

**Concepts  
of public  
service  
broadcasting  
in a changing  
policy  
context**



BRITISH  
ACADEMY

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## **Contents**

1. What is public about Public Service Broadcasting?	2
<i>Baroness Onora O'Neill</i>	
2. The consequences of privatising Channel 4	6
<i>Patrick Barwise and Gillian Brooks</i>	
3. The future of investment in public service television	16
<i>Toby Syfret</i>	
4. Public service media institutions	29
<i>Damian Tambini</i>	
Appendix: Forum attendees	40

A series of papers based on presentations and discussions at a British Academy Policy Forum held in December 2015. The papers that follow present the views of speakers at that meeting, and are those of the individual authors and not those of British Academy, but they are published as a contribution to the debate on the future of public service television. This event was put together with advice from Professor Georgina Born FBA and from Professor Des Freedman and Dr Vana Goblot of Goldsmiths College.

# 1

# What is public about Public Service Broadcasting?

Baroness Onora O'Neill

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### What is public about Public Service Broadcasting?

The British Academy was a partner in a major inquiry into the future of public service television, chaired by Lord Puttnam. The Inquiry was based at the Media and Communications Department, Goldsmiths College, University of London and was set up to consider the nature, purpose and role of public service television today and going forward (see [www.futureoftv.org.uk](http://www.futureoftv.org.uk)). It considered how public service content can be effectively provided and nurtured, and the growing range of services, platforms and funding models that may contribute.

As part of this project the British Academy held a private forum with academics, civil servants and those working in the television industry in order to discuss funding models for public service television in the UK and internationally, and a range of perceived threats. The themes covered at this meeting included ideas of a public service remit; of a public service *broadcasting ecology*; of *public value* and of *public goods*.

There used to be straightforward technological reasons for thinking that broadcasting must be publicly organised and controlled. Although broadcast content is accessible to anyone with the necessary kit, content could once be provided only by coordinating and regulating the use of a limited resource (spectrum scarcity) and it was natural to think that public provision was the way to establish, fund and run broadcasting. It would now be technically possible to have content provided entirely by unregulated providers on a voluntary or a commercial basis. Some indeed argue that there are risks in entrenching state power in the provision or regulation of broadcasting, and point out that some states use those powers to dominate broadcast content. Today a case for public service broadcasting cannot be based on technological arguments.

## Public Value and Public Goods

During the last decade, discussions of the standards that matter for public services, including public service broadcasting, have invoked conceptions of *public value*, and have sometimes queried the importance of appeals to *public goods*. There are in fact difficulties in both approaches.

Appeals to *public value* are disputed because there is no definitive list of public values, and it is unclear whether the same public values matter for broadcasting and for other activities of public importance, such as education or cultural activity. (See for example *The Public Value of the Humanities*

## What is public about Public Service Broadcasting?

ed. Jonathan Bate Bloomsbury Academic, 2011). A second and less obvious problem is that it is often unclear whether public values are what the public actually value, or what they ought to value (but may not).

A lack of agreed answers to these questions suggests that the concept of public value may be less useful (less valuable!) than it at first appears to be. Indeed, there are deep reasons to be cautious about the use of term ‘value’ in this and in other debates. Ethical discussions since the early twentieth century have often hovered between the thought that values are objective, and that we should try to justify them, and that they are merely subjective. A subjective interpretation of the term value has triumphed in and far beyond economic analysis, where it is common to equate values with preferences, which some may hold and others reject. Subjective views of value are treacherous terrain for ethical judgement or debate in the public domain, including debates on the reasons for supporting public service broadcasting. Appeals to subjective interpretations of public value may not offer a stable basis for claims about public policy, or in particular about public service broadcasting.

In discussing public service broadcasting it might therefore be useful to reconsider public goods, rather than public value: but this too is far from straightforward. A public good is one that is not depleted by use. Its consumption by one individual does not undermine its availability for others. Public goods are therefore said to be non-rivalrous: nobody has less merely because others have access. Often public goods are not only non-rivalrous, but also (more or less) non-excludable: it is hard or expensive to exclude some people from enjoying them. Typical public goods include a sound currency, a non-corrupt judiciary, a medical database, a common language, flood control systems, lighthouses, and street lighting. All of these are non-rivalrous goods (although some are geographically restricted). Nobody loses when others too enjoy them. Broadcast content is a public good par excellence, and while it is technologically possible to exclude some from enjoying it, this may have costs and any benefits may accrue to (commercial) service providers rather than to service users.

Individual choices that reflect consumer preferences are not enough to secure public goods—even where many (or all) individuals want them. Problems of non-coordination and free riding cannot be resolved by uncoordinated provision, or by unrestricted free markets. Public goods therefore require

## What is public about Public Service Broadcasting?

either public provision or some coordination or regulation of providers. If we think some sorts of broadcasting are public goods, then we must establish structures that provide them. Such structures might include both taxpayer-funded broadcasters, or broadcasters with varied funding working to a public service remit—and there is disagreement about what that requires.

Among the public goods to which public service broadcasting can make significant contributions are: a shared sense of the public space; communication with others who are not already like-minded; access to a wide and varied pool of information; access to critical standards that enable intelligent engagement with other views; understanding, awareness and toleration of the diversity of lives and views among fellow citizens and others; a shared enjoyment of cultural and sporting occasions that would otherwise be the preserve of the few or the privileged. These examples of public goods are distinctively, although not uniquely, important for public service broadcasting and depend on the existence of broadcasters who are organised and funded to work to remits that take their provision seriously.

Discussions of public goods have often been simply debates about market failure, but this is not enough. Market failure arguments focus only on the supply side, and ask whether commercial provision will supply various services—in this case broadcasting services. It is no market failure where viewers could watch, but in fact do not watch, what is available to them. However, many of the public goods listed above can be brought about only if large swathes of the public actually use and enjoy them: they must not merely be provided, but widely shared. They are public values as well as public goods, and it is not enough to ensure that they are available. This suggests that is important not merely to think about public goods in economists' terms, but to think about their public value, and about the ecologies within which they are embedded. It is important to think not only about the provision, but about the use and enjoyment of public goods. This is where discussions of public goods and of public value intersect and connect: both of them matter for **Public Service Broadcasting**.

# 2

# The consequences of privatising Channel 4

Patrick Barwise

Gillian Brooks

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*Gillian Brooks is post-doctoral research fellow, Oxford University Centre for Corporate Reputation, Saïd Business School and tutorial fellow in management studies, St Hugh's College, Oxford. This chapter is based on their report *The Consequences of Privatising Channel 4*, commissioned and published by Channel 4, May 4, 2016. [http://www.channel4.com/media/documents/press/news/Desktop/Barwise\\_final%20May'16.pdf](http://www.channel4.com/media/documents/press/news/Desktop/Barwise_final%20May'16.pdf).*

The main current broadcasting policy issue is BBC charter renewal, but the government is also considering the possibility of privatising Channel Four (C4), while still aiming to retain its remit. This chapter, based on a report commissioned by C4, aims to inform policy by analysing the likely consequences if the government were to proceed with this option.

At this point there is no specific C4 privatisation proposal. The analysis therefore has to make assumptions about what such a proposal might be and to address many other uncertainties. Any change of ownership would require primary legislation. At that point, the proposal would be clear and some of the other uncertainties reduced.

Even at this stage, however, by discussing a range of privatisation options, issues, trade-offs and scenarios, including alternative post-privatisation strategies for the buyer, we think it is possible to reach robust conclusions about the likely consequences if the government were to proceed.

### **Background: C4's remit, culture, role and contribution**

C4 plays a unique 'alternative mainstream' role in the UK's broadcasting ecology. Its statutory remit and main channel licence differ from those of the other PSBs: its particular priorities are to be distinctive, innovative, risk taking, diverse and a platform for alternative views and voices, with an emphasis on reaching young and minority audiences.

*C4's main channel commissions  
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C4's main channel commissions far more new titles than any other PSB channel – almost twice as many as the main ITV channel and about four times as many as C5. Its organisational culture reflects a strong commitment to the institution and its mission and remit. Staff survey responses are well above the norm for UK companies for questions such as “*I am proud to work at C4*” and “*I know how my role contributes to achieving C4's strategy and goals*”.

