



DEPARTMENT FOR CULTURE, MEDIA AND SPORT

Government Response
to the Culture, Media and Sport
Select Committee Report on Public
Service Content (HC 36-1)
Session 2007-08

*Presented to Parliament by the
Secretary of State for Culture, Media and Sport
by Command of Her Majesty*

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Introduction

The Government welcomes the Committee's First Report of the 2007-08 session, and is pleased to be able to present its response to the Committee and outline how we intend to take action on the recommendations made.

We thank the Committee for its thorough examination of public service media content in the UK. While it is too early to respond in detail on some of the specific issues raised, the report makes a number of interesting recommendations which will inform future considerations of public service broadcasting.

Conclusions and Recommendations

- **(1) The purposes and characteristics approach put forward by Ofcom, though hard to measure and assess, is a useful starting point for examining public service content. We agree that a huge amount of currently available content meets these purposes and characteristics, and that this content is available from the designated public service broadcasters and from other providers including commercial broadcasters who are not bound by public service obligations. Given this, we believe that the fact that content exhibits public service purposes and characteristics as defined by Ofcom is not, in itself, a sufficient condition for the Government to considering intervening to provide this content. (Paragraph 23)**
- **(4) We believe that the primary and most important factor for policymakers and regulators to assess when looking at the provision of public service content is the amount of content exhibiting public service purposes and characteristics, as defined by Ofcom, available to consumers. However, we recognise that an assessment of the number of public service content providers and their levels of public subsidy can be a useful, but firmly secondary, way of looking at the issue. (Paragraph 47)**

1. The Government agrees that the framework we set out in the Communications Act 2003 and the characteristics and purposes put forward by Ofcom as part of their first public service broadcasting review in 2005 provide a valuable starting point for examining public service content. Whilst we remain committed to a strong future for public service broadcasting, we are also aware that the current broadcasting environment is changing rapidly, bringing both pressures on the current system and opportunities for new providers to step in and deliver some types of public service content. That is why both Government and Ofcom are actively considering the future of public service broadcasting in the UK.

2. We have brought forward the timing of our wider review of funding for public service broadcasting (PSB) beyond the BBC, to follow Ofcom's second public service broadcasting review. We are also considering these key issues within the wider context of convergence, as part of the convergence think tank programme announced in the Autumn by the Secretary of State for Culture, Media and Sport.

- **(2) There is currently an abundant supply of content that exhibits public service purposes and characteristics as defined by Ofcom. There are more providers and hours of this type of content available to consumers than ever before, including a substantial provision from the radio and digital multi-channel sectors. We note,**

however, the criticism that the digital multi-channel sector is not sufficiently investing in UK – produced content. We welcome the declared intention of these broadcasters to increase their investment in this area and believe that Ofcom should conduct and publish a detailed analysis of the multi-channel sector’s level of investment in UK produced content. (Paragraph 38)

3. Like the Committee, the Government welcomes the stated intention of digital multi-channel broadcasters to increase investment in UK produced content. We would expect Ofcom to examine the prospects for investment in UK content by digital multi-channel broadcasters.

- **(3) Plurality in the provision of content is important, as it brings the benefits of competition, different services and a diversity of viewpoints to consumers. We consider that there is currently a plurality among providers, commissioners and producers of public service content and we note and welcome the Government’s commitment to plurality. Despite this commitment, it is the case that a large proportion of the Government’s support for public service content has been concentrated on one provider, the BBC. We believe that the Government and Ofcom should set out what they consider to be a sufficient level of plurality, and the investment necessary to achieve that, in order to assess whether this is likely to be threatened in future. (Paragraph 42)**
- **(10) The provision of public service content by the digital multi-channel sector has increased plurality in UK broadcasting. The sector provides a range and diversity of content that exhibits public service purposes and characteristics as defined by Ofcom and this provision may very well increase after digital switchover as its channels gain access to larger audiences and revenues. (Paragraph 75)**

4. The Government agrees with the Committee on the benefits of plurality in public service broadcasting. It also agrees that some content displaying public service characteristics is available from providers beyond those formally designated as public service broadcasters. The future importance of plurality and how it can best be maintained in the digital age are key issues for both Ofcom’s second review of public service broadcasting and for the Government review of PSB funding.

