but would fall down heavily on the question of using public funding to fund that which would have been provided anyway since it would be very difficult to establish whether or not funding was being used to support programming in areas of market failure. The net benefit to the citizen-viewer is likely to be limited.

Instead, I propose one or more “genre licences” to produce

specific content. The case made here is for the granting of a licence to produce appointment news, but this does not rule out a separate case being made for other genres of public service broadcasting likely to be under-produced in a wholly digital environment. I envisage a tender process running alongside the process of BBC Charter renewal. This would be for a licence granted by Ofcom, running for the same period, currently ten years, to produce a set of news programmes, including at regular peak times in the schedule. As with the BBC, the level of funding would also be specified for the ten-year period. Ofcom would also be responsible for ensuring compliance with the terms of the licence.

This would not eliminate all the potential problems outlined above. In the run-up to the renewal of a licence, the same political pressures would apply to the licence holder as they currently do to the BBC. However, as the decision would be made once and apply for a period of ten years, the licence holder would not be subject to the same on-going lobbying that an Arts Council of the Air is likely to experience. As with the other two proposals there is the risk of funding programming which would have been provided by the market anyway - appointment news provided under a specific licence is likely to displace some news that would have been provided commercially. However it would be possible to require the demonstration that funding is spent on news services under the terms of the licence. In short, this proposal passes tests (a) and (c) while presenting less of a concern regarding funding content which would have been provided by other means. The critical issue is that the licence would guarantee *appointment news during peak viewing* rather than news per se.

The BBC spends a considerable amount on BBC News 24 (£23.8 million 2002/3) for an audience share of 0.5% and audience reach of 6.2%.²⁷

25 Committee on Financing the BBC (Alan Peacock et al.), *Report of the Committee on Financing the BBC* (May 1986); The Davies Committee [Independent Review Panel], *The Future Funding of the BBC* (July 1999).

26 Select Committee for Culture, Media and Sport, *First Report* (London: Department for Culture, Media and Sport, December 2004) available online at <http://www.publications.parliament.uk/pa/cm/cm200405/cmselect/cmcmums/82/8208.htm>

27 BARB and RAJAR Q3 2003 figures quoted in Annex A of *Review of the BBC's Royal Charter*, (London: Department for Culture, Media and Sport, December 2003): p. 34, available online at http://www.bbccharterreview.org.uk/consultation/pc_index.html.

28 Richard Lambert, *Independent Review of BBC News 24*, (London: Department for Culture, Media and Sport, Broadcasting Policy Division, December 2002).

How to fund the news licence

The debate about how to fund an additional licence for public service news provision (or any other genre licence) is conceptually quite separate from the debate about the overall financial settlement reached for the BBC at Charter renewal. However a key determinant of additional PSB spend is likely to be the public acceptability of any increase in the licence fee or of taxation.

The BBC makes a convincing case for the continuation of the licence fee based on (a) the importance of funding being predictable; (b) the imperative to retain political independence and (c) on-going public support for (or at least tolerance of) the licence fee. The arguments in favour of other potential funding options have been considered periodically²⁵ (advertising, sponsorship or subscription) and regularly rejected, most recently by the Commons Select Committee for Culture, Media and Sport.²⁶ The same arguments apply to potential sources of funding for a news licence, suggesting that the most appropriate mechanism for funding a news licence would also be via the licence fee.

There are two options here:

- a. increase the cost of the licence fee, or
- b. top-slice BBC funding.

The sums involved in supporting additional news output would not be vast. ITN's combined news contracts for the three commercial PSBs currently cost the channels a total of £70 million a year. The ITV contract is worth just over £35 million a year, with a further £10 million for the ITV News Channel. The Channel 4 contract is worth £100 million over 5 years and the Channel 5 contract is considerably less. These sums are small compared with the total BBC revenues of £2700 million and Ofcom's proposals for a PSP of £300 million. The BBC spends a considerable amount on BBC News 24 (£23.8 million 2002/3) for an audience share of 0.5% and audience reach of 6.2%.²⁷ It is worth noting that this figure does not take account of the benefits that the channel gets from the BBC's enormous news-gathering machine.²⁸ The BBC also projects savings of £50 million a year by improving the way that licence fees are collected although this is dwarfed by the annual

£320 million Mark Thompson predicts the BBC will save through its recently announced cost-cutting exercise.