Viewers are well aware of how C4 differs from the other PSBs, giving it much higher scores in response to questions such as “*Takes a different approach to subjects compared with other channels*”, “*Home for alternative voices*” and “*The one that, more than others, takes risks with programmes that others wouldn’t*”.

C4 is especially important for the UK’s independent producers. As a publisher-broadcaster, it commissions about 70% of its programmes by value in the UK, mainly from the indies, and acquires only about 30%. It works with 295 production companies across TV, film and digital; more than half its first-run originated programme hours are commissioned from companies in the devolved nations and the regions outside London. It funds 25% of the independent production sector’s first run commissions and enables advertisers to deliver brand messages efficiently, especially to hard-to-reach younger and upmarket audiences.

C4 also contributes to UK public value in many other ways. Its creative output is often reflected in awards, including 16 Oscars since 2009. It is a leader in technological and commercial innovation, especially through its market-leading first-party data strategy: its All4 VoD service now has 13.1m registered users, including more than 50% of all UK 16–34s. Its programmes deliver a wide range of wider social benefits such as changing perceptions of disability, ethnic and other aspects of diversity, and healthy living. Its ‘measured’ contribution to the UK’s gross value added (GVA) has been conservatively estimated at £1.1 billion per annum in addition to the significant consumer and advertiser surpluses it generates.

### **Privatisation: The government’s priorities**

Our understanding, based on statements by ministers, is that the government’s top priority if it privatised C4 would be to *ensure the sustainability of the remit* in a fast-changing market and technology environment. However, we assume that, subject to this, the other objective would be to *maximise the proceeds of the sale*.

Clearly, there is some tension between these two aims. But, whatever the exact balance between them, the government would also presumably want a *competitive auction* with as many credible bidders as possible.

## The sustainability of the remit

In reality, our analysis suggests that C4's current remit should be comfortably sustainable over the next ten years. In fact our projected 'non-privatisation' scenario implies a big *increase* in its ability to deliver the remit, reflected in 58% real (inflation-adjusted) growth in content investment 2014–25.

Whatever the exact numbers, the remit seems to us clearly sustainable, given C4's current commercial success, alertness and agility, and broader market trends.<sup>1</sup> The long-term prospects for TV advertising are excellent – far better than appeared to be the case a few years ago – and even though younger viewers are watching less TV, their viewing is not going to alternatives that advertisers can use to deliver brand messages at scale.

Even if, against our expectations (and those of the current C4 leadership, Ofcom and many other experts) C4's remit did prove unsustainable at some point over the next ten years, there would be many ways of addressing the problem at that point without privatising it, which would actually make the remit *less* sustainable.

## The core analysis: The investment case at 'MediaCorp'

Our core analysis explores what it would take to interest credible media businesses in buying C4; how they might seek to achieve an acceptable return on their investment; and what the consequences would be, compared with a non-privatisation scenario.

We see no case for a private equity sale to create a standalone company with no synergies. To us, the most likely credible buyer is an existing media company ('MediaCorp'), probably US-based, seeking to move into, or expand in, the UK, although there are other possibilities such as a UK communications company ('CommsCorp') – most likely BT – which we also discuss.

**1** This conclusion is reinforced by C4's latest results, published after our report: record revenue, content spend and original content spend, an increase in the main channel viewing share for the first time in nine years, a 30% year-on-year growth in total digital revenues (C4 Annual Report 2015, p11).

Most of the credible potential buyers have their own production businesses. To justify the cost of buying C4, they would wish to switch a proportion of its content budget from UK commissions to in-house purchases from these businesses. We therefore think that it would be impossible to achieve a credible competitive auction without dropping, or weakening, C4's 100% publisher-broadcaster model, which currently precludes such in-house purchases.

As (probably) a US company, MediaCorp would not only have very different financial incentives from a government owned, non-profit-making C4 but also, most likely, a different mission and culture, with C4's remit seen as a *constraint on maximising shareholder value* rather than, as now, a set of *guidelines for maximising public value*.

The investment case would be based on five potential sources of shareholder value: non-programming cost savings; revenue synergies; 'soft' synergies from improved access to C4's talent, systems, brands, expertise and commercial and creative networks; squeezing the balance sheet (releasing cash and increasing payables); and getting more 'bang for the buck' (revenue per pound) from C4's content investment.

### **Non-programming cost savings, revenue synergies, 'soft' synergies and squeezing the balance sheet**

There is some potential for *non-programming cost savings*, although they account for only 30% of total costs and C4 is already a 'tight ship' (e.g. with higher revenue per employee and lower non-programming costs per channel than ITV Broadcast, despite ITV's greater economies of scale). We also see some scope for *revenue synergies* (through cross-promotion, portfolio scheduling and collaborative marketing) and for *'soft' synergies* (depending on MediaCorp's existing UK assets and its attitude to the UK broadcasting ecology).

Taken together, we estimate a 'realistic, perhaps optimistic' range of £28–36m/year for the total potential benefit to MediaCorp of these three potential sources of value (non-programming cost savings, revenue synergies and 'soft' synergies). Treating this as equivalent to EBIDTA<sup>2</sup> and assuming a

<sup>2</sup> Earnings Before Interest, Taxes, Depreciation and Amortisation.

typical commercial TV multiple of 1.1x, this would justify a 'realistic, perhaps optimistic' value of about £530–620m, including £225m from squeezing the balance sheet: £175m from C4's 'spare' cash and £50m from a 20% increase in payables, i.e. paying suppliers later.

Given the risks and the need for the buyer to make a profit on the deal, a realistic maximum price for C4 based on all these sources of value in combination (non-programming cost savings, revenue synergies, 'soft' synergies, 'spare' cash, and increased payables) would be £400–500m – around the same as C4's £443m book value. Anything above this approximate range would have to come from the buyer's ability to get more 'bang for the buck' (revenue per pound) from C4's content budget.

### **Getting more 'bang for the buck' from C4's content budget**

To justify a higher price than the £400–500m estimated above, MediaCorp would need some combination of the following changes in the percentage allocation of C4's content budget:

1. From UK commissions to (mostly US) acquisitions, especially from its own production businesses
2. From loss-making or marginal genres to more profitable ones, especially during peak viewing hours (i.e. with more aggressive scheduling as well as a more commercial programme mix)
3. From programmes focused on UK issues and attuned to UK sensibilities, to programmes with international appeal to maximise in-house content synergies and external resale potential
4. From newer, riskier programmes and executions within each genre to safer, more mainstream ones, with longer programme runs and more repeats
5. From finding and nurturing new talent to mostly working with established talent
6. From working with hundreds of independent producers across the UK, including small ones and start-ups, to using fewer, bigger suppliers, mainly in London
7. From paying the full first-run cost of new commissions to deficit financing (as well as paying later, already assumed above in the increase in payables)

*All* of these ways of getting more ‘bang for the buck’ from C4’s content budget conflict with its current mission, remit, culture and role within the UK broadcasting ecology.

### **What if the buyer were a UK communications company (‘CommsCorp’)?**

If the buyer were a UK communications company such as BT, TalkTalk or one of the mobile operators (‘CommsCorp’), rather than a US media company like ‘MediaCorp’, the investment case would be different, based mainly on accelerating the development of CommsCorp’s TV activities as part of a broader ‘triple/quad play’ strategy (TV, broadband and fixed and/or mobile telecommunications).

Both BT and TalkTalk are already expanding in TV. The UK mobile operators are not, at this point, but might do so in response to converging market and technology trends and competitive pressures. Vodafone, in particular, could easily afford to buy C4 as a way of expanding into TV and acquiring C4’s brands, channels, expertise, first-party data and supplier and advertiser networks.

The most likely CommsCorp candidate, in our view, is BT. Given its cash flow and balance sheet, it, too, could easily buy C4, even after the EE acquisition. It is already expanding in TV, although this development is still at a relatively early stage.

As a commercial company, CommsCorp would of course be under the same pressure as MediaCorp to maximise shareholder value from the purchase, including by getting more ‘bang for the buck’ from C4’s content budget.