- **(5) We recognise that the value of the indirect subsidy of analogue spectrum for ITV, Channel 4 and Five, which granted exclusive access to mass audiences, will diminish as the UK approaches digital switchover and we note the concerns that ITV, Channel 4 and Five might therefore reduce their current provision of public service content. On the other hand, we note that there will still be an (albeit smaller) subsidy for the commercial public service broadcasters after digital switchover and we believe that this, and broadcasters’ commercial interests, will sustain public service content. We do, however, believe that it will be increasingly difficult to continue to impose public service obligations on commercial broadcasters beyond the value of this ongoing subsidy. The question, increasingly, will be what level of obligation is sustainable. (Paragraph 53)**

5. We recognise the pressures affecting these broadcasters, in particular through take-up of multichannel digital television and the expansion of other media. The question of sustainable obligations will, therefore, be an important aspect of Ofcom’s current public service broadcasting review and the Government work already mentioned.

- **(6) The BBC currently provides a wide range of public service content across many genres and plays an important role in setting quality standards for the rest of the broadcasting market. We expect the BBC to continue to provide quality programming and to set standards for other broadcasters in future given its guaranteed income of over £3.2 billion per annum. (Paragraph 57)**

6. The Government fully endorses the Committee's view. The importance of the BBC's role as a provider of quality programming and a standard-setter for other broadcasters was a key theme throughout Charter review. That role is now firmly embodied in the new Charter and Agreement. There is, for example, a requirement that the content of the Corporation's UK Public Services taken as a whole must be high quality, challenging, original, innovative and engaging.

- **(7) We note that some argue that the BBC should provide more commercially orientated programming in order to reach a wide range of audiences. However, we do not share this view and instead believe that the BBC should place a high priority on areas that other broadcasters will not provide, while continuing to offer high quality programming which attracts diverse audiences. Given the substantial provision of public service content by other broadcasters, we believe that the BBC could deliver its public service remit without providing all of its current range of services and we note and welcome the BBC's commitment to become smaller in terms of its scale as an organisation and in its operations. We do not believe, however, it is in the public interest for the BBC to be allowed to wither, as some would like, for example, to become akin to the Public Broadcasting Service (PBS) in the US. (Paragraph 63)**

7. The Government notes the Committee's comments. The decision that the BBC should be granted a new 10-year Charter was based on the firm view that the Corporation should continue as a publicly-funded public service broadcaster of real scale, with a responsibility to deliver a range of services across a variety of platforms. The content of the BBC's services must be distinctive as compared with what is available from other broadcasters and must encompass both mainstream and specialist programming. Although it is entirely legitimate and necessary for the BBC to provide programmes aimed at a wide audience, it should achieve those audiences through the inherent qualities of its content. Where the BBC does provide genres already available in the market, its content should stand out clearly as the BBC's.

- **(8) While we recognise the concerns that the BBC received a lower licence fee settlement than desired, we believe that the BBC can continue its role in providing high quality programming within the resources available to it and we welcome the BBC's plans to become a smaller but more distinctive organisation. However, the increase in market provision of public service content suggests to us that further analysis needs to be undertaken to assess the level of public funding that needs to be made available for public service content. On current trends, we would expect that the case for current levels of public funding will diminish. The BBC has rightly reacted to the arrival of new channels by drawing back from programming that can be broadcast by others. We welcome the BBC's approach, and encourage the BBC Trust to limit the BBC's activities in areas where there is already alternative provision. The BBC Trust should not treat licence fee income as a sum that must necessarily be spent in its entirety, irrespective of others' provision of public service content, and we encourage it to bear in mind its option of not drawing down the full amount of the licence fee in future. (Paragraph 68)**