A fairly liberal prediction of the value of a new licence would be in the region of £120 million. This level of funding should cover production costs and compensate broadcasters for the opportunity cost of revenue foregone. This could fund the production of regular appointment news as well as a considerable amount of current affairs programming. Such a fund would safeguard the diversity of serious news broadcasting.

Given that it is generally accepted that there is limited public support for any substantive increase in the licence fee above inflation, and given the relatively small sums involved in a news licence, funding should be “top-sliced” from the licence fee. This should not affect the ability of the BBC to deliver across the board on its public service broadcasting remit.

Unsurprisingly, the BBC is not enthusiastic about top-slicing its licence fee.²⁹ In *Building Public Value*, it presents six major arguments against top-slicing.

- Splitting the licence fee would break the direct connection between the BBC and the public.
- Funding fragmentation would ‘almost certainly’ lead to institutional fragmentation of the BBC and other public service providers.
- Overall investment in UK content is likely to fall rather than rise because the BBC acts as a standard setter for investment within the system.
- Public funding would be spread more thinly across the system leading to a progressive reduction in programme quality and range.
- Creating a new intermediate funding body would add bureaucratic complexity.
- Some licence fee value would be transferred from audiences to shareholders.

Taken together, these arguments are a convincing counter to the idea of an “Arts Council of the Air” and to certain versions

29 *Building public value: Renewing the BBC for a digital world*, (London: BBC, June 2004

of Ofcom’s proposal for a Public Service Publisher. However, in most cases, they do not apply to a genre-based licence.

1. Under proposals for a news licence, only a small percentage of the licence fee would be diverted to an alternative provider. Public awareness of this is unlikely to have a significant impact on support for the BBC. Broadening the application of the licence fee to other news providers is likely to bolster support for the licence fee, since this is the aspect of public service broadcasting most valued by the British public.
2. It is hard to see how institutional fragmentation would follow under these proposals. The annual sum for a news licence is likely to be less than the cost savings currently proposed by Mark Thompson. Taking these two proposals together together, plus an inflation-based increase in the overall licence fee, the likely outcome would be an increase in programme spending by the BBC.
3. On this basis, it does not follow that overall investment in original UK content would fall. In contrast, it would ensure a healthy independent news sector in competition with the BBC’s news machine.
4. Similarly, although public spending would be spread more widely across the system, there does not seem to be any reason why this should produce a fall in programme quality. Maintaining an effective competitor to the BBC’s news production is likely to increase or maintain quality, rather than lower it.
5. Under the proposal for a genre licence, there would be no need for an intermediate funding body. Ofcom would be responsible for granting the licence and monitoring compliance.
6. There is a legitimate concern that some licence fee value would be transferred from audiences to shareholders or, in the case of Channel 4, to subsidising other programming. Any of the proposals for subsidising public service broadcasting outside the BBC’s remit risks funding programming

which would have been provided by the market anyway - appointment news provided under a specific licence is likely to displace some news that would have been provided commercially. This is a dangerous argument for the BBC to make, however, since the same analysis can be applied to some of the BBC's own output. The issue here is whether that is a cost we are willing to bear to ensure a healthy public service broadcasting ecology in the UK. I would argue that it is, given the requirement that the licence holder demonstrates that funding is spent on news services under the terms of the licence.

Conclusion

A consensus is developing that maintaining a healthy, diverse ecology of public service broadcasting in the UK will require further intervention, whether that happens at Charter renewal or at digital switchover. The two critical questions are first, how to structure it and second, how to fund it. Much of the debate so far has focused around the first. It is time we also paid attention to the second. The BBC attracts passionate responses from both supporters and detractors and there is a danger that anyone who suggests that funding for alternative public service broadcasting should come from the licence fee is regarded as hostile to the BBC. This need not be the case. The proposals here leave the BBC with the central role in the provision of public service television and with a healthy, on-going source of funding which should allow it to deliver all that it does today in the new phase of its Charter. Its role in setting standards for quality, training and innovation should be undiminished as should its ability to produce programmes which match the diverse needs of viewers who may not be catered for by a deregulated market alone. However, television news, particularly appointment news, plays a critical role in both democracy and democratic accountability. This role, unlike other public service functions, cannot be carried out effectively by a single provider. Allocating a small portion of the licence fee cake (however big we decide that cake should be) to an existing channel through a dedicated licence would mean limited BBC losses but a substantial PSB gain, safeguarding the future of British news provision.