Because CommsCorp would be a UK organisation already regulated by Ofcom, its corporate culture might be more sympathetic to the remit than MediaCorp’s; but as a communications company rooted in telecoms, it would have less understanding of TV audiences and broadcasting more generally – a big part of why it might be interested in buying C4.

*The government would still want and need a competitive auction to maximise the proceeds from the sale.*

CommsCorp might be a more attractive buyer politically than MediaCorp because it would keep C4 in UK hands and might be more likely to retain the publisher-broadcaster model. But the government would still want and need a competitive auction to maximise the proceeds from the sale, as well as politically and in terms of competition law and the state aid rules. It could not realistically proceed with a UK communications company such as BT as the only credible bidder, and it would not be able to count on such a company outbidding all the other potential buyers.

## **The impact of privatisation on original UK content investment**

To attract sufficient credible buyers, the government would in our view need to amend the 100% publisher-broadcaster model and possibly loosen the remit in other ways to enable the new owner to get more ‘bang for the buck’ from C4’s content budget.

We therefore assume that the new owner is allowed reduce the proportion of the content budget allocated to UK commissions from the current 71% (in 2014) to 50%.<sup>3</sup> With this assumption, we model three scenarios, representing three potential post-privatisation strategies available to the buyer:

- **Option 1:** a 30% cut in total content investment and a 10% cut in sales and marketing spend, leading to a 5% reduction in revenue. These are the assumptions in an investment bank presentation we have seen. In combination with the assumption of a reduction in the proportion of the content budget allocated to UK commissions, they imply a 50% reduction in C4’s UK content investment. This would have equated to £215m less spent on original UK content in 2014.

**3** Our expectation is that, if the buyer were MediaCorp, all the 21% of content investment released from this change would be allocated to purchases from its own overseas production businesses, but the consequences for the UK are not sensitive to this. (In 2015, the proportion of C4’s content budget allocated to UK commissions actually *increased* to 72%: C4 Annual Report 2015, p11.)

- **Option 2:** a 20% cut in total content investment and a 10% cut in all non-programming costs, with revenue broadly unchanged. These assumptions imply a 44% reduction in C4's UK content investment. This would have equated to £190m less spent on original UK content in 2014.
- **Option 3:** representing, at the other extreme, something close to the most positive plausible case: a 20% *increase* in total content investment and a 10% increase in sales and marketing spend, leading to a 35% increase in revenue but an 18% reduction in C4's UK content investment. This would have equated to £75–80m less spent on original UK content in 2014.

We think that Option 2, or something close to it, is the most likely one, but even the optimistic Option 3 would still lead to a significant cut in original UK content investment.

A moderately optimistic strategy somewhere between Options 2 and 3 would lead to an intermediate outcome, with a reduction in C4's UK content investment between Option 3's 18% (£75–80m) and Option 2's 44% (£190m). For instance, holding the total content budget constant (while still getting more 'bang for the buck' from it as in the other scenarios) would lead to an outcome roughly halfway between that of Options 2 and 3: a 31% reduction (£130–135m) in original UK content investment.

Whatever MediaCorp's exact strategy, the cuts would be even greater for *smaller producers* and those in the *nations and regions*, and in *remit-related genres and programmes*.

As discussed in the full report, the impact would also be overwhelmingly negative for the overall economy, the broadcasting ecology and creative industries, technology adoption and commercial innovation, C4's consumer surplus and advertiser surplus, and wider society.

## Conclusions

Our projections are inevitably subject to some uncertainty, which we have tried to indicate, but we think the results are sufficiently clear-cut to show that:

1. There is no need to privatise C4 to protect its distinctive remit, which is likely to be comfortably sustainable over the next ten years with C4 continuing as a government-owned, commercially funded publisher-broadcaster. In the unlikely event that, sometime in the next ten years, the remit did appear to be at risk, decisions could be made at that point about priorities within it and/or other ways of ensuring its continuing viability by boosting its business model (e.g. platform retransmission fees, if not already introduced).
2. Privatising C4 would almost certainly make the remit less sustainable, thereby damaging:
  - *independent producers*, especially smaller ones and those in the nations and regions
  - the wider *broadcasting ecology and creative industries*, especially film
  - *societal aspects of the remit* such as C4's commitment to long-form news, current affairs and other programmes that tackle challenging social issues.
3. It would also be hard to attract credible bidders for C4 without dropping or weakening the current 100% publisher-broadcaster model to enable the new owner to switch a proportion of the content budget from commissions from external UK producers to purchases from its own production businesses in the UK and overseas, probably mainly the US.
4. Privatisation would also be likely to impact adversely:
  - *consumers*, especially younger and minority viewers (e.g. BAME and disabled)
  - *advertisers*, especially those targeting hard-to-reach younger viewers and/or seeking to use a more data-enabled approach
  - *the wider economy* (GVA, employment, taxation and the balance of payments).

# 3

## **The future of investment in public service television**

Toby Syfret

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## Introduction

The concept of public service broadcasting, by which publicly or privately owned certain organisations are awarded special privileges in exchange for programming obligations or remits, has been at the core of television services in the UK since the very beginning.

Although much has changed over the years and the UK public now has access to hundreds of TV channels instead of just one or two sixty years ago, the core means of distribution has hardly altered; the so-called linear model, or flexilinear when we add in PVR time-shift and on-demand catch-up. However, it is being increasingly challenged as more and more content moves online. This could have a profound effect on the UK PSBs.

Yet, it is not just a question of changing viewing habits. Regulatory decisions could also profoundly affect future investment in public service television. 2016 is a most important year on account of BBC Charter Renewal. Yet just a couple of days before the Department for Culture, Media & Sport issued its Green Paper in July 2015, the government dealt the BBC a massive blow by withdrawing its subsidy for the over-75s. Then in September came the news that the government was actively exploring privatisation options for Channel 4.

This paper begins with a review of current viewing trends and how far they can be expected to affect the PSB model over the next few years. It then considers the contribution made by the PSBs towards investment in the UK creative economy and issues now relating to BBC and Channel 4

*Withdrawal of the subsidy for the over-75s is a serious concern, and we can find no compelling argument for Channel 4 privatisation.*

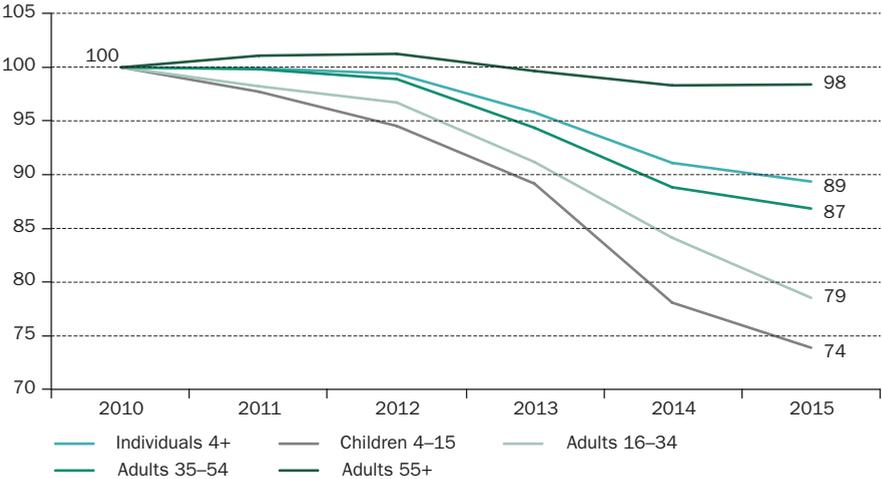
Overall, we think that the pace of change will be gradual as long as the market is left to its own devices. But, withdrawal of the subsidy for the over-75s is a serious concern, and we can find no compelling argument for Channel 4 privatisation.

We have covered many of the issues relating to long-term viewing trends, BBC Charter Renewal and Channel 4 privatisation in a series of reports, which we reference at the end. This paper simply highlights the challenges relating to future investment in public service television.

### Changing TV viewing habits: 2010–2015

Daily Average Viewing Time (AVT) to the TV set by individuals 4+ reached an all high of 2xx minutes a day in 2010. Although the overall average remained high during the next two years, there were already signs of decline among younger age groups in the London Olympic year of 2012, which gathered strong momentum in 2013–2015 (see Figure 1). The decline was most pronounced among the under 35’s, was hardly seen among the over 55’s.