8. The Government is clear that the current licence fee settlement provides a fair and realistic funding base which will allow the BBC to secure the effective promotion of its Public Purposes. How the BBC allocates its resources in order to secure the effective promotion of the Public Purposes is, however, a matter for the BBC Trust. We note the Trust's view, when referring to the Executive's six-year strategy announced in October, that "at the heart of the strategic plan remains a firm commitment to the delivery of the BBC's public purposes through high quality and distinctive creative content". The Trust has further said that the strategy "will safeguard the core values of the BBC at a time of radical and accelerating change in technology, markets and audience expectations".

9. The Government is committed to funding the BBC by the licence fee for the whole of the current Charter period. However, the Trust is under a specific duty to keep the BBC's financial needs under review and retains the option of not drawing down the full amount of the licence fee where the Trust considers this to be in the public interest. The Government agrees that the overall level of public intervention needed to support the provision of public service content in the future is an issue for detailed analysis and debate. This is why we remain firmly committed to the review of funding already referred to.

- **(9) We are encouraged by S4C's optimism about its ability to provide public service content in the future. S4C demonstrates that a broadcaster with direct public funding and a tightly defined remit can deliver public service content without having its editorial independence compromised. (Paragraph 72)**

10. The Government welcomes S4C's optimism about its ability to continue to provide public service content in the future. We note the Committee's conclusion that the S4C example demonstrates that direct public funding and a tightly defined remit can deliver public service content without compromising a broadcaster's editorial independence.

- **(11) We find the failure by the Satellite and Cable broadcasters' Group to release information on their members' investment UK-produced children's programming very disappointing. In evidence, this body has been one of the most optimistic about the prospects for market-provided public service content in the digital age, but its failure to provide these statistics could be taken as undermining that confidence (Paragraph 76)**

11. The Government notes the Committee's observations.

- **(12) British children in multichannel homes have access to more children's television than ever before. This content is provided by a range of broadcasters, from the designated public service broadcasters to the digital multi-channels. Children are increasingly consuming content on platforms other than traditional mixed genre television channels. We are therefore not unduly concerned if public service broadcasters shift their children's programming focus away from their main terrestrial channels, instead providing content on dedicated children's channels. We do, however, believe that before the completion of digital switchover, it will still be important for the public service broadcasters to provide some UK-produced children's programming on their main terrestrial channels, and after the completion of digital switchover, for the public service broadcasters to provide UK-produced children's programming free-to-air. (Paragraph 83)**
- **(14) We believe that a mix of imported and UK produced content is beneficial for UK children as both types of programming can help children learn and develop, and we believe that UK-produced content plays an important role in maintaining children's cultural identity. We note the commitment to children's programming of the BBC, ITV, Five and some digital multi channels and we encourage these broadcasters to continue to contribute to the production of UK-originated output. Despite these commitments, we believe that the financial pressure likely to face the main current commercial commissioners of children's content, in part due to the Government and Ofcom's interventions which will restrict advertising revenue for children's programming, creates uncertainty about the level of UK produced children's content that will be attained in future. We believe that it is important that there remains a significant amount of UK-produced children's programming on commercial channels as well as the BBC, and we would be very disappointed if ITV further reduced or withdrew from commissioning UK children's content in the future. We therefore recommend that the Government and Ofcom should identify how much UK children's production they consider is necessary and come to a view**

on whether they believe there will be a shortfall. We welcome Ofcom's recent discussion paper on the future of children's programming as a good first step in this process. If a shortfall is envisaged, we believe that children's programming should be eligible for assistance as we set out later. (Paragraph 86)

12. The Government acknowledges that children's television programming is a much valued and important part of the UK's broadcasting environment, with a significant contribution from public service television.