SMF publications

Culture Or Anarchy? The future of public service broadcasting.

Ed. Philip Collins

This set of essays captures in a single volume the principal arguments in defence of public service broadcasting, combining it with a detailed history of the concept both in the UK and abroad. Contributors include Philip Collins, Professor Ivor Gaber, David Leam, Lord David Lipsey and Carole Tongue.

June 2002, £20.00

A Social Market In Housing

Tom Startup

This pamphlet offers a detailed and wide-ranging critique of the troubled UK housing market and lays out a set of policy proposals designed to bring about a more equitable and efficient system. Among the central planks of the suggested reform programme are liberalisation of the planning regime, increased taxes on home-owners and steps to allow Registered Social Landlords to compete more easily with their counterparts in the private sector.

June 2003, £15.00

A Modern Agenda For Prosperity And Social Reform: Opportunity, Security, Prosperity

Rt Hon. Gordon Brown MP

In a speech to the SMF, Chancellor of The Exchequer Gordon Brown sets out his view of the proper relationship between the state and markets. He argues that, in order to achieve the twin goals encouraging enterprise and promoting fairness, it is necessary to harness the dynamism of markets, whilst appreciating that they still have limitations.

January 2004, £10.00

The New Regulatory Agenda

Dieter Helm

This report argues that one of the key reasons why regulation often fails to achieve its objectives is a democratic deficit which has developed following the devolution of excessive decision-making power to regulators. To effect improvements, it is suggested that policy and delivery should be more clearly separated. This in turn requires broad reforms both to institutional structures and regulatory methods.

January 2004, £15.00

A 2020 vision for early years: extending choice; improving life chances

Vidhya Alakeson

This paper presents a vision for early years policy and provision in 2020 that has the life chances of disadvantaged children and their families as its primary focus. It addresses parental leave, early education and care, parental support and the role of children's centres, and explores how each component of the vision contributes to improved life chances. The paper concludes that life chances are being undermined by the lack of meaningful choices for disadvantaged parents and their children.

October 2004, £5.00

The BBC And Public Value

Gavyn Davies OBE with commentary by Lord David Lipsey

In this pamphlet Gavyn Davies argues that even in a multi-channel age, Reithian-style public service broadcasting justifies the continued existence of the BBC in its current form. In this pamphlet he develops the most thoroughly argued case to date for the maintenance of the BBC on economic, rather than just on social and cultural grounds, and David Lipsey provides a valuable commentary on his essay, challenging his arguments at several points.

November 2004, £10.00

Choice: The Evidence

Jonathan Williams and Ann Rossiter

Choice has become an increasingly popular political buzz-word in recent years but debates have often lacked rigorous analysis based on empirical evidence from previous attempts to introduce choice into public services. This extensive volume seeks to plug that gap and brings together findings from a range of studies in Europe, Scandinavia and the Americas in order to analyse the conditions under which choice-based systems are likely to succeed.

December 2004, £25.00

Reinventing Government Again

Eds. Philip Collins and Liam Byrne MP

A decade after the publication of Osborne and Gaebler's influential Reinventing Government, the SMF has gathered a set of distinguished authors to reflect on the ten principles for entrepreneurial government. The essays assess to what extent Osborne and Gaebler's ideas have been implemented in practice and consider whether they are still relevant for public policy ten years on.

December 2004, £15.00

The switch from analogue to digital broadcasting removes the incentive for commercial broadcasters to make and show public service broadcasting (PSB) content, particularly at peak times. Without intervention, this could leave the BBC as the sole provider of peak time news and current affairs. But we need diversity in the provision of news to provide variety and promote competition.

Ann Rossiter calls for the introduction of 'genre' licences, providing commercial broadcasters with the opportunity to bid for financial support to provide specific PSB programming, paid for by 'top-slicing' the BBC licence fee.