**Figure 1: Daily average viewing time, 2010–2015 (index 2010=100)**



Source: Enders Analysis, BARB/InfoSys+

Of course, a wide selection of variables will affect TV viewing, including the British weather. However, there is abundant evidence pointing to the rapid adoption of tablets and smartphones, along with the expansion of social networks, growing profusion of apps, increasing population of connected TV sets, and growing online video content offer, whether short-form (e.g.

YouTube) or long-form (e.g. Netflix, Amazon Prime Instant Video, etc.) as the main cause of decline among the younger age groups.

But just how far will it run? According to some extreme views featured in the trade press, the transformation from the broadcast to the IP online space could occur within the next ten years. We think it will take very much longer for two main reasons.

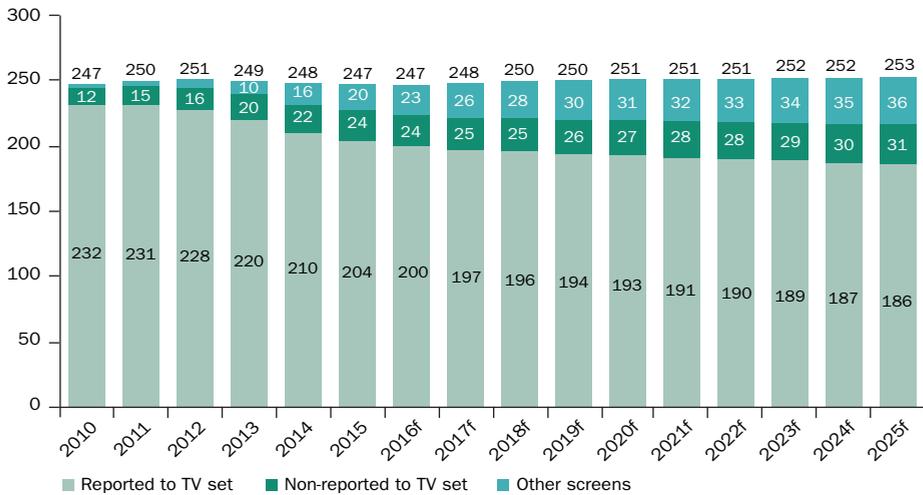
First, the change is highly skewed towards the under-35s, who may have made up x% of the UK population in 2015, but only y% of the total minutes viewed. By contrast, the over 55s, who have hardly altered, made up x% of the population in 2015 and accounted for x% of all viewing.

Second, the mass adoption phase of smartphones and tablets is over and we now have an abundance of social networks and apps. This suggests that we should soon see a marked slowing of the rate of decline in reported TV viewing. And we have indeed seen signs of a significant slow-down in the second half of 2015, but it is too early to be certain.

Figure 2 below summarizes our latest ten-year forecasts, which we have split into three main categories:

1. TV set – BARB reported live and up to seven day time-shift/catch-up viewing to linear TV channels
2. TV set – Other non-BARB reported watching of video content, based on BARB measures of total TV set use less BARB reported TV viewing and estimates of non-viewing uses (e.g. video games) from a range of other sources. The figures include some 8+ day time-shift/catch-up viewing of broadcast linear TV channels
3. Other screens – All viewing of long- and short-form video content, including some broadcast linear TV channels

Figure 2: Total viewing across whole population (daily average minutes)



Source: Enders Analysis, BARB/InfoSys+.

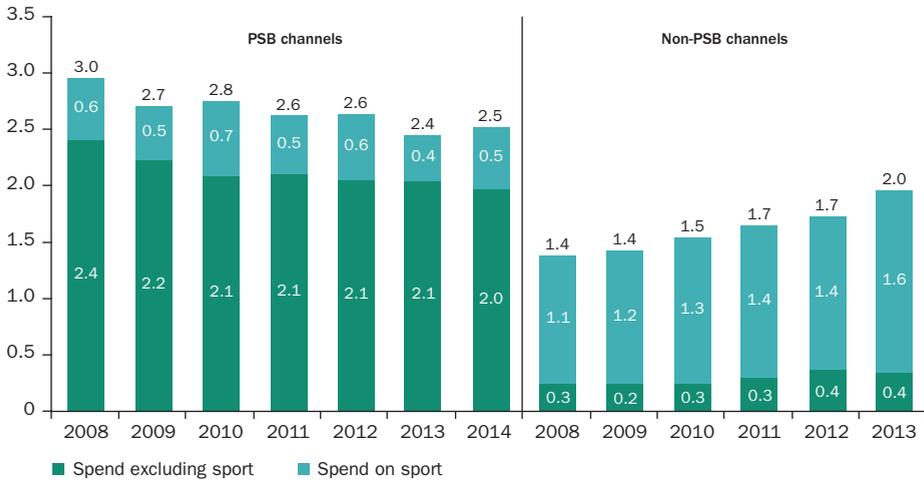
The main take-out is that, even by 2025, we project category 1 flexilinear live and up to 7 day time-shift/catch-up to account for 75% of total viewing time. If we add in categories 2 and 3, the broadcaster share rises to 85%.

## PSB investment in programming

Our viewing forecasts do, however, assume that the PSB ecosystem stays relatively intact. Up to now, the main PSB channels have lost much ground due to digital switchover and multichannel growth, however, their decline in BARB reported TV viewing share has stabilised at a little below 50%, and if we add in their digital portfolio channels, the PSB group share has fallen by just a couple of percentage points since the launch of Freeview on 30 October 2002.

One key reason for this stability is the very high level of PSB investment in UK-originated output other than sport compared with the non-PSB sector, as reported by Ofcom (see Figure 3).

Figure 3: Spend on first-run UK-originated output, real terms (£bn)

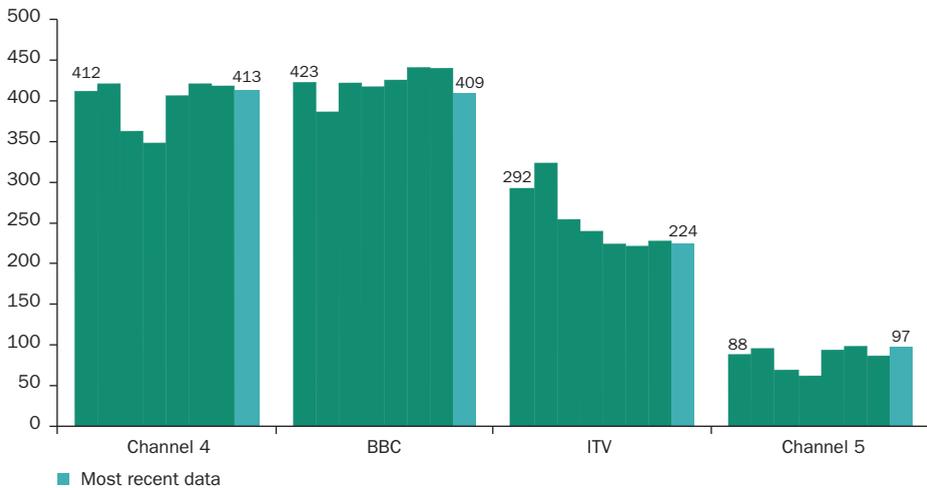


Note: Figures are 2014 prices. PSB figures include all BBC channels except S4C, BBC Alba, BBC HD and nations/regions programming. Non-PSB channels includes ITV, Channel 4 and 5 portfolio channels. Source: Ofcom, broadcasters.

We note that the non-PSB channel totals reported by Ofcom include the commercial PSB portfolio channels for ITV, Channel 4 and Channel 5. This would lift the PSB group share even higher, albeit Sky has significantly increased its spend on first-run UK originated output in the last two years, while other leading non-PSB groups such as UK TV have also increased their investment, suggesting a current PSB group share somewhere in the region of 80–85%.

Within the PSBs, roughly half the annual outlay on first-run UK-originated output is on commissions from independent producers, where we draw attention to the high levels of spend by the BBC and Channel 4 (see Figure 4), the two PSBs now under threat from government regulatory interference.