13. We have already engaged with the industry on this issue. In April of last year DCMS organised a seminar, in conjunction with BAFTA, in order to examine the future of children's programming in the UK. We welcome the Committee's consideration of this issue in the context of its PSB review. We have also brought forward the timing of our wider review of funding for public service broadcasting beyond the BBC, to begin once Ofcom's conclusions emerge. Also, in addition Ofcom, in advance of their second PSB review, announced on 13 February 2007, that they were going to look at the future of children's TV programming in the UK. Their discussion paper "*The Future of Children's Television in the UK*" was published on 3 October 2007 and the closing date for the responses was 20 December. Ofcom's findings and any recommendations will be published in the first phase of the PSB review, due in the Spring of this year.

14. The issues will also feed into our work on the implications of convergence, which is particularly important given that older children and younger teenagers are watching less television and using the internet and mobile phones more than ever. All the work streams mentioned will ensure that we can take full account of the changing context of television when considering the future place of UK-produced children's programming.

- **(13) While we agree with the policy objective of reducing childhood obesity, it is the case that restrictions on the advertising of food and drink products high in fat, salt and sugar have increased the financial pressure on broadcasters of children's programming and that they will have an adverse effect on the provision of original, UK-produced children's content. (Paragraph 84)**

15. The Government has made clear its commitment to halt the rise in childhood obesity and to supporting parents in protecting their children from encouragement to eat too many HFSS foods. The 2004 Public Health White Paper set out a comprehensive approach to promote a healthy diet and reduce children's obesity levels – including changing the nature and balance of food promotion to children across all media.

16. We welcome the steps Ofcom have taken to strengthen the regulation of broadcast food promotion to children – with further restrictions on food advertising in programmes of appeal to children under 16 due to come into effect in 2008. Ofcom's new rules will significantly reduce children's exposure to HFSS advertising, whilst continuing to allow advertisements for non-HFSS food.

17. Whilst Government accepts that these restrictions will have an economic impact on broadcasters, it believes that Ofcom's new rules are a proportionate and balanced contribution to the wider range of measures aimed at tackling childhood obesity and poor diet. However, we will be evaluating fully the impact of the new rules on food promotion before any further measures are considered. As such, we will shortly be publishing a stock take report on the changes to HFSS advertising, in both broadcast and non-broadcast media – with a full review in 2008 and Ofcom will be undertaking a full review of the rule changes over the next year.

- **(15) On the basis of the evidence, it is our judgement that there is no near or mid-term crisis in the provision of network television news. In the longer term, while we note the arguments that high quality news is relatively expensive to make, we believe that, on balance, the commercial public service broadcasters are likely to provide national news in the future as it is regarded as essential for their brands, but the importance of maintaining plurality in high quality news provision is such that we should remain vigilant in case this does not occur. (Paragraph 94)**
- **(17) An increasing amount of news content is provided by commercial broadcasters and other providers, and we note the concerns that this content may be of lower quality and may be less independent and impartial than content provided by the designated public service broadcasters. We are not unduly concerned, however, if news coverage from non public service broadcasters is presented from a particular viewpoint, as long as this is made clear to the viewer: we believe that it is more important for there to be a balanced range of views and opinions from news providers across the media spectrum. News provision from other organisations, especially on new media, has an important role in maintaining the plurality and diversity of news output in the UK. We recognise in the age of broadcast by broadband that it is neither possible, nor necessarily desirable, to subject every such operator to impartiality rules. We do believe, however, that the impartiality requirements currently applied to public service broadcasters have served the UK well and policy-makers again need to keep a watching brief as the industry develops in the digital age. (Paragraph 101)**
- **(18) We note the concerns about the future viability of regional programming and we recognise that regional programming is relatively costly to produce as it cannot generate the mass audiences and revenues of national programming. While we note that it is in the interests of broadcasters to provide regional content, as this type of content is attractive to viewers, we believe that content specific to the nations and regions, especially news programming, may come under pressure in future. We also recognise the concern in some distinct areas such as the South West and the Border region about the impact that ITV's proposals will have on relevant local news provision. We therefore believe that the Government and Ofcom should identify how much regional material they believe should be provided, and come to a view on whether they believe there will be a shortfall in future. If a shortfall is envisaged we believe that regional programming should be eligible for assistance as we set out later. In the interests of plurality it would be regrettable if regional news in any area were to become solely the preserve of the BBC. (Paragraph 107)**

18. The Government strongly supports independence and impartiality in the broadcast media. That is why we carried forward the statutory impartiality obligations into the Communications Act and have similar requirements on the BBC, through its Charter and Agreement. Impartiality remains at the heart of licensed broadcasting services, as it guarantees the availability of accurate and impartial news services and political impartiality in programme making. It also ensures that the broadcast media provide a counter-weight to other, often partial, sources of news and, therefore, contribute significantly to a properly informed democratic debate.

19. The Government also accepts that whilst the provision of national news is regarded as essential for commercial public service broadcasters' brands and therefore is likely to be provided after digital switchover, its provision should not be taken for granted as we move towards digital switchover and beyond, a view that was also set out in Ofcom's discussion paper '*New News, Future News*'. That is why we welcomed the publication of that discussion paper, as a stimulus to debate around news provision. The views received by Ofcom will be reflected in their current public service broadcasting review.

20. Government is also committed to retaining a strong regional dimension to public service broadcasting, reflecting UK cultural traditions and meeting the needs of diverse communities. We believe that the Communications Act ensures this, for example by providing important safeguards for quality regional programme-making and regional programming. In Phase 3 of its review into Public Service Broadcasting, published in February 2005, Ofcom found ITV's regional news highly valued by audiences and, therefore, maintained its obligations for regional news. However, Ofcom reduced non-news obligations as they were seen as unsustainable and appeared to be less valued by audiences.

21. With regard to ITV's regional news proposals, it is not for Government to direct ITV in this area. These decisions are for Ofcom to make, subject to Communications Act duties, and regional news remains a core part of ITV's public service remit. Ofcom will need to consider very carefully whether these proposals sustain the regional relationships with their audiences, which have been the traditional strength of ITV. Further discussions will take place in the coming months as Ofcom conducts its next review of public service television. This will give all interested parties the opportunity to comment before any decisions are made. We also note ITV's commitment to engage with MPs and councillors on this issue in order to explain the proposal.

- **(16) In the digital age, we believe policy-makers should keep a watching brief on the provision of current affairs and investigative programming and if there is a shortfall, this genre might also be eligible for assistance as set out later. (Paragraph 95)**
- **(19) We note the enthusiasm of some witnesses for the potential for local television and the view that the Government needs to take action to support the provision of local content. However, while we do see some value in local content, we are not convinced of the need to intervene to support local television, particularly by giving away spectrum for broadcasting on digital terrestrial television. If providers want to offer local television services, we believe that more targeted delivery platforms, such as broadband, are more appropriate. (Paragraph 117)**

22. The Government is committed to ensuring provision of current affairs programming on PSB channels. The Communications Act 2003 requires these channels to provide 'a range of high quality and diverse programming' and commits them to programming quotas including the provision of current affairs programmes. However, responsibility for monitoring these quotas falls to Ofcom and, like other PSB commitments, these will be looked at as part of Ofcom's second PSB review which is currently under way.

23. Local television services can play a valuable role in bringing communities together through providing local news and information on local issues and services and can also bring economic benefits to communities in terms of providing employment and training in media skills. We are working with Ofcom to ensure there are opportunities for different kinds of local and community services to be delivered across a range of platforms including broadband and digital terrestrial television.

24. The Government has a clear policy of using market mechanisms to allocate spectrum, as that is the best way of identifying the most valuable uses to which spectrum can be put. The threshold for any exceptions to this approach is extremely high. We welcome Ofcom's decisions set out in its Digital Dividend Review statement to package interleaved spectrum in a way which makes it suitable, but is not exclusively reserved, for local and community broadcasting on digital terrestrial television. Ofcom considers that such packaging will address the risk of co-ordination market failure identified for local and community TV.