**Figure 4: PSB expenditure on first-run external commissions, 2007–2014 (£m)**



Note: Figures are nominal and include news and sports. BBC includes BBC1, BBC2, BBC3, BBC4, CBBC, Cbeebies. ITV1 excludes Daybreak. 2014 C4 figure is an Enders estimate. Source: Ofcom, broadcasters, Enders Analysis.

## Plight of the BBC

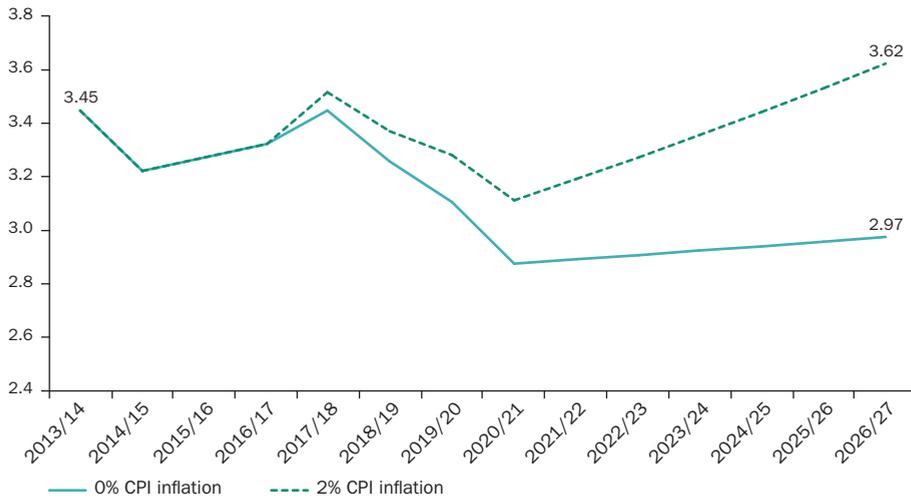
We await the publication of the White Paper to learn the full details of government decisions about the future of the BBC. This could hold some positive as well as negative outcomes for the BBC under the next charter depending on decisions taken about changes to the current licence fee funding mechanism (e.g. with respect to top-slicing, contestable funding, introduction of part subscription, etc.), as well as the future of BBC Studios and BBC Worldwide.

However, the government has already hit the BBC hard twice during the current charter.

The first occasion was when it announced the freezing of the licence fee in October 2010 along with additional top-slicing to be introduced in 2014/15 regarding BBC contributions to S4C, BBC World Service and broadband roll-out. This was arguably justifiable to the extent that BBC licence fee revenues has risen steadily by circa 50% in nominal terms between 2000 and 2010 in contrast to TV advertising revenues which showed practically zero underlying nominal growth.

The second occasion was in July 2015 when the government withdrew the over-75s subsidy just a couple of days before the publication of Green Paper on Charter Renewal. Much less obviously justifiable on grounds of balance with the commercial sector, the withdrawal has placed acute stress on the ability of the BBC to maintain its functions. To indicate its severity, Figure 5 shows our projections of future annual licence fee funds available to the BBC, taking into account the phasing of the withdrawal of government subsidy for the over 75s, the cessation of the broadband roll-out subsidy in the second year of the new charter (Figure 5). All else been equal, the government has said that the licence fee will no longer be frozen, but it will at least be pegged to the CPI. Accordingly, Figure 5 shows two scenarios of 0% and 2% inflation in the CPI after the completion of the first full financial year ending in March 2017 under the new charter.

**Figure 5: License fee funds available to BBC UK public services (£bn)**

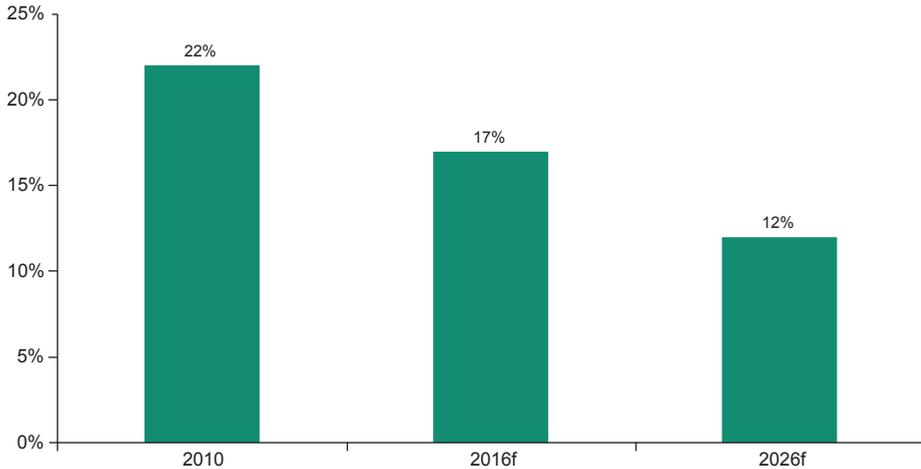


Note: Changes include those surrounding over-75s and broadband rollout, exclude iPlayer. Source: Enders Analysis.

Of course, the 2% scenario looks better than the 0% scenario in terms of the higher figures, however, we can also expect the same to apply to the commercial sector, where current trends over the last five years show real growth in both pay-TV and we expect appreciable further real growth over the course of the next ten years, especially as the video online space expands.

According to our estimates the BBC licence fee and other revenues allocated to TV amounted to 22% in 2010. We expect them to have fallen by 17% in 2016, the last year of the current charter. As things stand at the moment we project a further 5% drop to 12% in 2026 (see Figure 6).

**Figure 6: Estimated BBC share of total TV revenues**



Note: Includes subscription, advertising, and online video. Source: Enders Analysis.

In our view, this is a very significant fall, which raises major questions about the long-term ability of the BBC to maintain its pivotal role in the UK TV creative economy.

## **Channel 4 privatisation alert**

Today, Channel 4's future is in some doubt after it emerged last September from a leaked document that the government was actively exploring privatisation options. It was unclear then to what extent this was a Treasury initiative or reflected government concerns about the long-term financial sustainability of Channel 4. Only in February did John Whittingdale, Secretary of State (SoS) for Culture, Media & Sport, clarify in an interview that it had nothing to do with George Osborne wanting more money. Instead it had to do with the decline in viewing. In the words of the SoS, "The truth

is Channel 4's market share has been falling every year for the last four years. It's still delivering good content and it's still delivering the remit and covering its cost but my concern is whether it can still do that in five or 10 years.”<sup>4</sup>

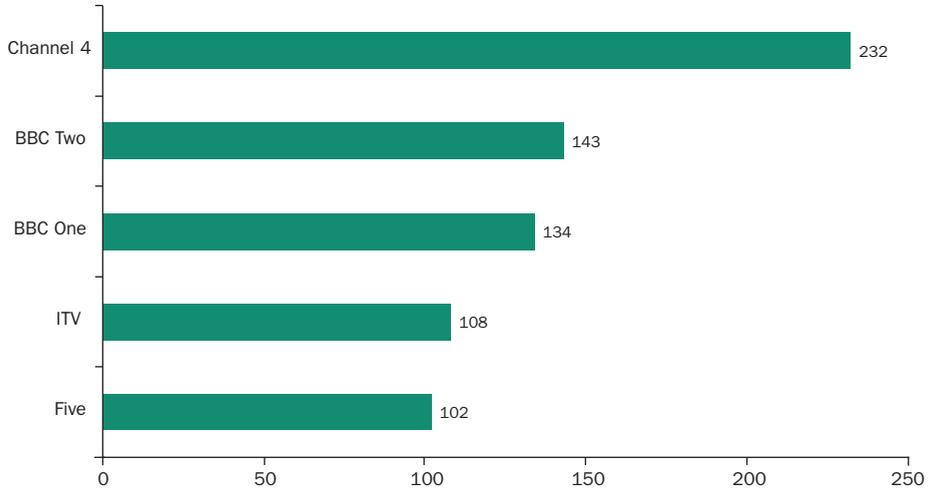
In our view, these are reasonable concerns, although main Channel 4 actually saw a slight rise in its audience share in 2015, and the upward trend has so far continued in Q1 2016, where it achieved an audience share across all individuals 4+ of 5.8% versus 5.6% in Q1 2015. We have examined the issue raised by the SoS in detail in “Channel 4 viewing trends and sustainability”, where we reached the conclusion that Channel 4 is today in a healthy financial state, having made its way through a testing period of creative renewal following its decision to discontinue with *Big Brother* after its final season in 2010. We further concluded that Channel 4 is financially sustainable for the foreseeable future and delivering its remit to the full.