25. Ofcom has announced they will consult on the details of spectrum packaging and award notably in the interleaved spectrum in spring 2008. We look forward to hearing stakeholders' views on this issue.

- **(20) A huge amount of content exhibiting public service purposes and characteristics, as defined by Ofcom, is currently available on new media and there is a plurality of providers of this content. We believe that there is clearly no threat to the production or distribution of public service content on new media platforms. While we note the efforts by the designated public service broadcasters to make their content available on new media, we believe that material provided by smaller, newer entrants can also meet public service purposes and characteristics as defined by Ofcom. We do not accept the arguments that the Government needs to assist new media start ups to achieve scale and we therefore consider that there is no need for further intervention to support public service content on new media. (Paragraph 124)**
- **(21) Given the huge amount of public service content currently available on new media, we believe that the creation of a new public service publisher, as currently envisaged by Ofcom, is unnecessary. The creation of a new public service content institution for new media would run the risk of distorting the market and impeding innovation. We also believe that an approach that attempts to impose the institutional interventions of the past in the new media world is misguided. At a time when technological change and digital uptake strengthens the case for the withdrawal of existing intervention, the introduction of new public institutions does not appear to be merited. (Paragraph 132)**

26. The Government notes the Committee's views in this area. The Government believes, however, that the rapid changes in the way programme content is delivered and viewed poses both challenges and opportunities and that the issues merit further consideration. That is why the Secretary of State announced Government plans for the Convergence Think Tank in his RTS speech on 13 September last year. The role of the Think Tank will be to draw together the available evidence and inform Government policy in this area. Our three key themes, looking to the future, will be open markets, universal access to high quality programming and empowering consumers.

- **(22) Competition between providers has provided consumers with a range and diversity of content. We believe that in future, competition—not least with, and from, the BBC—will drive the provision of quality content for consumers, although there are already evident areas of concern. The most appropriate way for the Government and Ofcom to encourage the beneficial effects of competition is not to employ a heavy handed approach to regulation. They should ensure the minimum amount of public intervention that is necessary to meet policy objectives with respect to the continuing availability of public service content in all its forms. (Paragraph 135)**
- **(23) We believe that the Government and Ofcom should only consider intervening in the broadcasting market where it appears that certain types of content would not be provided or underprovided. Given that the market currently provides a wealth of content exhibiting public service purposes and characteristics as defined by Ofcom and is likely to continue this provision in the future, we believe that the level of Government and regulatory intervention should diminish as we enter the digital age. In order to be clear about policy objectives, we consider that the Government and Ofcom should specify the socially valuable programming genres or areas which they believe should be sustained, and undertake a detailed, robust analysis of the amount of this content that is likely to be provided after digital switchover in order to identify where, if anywhere, there is likely to be a shortfall.**

We have already suggested children’s programming and regional programming as two areas that merit examination. If the Government and Ofcom wish to intervene in areas where the market can provide, it is our view that they should explain why. More broadly, the Government and Ofcom should ensure that any decision to intervene is evidence based, that the intended policy outcome is clear and measurable, and that the costs of intervention are transparent to consumers. (Paragraph 141)

- (24) We note that the Government has committed itself to reviewing the case for making available public funds, including licence fee income, beyond the BBC and we welcome the Government’s commitment to bring forward the timing of this review. We foresee that the BBC will remain the main provider of public service programming in the future and will continue to receive by far the largest share of the public funds available. However, we believe that public funding, should be made available beyond the BBC, on a contestable basis, to sustain plurality and to bring the benefits of competition to the provision of public service content that the market would not provide. We do not necessarily accept the arguments against the redistribution of public funding: redistribution might increase accountability and transparency and could lead to a greater provision of public service content. However, the body allocating public funding would need to take care not to fund programming that is already commercially viable. (Paragraph 154)
- (25) We believe that the most appropriate source of public funds for public service content is either from the licence fee or from general taxation, although we do not believe that the overall cost to the public should be allowed to increase. (Paragraph 155)

27. The Government agrees that the BBC will remain the main provider of public service programming in the future and has made clear that the TV licence fee will remain the main mechanism for funding the Corporation at least until the end of its current Charter. The Government has also made clear that the case for public service broadcasting is not simply one of market failure. The case for any wider distribution of public funds beyond the BBC will be considered by the Government review in the light of the conclusions of Ofcom’s current review and the work of the Convergence Think Tank.

- (26) Channel 4 is currently profitable and has been performing well compared to other terrestrial broadcasters. We note, however, that Ofcom believes Channel 4 is likely to face financial difficulties in the medium term. After digital switchover, should Channel 4’s residual subsidy be insufficient to provide public service content that the market would otherwise not provide, we believe that Channel 4 should be able to apply, on a contestable basis, for public funding—which could potentially include television licence fee income—to make specific public service programmes that meet its remit. (Paragraph 161)

28. We note the Committee’s recommendation that Channel 4 should be able to apply for public funding, on a contestable basis, for specific public service programmes that meet its remit. We shall take the Committee’s views into account in our considerations.

- (27) We believe that Channel 4’s remit is inappropriate in the digital age and that it needs to be more tightly tied to the provision of content that the market would be unlikely to provide, such as high quality, challenging UK-produced drama and documentaries of the kind that used to be synonymous with the channel. A more tightly defined remit would help the body considering applications for public funding judge whether to allocate money to Channel 4 and would also more clearly justify the expenditure of public money on supporting the channel. Of

course, Channel 4 would still be able to produce commercial programming to cross-subsidise the provision of content that the market would not provide. (Paragraph 165)

29. The Government does not believe that, at present, there is a clear case for the amendment of Channel 4's public service remit. Since its launch, Channel 4 has had a broadly defined remit with an emphasis on innovation, experimentation and creativity. To restrict the remit to programming that the market would not otherwise provide would, we believe, risk undermining the dynamism that has enabled Channel 4 to make such a valuable contribution to UK broadcasting. However, we recognise that there have been legitimate concerns about how Channel 4's delivery of its remit is measured. The Government therefore welcomes the commitment by the Channel 4 Board, last June, to put in place a new framework for measuring, and publicly accounting for, the Channel's PSB performance. We look forward to the implementation of these proposals.

- **(28) We welcome the OFT's decision to hold a review of the Contract Rights Renewal (CRR) mechanism. The advertising market has changed dramatically since the CRR mechanism was imposed and we believe there is a strong case for relaxing or possibly removing this remedy. We note, however, that ITV is still likely to have a high market share and consider that it is likely that there will still need to be some intervention. (Paragraph 171)**

30. The Contracts Right Renewal remedy is a matter for the Competition Authorities to consider and we await their recommendations.

- **(29) Given the concerns about the future provision of some genres of public service content, we reiterate our recommendation from our Report on New Media and Creative Industries that commercial broadcasters should be permitted to introduce product placement within the boundaries set by the new EU Audio Visual Media Services Directive. (Paragraph 175)**

31. The Audiovisual Media Services Directive was formally adopted by the European Parliament on 29 November 2007 and came into force on 19 December 2007. The Directive will enable the Government to allow UK broadcasters to include product placement in certain genres of programming made or commissioned by them, but it does not require us to do so. We are currently considering how to implement the Directive in the UK. As the Committee notes in its report, Ofcom's consultation on product placement produced varied responses with no clear consensus. We will want to consult widely with stakeholders before reaching any decision on whether product placement should be permitted.