*We reached the conclusion that Channel 4 is today in a healthy financial state, having made its way through a testing period.*

The point of interest here is the business model. Channel 4 is unique as a national publicly owned not-for-profit publisher/broadcaster that relies on commercial funding from advertising and sponsorship for the great majority of its turnover, and where increases in operating profits feed back into increased investment in the independent production sector. Today, as we have seen, Channel 4 stands alongside the BBC as one of the two main sources of investment in UK independent production (see Figure 4). In addition, Channel 4 stands out more than any other PSB for the sheer diversity of its content sourcing (see Figure 7). More than this, the 232 figure simply refers to Channel 4, but rises to 338 if we add in its digital portfolio channels.

<sup>4</sup> Interview reported in PoliticsHome, 4th February 2016.

**Figure 7: Number of independent TV companies each main PSB channel worked with, 2014**



Source: Channel 4.

More than this, all the indicators are that Channel 4 is today delivering its remit better than ever, whether we look at research statistics that compare it with other broadcasters in terms of public service with regard to specific remit items such as reaching out to different kinds of culture, or consider its success in achieving awards for bold, distinctive and original programming.

Most importantly, a key factor behind Channel 4's success at delivering its remit is its single-minded focus on delivering sustainable high quality programming that discharges its public service remit. Here, the comparison that springs to mind is Netflix, which has so far outstripped all its rivals in growing its single product streaming SVOD service round the world.

Because of this, we think there is an acute risk that all would sooner or later get lost were Channel 4 to be sold to a private commercial broadcaster. Inevitably, this would entail conflicting objectives between delivering the remit and satisfying other commercial objectives in the case of a global broadcaster such as Discovery or NBC. However much the government might insist that the remit is the one thing that does not change, we think it only a matter of time before it fell apart, were Channel 4 to be sold to the private sector.

## Conclusion

If left to natural forces, we think the flexilinear broadcast model should live on for at least another 20–30 years. However, it does also rather depend on government decisions not only about the future of the broadcast spectrum but also about the UK's unique broadcasting system, which has enabled the development of a national creative economy in television programming that is second to none. That is now at risk as a consequence of budget cuts imposed on the BBC even before Charter Renewal, and government exploration of privatisation options for Channel 4. And, it is not just question of what may result from changes to the BBC charter or privatisation of Channel 4, but we also need to consider the implications for the wider public service ecosystem, which embraces ITV and Channel 5. It is as much their collective as their individual strength at the top of the EPG that has made the UK PSB model so successful with respect to the creative economy. Of course, it is important to move with the times, but it is also important to do so without losing the outstanding benefits of the UK PSB model in terms of own-produced content.

## Reference to other Enders Analysis reports on BBC Charter Renewal and Channel 4 privatisation

### 1. BBC Charter Renewal for 11-year period commencing 1 January 2017

BBC plans hit local press - 14 October 2015 [2015-090]

PSB at risk in the world – 2 October 2015 [2015-083]

BBC TV airwaves beyond 2026? - 16 September 2015 [2015-082]

BBC TV – impact on investment in UK content – 10 September 2015 [2015-080]

The BBC, press and online news – 25 August 2015 [2015-075]

BBC to pay for the over-75s – 15 July 2015 [2015-058]

The plight of the BBC post intervention 13 July 2015 [2015-058]

## 2. Channel 4 privatisation

Channel 4 setting new records: 2015 annual report – 23 May 2016 [2016-049]

Channel 4 viewing trends and sustainability – 1 March 2016 [2016-016]

Channel 4 market impact – 5 January 2016 [2016-001]

Channel 4: sustainability and privatisation – 18 December 2015 [2015-118]

## Postscript

This paper was written prior to the publication of the White Paper on Charter Renewal on 12 May 2016. In general, the White Paper has been less hard on the BBC than many had feared with respect to a number of issues, including top-slicing and contestable funding. At the same time, the licence fee has been judged the most appropriate model of funding over the next licence-fee period. The government has also said it will close the iPlayer loophole and the licence fee will not be frozen, but trend in line with the CPI (Consumer Price Index) up to 2021/22 when there will be a new settlement following mid-Charter review.

In short, the economic hit on the BBC has been less harsh than it might have been. However, it does little to alter our the main thesis of this in so far as the two big financial hits referred to in this paper had already occurred even before the publication of the Green Paper last July. Meanwhile, governance concerns remain about the appointment of members of the unitary board that is to replace the BBC Trust, and role of the regulators, whether Ofcom in relation to the BBC output, or the National Audit Office with regard to the BBC finances, including staff salaries. And, taking into account all the other White Paper stipulations relating to the scale, scope and distinctiveness of BBC, the 2021/2022 review promises to be no easy ride.

# 4

## Public service media institutions

Damian Tambini

*Damian Tambini is an Associate Professor in LSE's department of Media and Communications. He is an expert in media and communications regulation and policy. Dr Tambini's research interests include media and telecommunications policy and democratic communication. His publications include the co-authored Codifying Cyberspace published by Routledge, and co-edited Cyberdemocracy and Citizenship, Markets, and the State. Dr Tambini is active in policymaking as well as academic research. He served on the UK Government Expert Panel advising on the value of electromagnetic spectrum, and from 2009–2010 he served on the Communications Consumer Panel, a non-executive role at the communications regulator Ofcom.*

## Introduction

Do ideas matter in the long term development of broadcasting? Is academic research and evidence relevant to the process? Looking back UK broadcasting since the 1990s the main theories in use have been economic theories of consumer welfare and public management. But these tend to be used as post-hoc justification for pre-defined political positions, not a genuine attempt to work out what should be done and adjust public provision accordingly.

In a debate that is dominated by the BBC and its opponents, a theory that does not provide support for whatever entrenched pro- or anti-BBC position is proposed is simply replaced by a new theory, or some ‘policy based evidence making’. For PSB enthusiasts, notions of ‘market failure’ or ‘public value’ are means to the end of maintaining the funding and distribution privileges of the PSBs. To PSB detractors the same theories are dismissed as a smokescreen for maintaining monopoly privileges and secure funding, or they are re-interpreted in attempts to limit the size and scope of the BBC and the other PSBs. The level of expert disagreement about these theories, the empirical evidence, and about the public service media, is too great for the theories themselves, or changing empirical evidence, to have a decisive impact on policy.

*Decisions about whether public service broadcasting is justified in an all-digital, IP-delivered world, should also focus on the institutional basis of PSB.*

This cynical view of PSB debate does contain a good deal of truth. But reality as ever is more complex. Some aspects of UK broadcasting regulation – such as decisions on new BBC services – are shaped by theory and evidence of market failure and public value. But decisions about whether public service broadcasting is justified in an all-digital, IP-delivered world, should also focus on the institutional basis of PSB. By this I mean both ‘big I’ institutions such as the BBC and ITV, and small ‘i’ institutions such as the principles, path dependencies and rules that constitute the public service broadcasting system in the UK.

## **Theories of broadcasting regulation**

This chapter reviews the ‘Market failure’ and ‘Public value’ approaches to PSB, before contrasting them with what I will call an ‘Institutional’ view. I argue that these three views need to be combined, rather than opposed. Market failure is a useful concept to identify some of the social externalities that competitive markets may fail to deliver, and public value is a useful framework for elaborating and measuring the social value of broadcasting in an interdisciplinary way. But it is urgent also to understand the institutionalisation of PSB: the established system of reciprocities and conditionalities that promote public service. Policy is the art of the possible: and whatever view is reached on market failure and public value, what can be delivered by policymakers also depends on the institutional basis, or what regulatory tools are available. Positive choices must be taken if media institutions can be created to protect and promote the public interest in media.

### **Market failure**

The theory of public service broadcasting as a response to market failure was broadcasting policy orthodoxy in the 1990s and early 2000s. The Davies Review of BBC funding in 1998 and the BBC chairmanship of Gavyn Davies set out the terms of the debate, and the BBC enthusiastically used market failure theory, arguing that broadcasting is subject to various forms of endemic market failure and that public funding and regulation is therefore necessary.

In part this was political pragmatism: a response to a Treasury-driven economic orthodoxy and the prevalence of economic arguments in policymaking in general. ‘Green Book’<sup>5</sup> approaches to public policy were based on a simple formula: services are most efficiently provided through markets; any ‘intervention’ in the market should be justified by identifying a demonstrable market failure, using standard procedures of cost-benefit analysis.

**5** HM Treasury. The Green Book: Appraisal and Evaluation in Central Government. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/220541/green\\_book\\_complete.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf)

The case was made by the BBC that broadcasting markets fail because these markets have a number of enduring features, for example they are public goods (non-rival, non-excludable), merit goods, experience goods (information problems) and they feature a number of positive and negative externalities (value not reflected in consumer transactions). For the BBC, deregulated broadcasting markets were unlikely to serve the general welfare: because of enduring market failures, the rationale for the license fee was clear. Broadcasting delivers social benefits ‘positive externalities’, in economic terms such as a more educated population and informed voters, and a purely market system may deliver higher levels of broadcasting content with ‘negative externalities’ such as objectifying, or violent content (Davies, 1999, Davies 2005, Helm 2005<sup>6</sup>).

*For the BBC, deregulated broadcasting markets were unlikely to serve the general welfare.*

If PSB intervention was based on ‘market failure’, we would expect more investment in PSB where market failures were clear and demonstrable, and if market failures declined, so should investment in PSB and other forms of policy ‘interventions’. However, policymaking does not appear to be so simple, rational and evidence based. Economists and other experts disagree on whether broadcasting markets fail because of their ‘public good’ characteristics for example. Ofcom claimed in 2005 that cheap encryption removes the ‘non-excludability’ of broadcasting and thus undermines its ‘public good’ characteristics. Helm (2005) responded that the public good aspects of broadcasting remain intact because products remain non rival with marginal cost close to zero. Similarly, whilst many experts seem more persuaded by the ‘social externality’ argument (that markets will fail to deliver media goods that serve society as a whole) there is controversy about the extent to which improved self-regulation and information provision can enable markets to solve the problem of under-provision.

**6** Helm, D. et al. (2005) *Can the Market Deliver? Funding Public Service Television in the Digital Age*, London: John Libbey Publishing. Chapters 1 and 7.

### Public value

The high level of disagreement about how to measure and demonstrate market failure, together with a recognition that the ‘market failure rationale’ would ghettoise the BBC in provision only of niche content that is by definition unpopular, led the BBC to move on from strict market failure as a theory of broadcasting and towards a more positive theory of the social value of broadcasting. In 2004, the BBC developed the idea of ‘public value’<sup>7</sup> - a new regulatory theory that went beyond market failure but attempted to maintain some level of ‘evidence based’ rigour in decision-making. The context of this was that during the 1990s and 2000s one of the main challenges was how to manage the launch of new PSB services (such as new digital channels and online services). Commercial competitors complained that BBC services were chilling private investment, and that the BBC should only invest where it was demonstrable that there was demand but that the market would fail to meet it. It was necessary to inform decision-making with some form of cost-benefit analysis but the ‘soft’, ‘citizenship related’ benefits (social externalities, in economic terms) of broadcasting demanded a new approach to measurement.

The centrepiece of economic thinking in the BBC’s approach was the notion of ‘citizen value’ and the ‘citizen surplus’. The basic idea being that broadcasting markets fail because individual viewing decisions do not take into account the benefits for society as a whole of goods such as quality impartial news or educational programming. Social externalities were incorporated into orthodox thinking on ‘willingness to pay’ for public goods. (BBC 2004) This approach formed the core of the public value test that subsequently enabled the BBC Trust to review the value of BBC services and an evidence standard to inform decision-making on new services which was adopted in many European countries.<sup>8</sup> Public value tests are qualitative assessments of the public benefits of broadcasting and other media services. The BBC Trust has now conducted a number of public value assessments to ascertain whether key BBC decisions are in the public interest.<sup>9</sup>

<sup>7</sup> Borrowing a concept from Michael Moore (1995).

<sup>8</sup> The EC Communication on State Aid and Public Service Broadcasting of 2011 set out transparency requirements that require member states to more clearly define the PSB remit and ensure that interventions are proportionate. This led to the diffusion of the UK’s Public Value Test model. <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Acc0014>

<sup>9</sup> [http://www.bbc.co.uk/bbctrust/governance/tools\\_we\\_use/public\\_value\\_tests.html](http://www.bbc.co.uk/bbctrust/governance/tools_we_use/public_value_tests.html)

The ambition of market failure theory and public value theory is to inform public choices to be made about the appropriate level of public provision of broadcasting services. However broadcasting policy has not been a rational, evidence-based debate about the overall forms of intervention and desired balance between public and commercial provision. This is for various reasons, but mainly because (i) choices are made piecemeal in relation to a range of policy decisions, many of which do not require legislation (such as license renegotiations, distribution deals) and (ii) the overall level of provision depends also on consumer choices. (Whilst market failure or public value analysis may lead policymakers to invest in certain genres or services because they are underprovided or have particular public benefit, there is no point in providing services that nobody uses.)

### The institutional compact

#### Broadcasting as a System of Reciprocal Privileges and Duties

By the mid-2010s, with a new government in power that had a less technocratic and more idiosyncratic approach to evidence in policymaking a more ad-hoc, a-theoretical view of broadcasting informed decisions on the BBC. *According to DCMS:*

*“The UK has 5 public service television broadcasters. These broadcasters receive benefits like the licence fee (in the case of the BBC), guaranteed access to the spectrum (or section of the airwaves) they need for broadcasting, and prominence on TV electronic programme guides. In return they commit to providing services that give a benefit to the public, like news, local programming or cultural content” (DCMS, cit. Véljanowski 2016).*

There are many examples of regulators expressing broadcasting policy in terms of an institutional compact. Ofcom (2015: 1.3)<sup>10</sup> for instance refers to the ‘spectrum for service’ deal and more recently about the other ‘regulatory assets’ that policymakers have at their disposal to make content more ‘discoverable’ such as prominence in search results, must carry on cable etc. This theory of broadcasting posits a reciprocal exchange, which is a different way of thinking about broadcasting: public service requirements are not

<sup>10</sup> Ofcom Public Service Broadcasting Review 2015.

## Public service media institutions

determined by the level of market failure or public value, but by the value of the assets granted to the broadcaster: if broadcasters enjoy free or cheap protected frequencies to broadcast on, the first slots people zap to on the programme guide, they should provide public services in return, in a loose proportion to the value delivered by those assets. This theory has the virtue of being pragmatic: some of the economic surplus derived from broadcasters exploiting key gateways such as spectrum or EPGs can be ploughed back into public benefits, and as the importance of the gateways fluctuates, so can public service obligations.

Type of PSB	Accountable to	Rights	Duties	Eg
<b>Publicly funded</b>	Parliament, Public as citizens (and licence fee payers) regulator	Funding, distribution, must carry, EPG prominence	Public service remit, universal availability, fundamental rights, protection of minors	BBC
<b>Commercial PSB</b>	Regulator, Public as consumers Shareholders	Funding, access to distribution (on terrestrial), must carry rules, EPG prominence	Public service remit, universal availability, fundamental rights, protection of minors	ITV

Source: Public Service Duties and Rights (Adapted From Tambini 2015).<sup>11</sup>

*How can media freedom be maintained, and a tangle of Levesonian reciprocities be avoided, in developing a new institutional settlement for public service media?*

There are a number of questions one can ask about the idea of a ‘spectrum for service compact’ for broadcasting. Is it historically accurate? When was this ‘compact’ made? Broadcasting licenses and the BBC Charter seem to embody this: but what are the equivalent ‘contractual moments’ with respect to EPG prominence and other distribution privileges? Are responsibilities and privileges conditional upon one another? And if it expresses a set of conditionalities (you can access privileges on condition of good behaviour) how does it relate to freedom of speech? Spectrum can be awarded by an

**11** Damian Tambini ‘Five Theses on Public Media and Digitization’ International Journal of Communication 9 (2015), 1400–1424.

independent regulatory authority carefully separated from politicians, but as the importance of spectrum declines, and other issues related to distribution and other privileges become more salient, how can media freedom be maintained, and a tangle of Levesonian reciprocities avoided, in developing a new institutional settlement for public service media?