- **(30) We recognise the substantial provision of public service content from the radio sector, including commercial radio. We sympathise with the concerns of commercial radio that the BBC is over dominant with a 55% share of total listening and that the sector is too heavily regulated relative to its size. Ofcom proposes to reform the regulation of commercial radio and we encourage it to be as radical and as speedy as possible in removing requirements that are unnecessary given the impact of regulation on the commercial sector's current and likely future provision of public service content. (Paragraph 181)**

32. The Government believes in the importance of a strong and vibrant commercial radio industry. Ofcom's report "The Future of Radio – The Next Phase" published on 22 November contains a number of recommendations, some of which would require legislation. We welcome these recommendations and are considering the next steps. Some of the recommendations are for Ofcom themselves to consider and take forward, including many of those in respect of the reform of local commercial radio.

- **(31) If the Government decides that additional forms of support are needed for public service content, we believe that this support should be provided using direct, accountable subsidies. On balance, we believe that the benefits of direct funding outweigh any risks to broadcasting independence. In particular, we believe that the Government and Ofcom should not interfere further with the spectrum market to pursue broadcasting policy, for example by allocating additional spectrum to support the provision of public service content. (Paragraph 189)**

33. The Government agrees that market mechanisms, rather than intervention, should be used to allocate spectrum. The threshold for any exception to this approach is extremely high.

34. With regard to specific funding arrangements for the provision of public service content, it is too early at present to speculate on what recommendations might arise from either the Ofcom or the Government review (or indeed any work carried out by the recently-formed Convergence Think Tank) in terms of providing additional forms of support for public service content, but we will take the Committee's views into account in our considerations.

- **(32) We support Ofcom's decision to introduce Administered Incentive Pricing for spectrum used for broadcasting. We note that broadcasters have benefited from a long immunity from paying for the spectrum they use and that the introduction of Administered Incentive Pricing will merely bring broadcasters into line with other users of the spectrum, such as the Ministry of Defence. (Paragraph 192)**

35. Ofcom has decided that from 2014 broadcasters will be charged Administered Incentive Pricing (AIP) for their use of spectrum for terrestrial broadcasting, but potential effects on broadcasting output will be taken into account so as to ensure that public service requirements can continue to be met.

36. Ofcom has decided that from 2014 broadcasters will be charged Administered Incentive Pricing (AIP) for their use of spectrum for terrestrial broadcasting.

37. This is in line with Government's views that AIP is a tool which should be applied to all broadcasters in order to promote the most efficient use of spectrum. However, any introduction of AIP should balance the value of the spectrum used with the ability of the broadcasters to meet their public service obligations. It should also take into account the scope to make more efficient use of the spectrum.

38. Ofcom will start working on setting prices for spectrum nearer the time of implementation.

- **(33) We reiterate our support for Ofcom's technology neutral approach to auctioning the spectrum released by digital switchover. We have continued to listen to the arguments but we fail to see how transmission of extra high definition digital terrestrial television channels delivers sufficient extra public value to justify intervention. In any case, we note that Ofcom and the public service broadcasters have agreed in principle that it is technically possible to transmit up to four channels in high definition within their current allocation of spectrum. We agree that the most appropriate use of the vacated spectrum is best determined by market mechanisms and note that this will still allow the broadcasters the option of purchasing additional spectrum in the marketplace. (Paragraph 197)**

39. The Government welcomes the Committee's support for Ofcom's market-based approach to spectrum management, and in particular the regulator's proposals for awarding the digital dividend spectrum released by switchover. We too have a clear commitment to the use of market mechanisms to allocate spectrum, as this is the best way of identifying the most valuable use to which that spectrum can be put. The threshold for any exception to this approach is extremely high.

40. Since the publication of the Select Committee's report, Ofcom has issued its consultation 'The Future of Digital Terrestrial Television: Enabling new services for viewers', which sets out proposals for upgrading the existing DTT platform, using new technologies to free up capacity for new services. We welcome this consultation and note that the PSB's have put forward a joint proposal for achieving the provision of high definition PSB services on existing capacity. We look forward to the outcome of those discussions.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID5731123 01/08 388141

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ISBN 978-0-10-173092-1