## Discussion

Looking back at two decades of broadcasting policymaking in the UK it is clear that:

1. Neither Government nor Parliament, nor any Ofcom review has articulated a clear statement about the future of public service or a theory of intervention beyond the current institutional settlement.
2. The theory of market failure has not been decisive in identifying the appropriate level of public provision due to lack of consensus on theory and evidence.
3. Public Value Assessment has provided some useful evidence to guide and focus investment, but this is in the context of responding to BBC strategy and is a rough qualitative guide.<sup>12</sup>
4. PSB as a proportion of viewing has sharply declined not due to active public policy choice about optimal levels of provision but as the institutional basis of PSB has been transformed. The declining value of spectrum for PSBs has led to the gradual exit of channels 3 and 5 out of the public service system through relaxation of their public service requirements.<sup>13</sup>

Whilst the economic value of spectrum is rising, because it is demanded for a number of uses, particularly for mobile services, its' value to advertising-funded audio-visual service providers such as TV stations is declining, because of technological advances and a range of new internet based delivery services. This raises a number of questions about those public service obligations that attach to broadcast licences in general<sup>14</sup>. Back in 2005<sup>15</sup>,

**12** See for example the Public Value Tests carried out by the BBC Trust [http://www.bbc.co.uk/bbctrust/governance/tools\\_we\\_use/public\\_value\\_tests.html](http://www.bbc.co.uk/bbctrust/governance/tools_we_use/public_value_tests.html) (Accessed 13 June 2016).

**13** See Tambini 2014 for a longer discussion.

**14** Communications Act 2003 Section 264.

**15** Ofcom First Review of Public Service Broadcasting.

Ofcom signalled that public service obligations would be reduced. This has indeed occurred. The institutional basis of commercial PSB is weakening, and the most likely long term scenario if no positive decision is taken to reverse this, is that they will exit the PSB system. The crucial period will be 2030, and much of the planning for this will need to be put in place around 2020.

The purposes of PSB as set out by Parliament in section 264 of the Communications Act are monitored by Ofcom. During the decade since the Communications Act, the public obligations on the commercial broadcasters ITV and Channel 5 have been slowly reduced and watered down, as have the obligations that adhere to local TV operators<sup>16</sup>. Ofcom acknowledges that without further intervention we are moving toward the end of commercial public broadcasting<sup>17</sup>. Channel Four has been in an ongoing dialogue with Ofcom about the extent to which it is able to meet its public service obligations, which may retrospectively be seen as a process of ‘fattening’ before privatization. Its most recent licence renewal resulted in maintenance of the status quo, but these can only be maintained if audiences and revenue hold up<sup>18</sup>. This is because Ofcom recognised that the value delivered by licenses was declining, which undermined the broadcasters’ ability to meet these obligations. (Ofcom 2004, 2005).

Ofcom<sup>19</sup>, as the body responsible for monitoring performance against these aims, has questioned “whether the current public service purposes and objectives remain achievable, and how far the market is already delivering them and meeting social goals.” (Ofcom 2015). This encapsulates the dilemma facing public policy in this area: what was achievable – in terms of information, education and entertainment in the age of limited channels, may not be achievable in the future.

Doing nothing will lead to a gradual decline of the public service ethic in UK media. We have seen that the regulatory assets that institutionalise PSB in the UK are declining in value. In the current phase, commercial competition and the increasing context of choice leads to a Catch 22 situation

<sup>16</sup> <http://www.theguardian.com/media/2014/oct/08/london-live-cut-local-programming-ofcom>.

<sup>17</sup> See Ofcom <http://stakeholders.ofcom.org.uk/binaries/consultations/c3-c5-obligations/statement/statement.pdf> at 2.8.

<sup>18</sup> <http://stakeholders.ofcom.org.uk/binaries/consultations/renewal-c4-licence/summary/c4.pdf>.

<sup>19</sup> Ofcom. Third Review of Public Service Broadcasting 2015 6.28.1 [http://stakeholders.ofcom.org.uk/binaries/consultations/psb-review-3/statement/PSB\\_Review\\_3\\_Statement.pdf](http://stakeholders.ofcom.org.uk/binaries/consultations/psb-review-3/statement/PSB_Review_3_Statement.pdf).

for public service broadcasting. In a situation of competition, PSM has to be more appealing, to the audience, but in so doing it is accused of losing its ‘distinctiveness’, which in turn undermines its case for public funding.

*Doing nothing will lead to a gradual decline  
of the public service ethic in UK media.*

## Conclusion

In its 2015 Charter Review submission to the government, the BBC argued that “The justification for the BBC does not rest on a model of ‘market failure’. The case for the BBC starts from a different set of considerations about the sort of society we want. Access to culture, media and information should be a basic human right, ensured regardless of a person’s ability to pay for it.” (at 2.3).

The final jettisoning of the theory that just a few years previously had provided the core justification of the BBC shows how little ideas matter to decisions about public service broadcasting. This is probably most true of the commercially funded public broadcasters. For the last 15 years the approach to ITV and Channel 5 has been careful monitoring of behaviour and change with a light hand on the regulatory tiller, in general the negotiation of reduction of public service obligations. What results from this, however, is anything but the status quo. With the gradual easing of public service regulation of channels 3 and 5 comes a shift of accountability of these bodies from public accountability to market accountability, and a slow bleeding of the public domain.

That obligations on public television channels would be eased is probably inevitable, in light of the fact that revenues have declined, and stiffer broadcasting license requirements would result in ‘license hand back’ (Ofcom 2005). Policymakers have attempted to use theories of ‘Market failure’ and ‘public value’ to guide policy and decision-making about public broadcasting. Such theories have been influential in debates about what services should be publicly funded through the BBC during the transition to

digital. However in relation to the commercial public service broadcasters, it has been the long term evolution of the institutional basis of PSB – negotiations about the value – in terms of advertising revenue for example that are delivered by access to UHF spectrum and EPG prominence that have determined outcomes.

Policymakers speak a great deal about the benefits of a public service ecology for television. But they are not taking appropriate action to preserve it. Whilst there has been intermittent talk about a more positive approach to making PSB more ‘discoverable’ and thinking about new institutional supports that can be provided for example on distribution, public policy has largely failed to make proactive steps to maintain any form of mixed system beyond 2030.

Public policymakers should adopt a proactive, not a ‘wait and see’ approach to public service media. In 2015 Ofcom recommended that “Policy-makers should give further consideration to reforming the rules that guarantee appropriate prominence and access to public service content. The current rules on schedule prominence for the PSBs were designed for an analogue broadcasting era. They need to match changes in technology and ensure that public service content remains available and easy to find, in whatever way it is viewed. Such reform will need to be considered in the context of new and emerging platforms provided over the internet, and changes to user interfaces, which may change how people access content and services.” (At 2.19). This is now urgent, and should not be delayed further.

## Appendix: Forum attendees

The following people attended the forum on which these papers are based:

Baroness O'Neill, FBA (*Chair*)  
Patrick Barwise, London Business School  
Toby Syfret, Enders Analysis  
Damian Tambini, LSE  
Eleanor Van Heyningen, BBC  
Sophie Jones, Channel 4  
Alex McNair, ITV  
Kate McGavin, DCMS  
Chris Curtis, Broadcast  
Robin Foster, Communications Chambers  
Dan Biddle, Twitter  
David Mahoney, Ofcom  
Georgina Born FBA, University of Oxford  
Petros Iosifidis, City University  
Manuel Pereiro, LSE  
Des Freedman, Goldsmiths, University of London  
Vana Goblot, Goldsmiths, University of London  
Alun Evans, British Academy  
Tim Brassell, British Academy  
Natasha McCarthy, British Academy

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