2. Executive summary and recommendations

2.1 Public service broadcasting in the UK has been sustained over many years by a mutually reinforcing mix of institutions, funding and regulation. This delicate balance will not survive the move to the digital age.

2.2 The historical compact in which PSB was provided by commercial broadcasters in return for access to the analogue spectrum will come under increasing pressure as the audience using analogue services declines and erodes the financial value of the licences to those who hold them. In this report, we conclude that a new model of provision will be needed in the digital age if PSB is to maintain its unique ability to reach millions of people with a plurality of suppliers providing distinctive content.

2.3 The digital model of PSB will be different from today's analogue model: it will involve explicit and transparent public funding to replace the current opacity and implicit subsidies; it will involve a new mix of providers; it will involve a changing approach to regulation; and it will require the use of new distribution systems alongside conventional TV broadcasting.

2.4 Currently, ITV1, Channel 4 and Five receive approximately £400m a year in implicit subsidies for PSB. These subsidies result from their access to the analogue spectrum. By the time of digital switchover, the declining value of the analogue spectrum will have reduced these implicit subsidies close to zero.

2.5 We believe PSB in the digital age should not cost any more in real terms than the current £3bn public subsidy for the TV market. But there is a sound rationale, supported by the public, for replacing part of the current £400m implicit subsidy with explicit funding to maintain plurality and competition in PSB supply in the digital age.

2.6 The transition to the digital age will be challenging, but holds the exciting prospect of broadcast and other visual content with distinctive purposes available to all alongside a huge increase in consumer choice. This is our vision for maintaining and strengthening PSB.

The end of the analogue PSB model

2.7 The TV market is changing rapidly. The majority of UK households now have access to digital TV; and in the past year another ten per cent of households acquired digital TV. Competition in the TV market is becoming fiercer and consumer choice is increasing, handing more power from producers to consumers. These are welcome developments.

2.8 New technologies, such as personal video recorders and broadband, also have the potential to transform large parts of the TV market into an increasingly on-demand service. Many consumers are already able to choose what they want to watch and when they want to watch it.

2.9 The market developments also create large challenges for all of the existing terrestrial broadcasters in the provision of PSB:

- the BBC is in the strongest position; it has a secure funding base, but must continue to sharpen its sense of purpose and adapt to changing technology and public expectations;
- the value of ITV1's broadcasting licence is declining and, by digital switchover, revenues from analogue TV advertising will not cover the costs of its existing PSB obligations;
- Channel 4 will face pressure to substitute more commercial programmes for its current PSB programming in order to earn sufficient revenues to cover costs; and
- Five will benefit from increased coverage after digital switchover, but must continue to strive to maintain audience share in a more competitive environment.

2.10 If we do not act now to plan new measures for the post-switchover world, there is a real risk that PSB across the system will decline, both in amount and in effectiveness. Commercial broadcasters will not be able or willing to screen PSB programming which does not produce a full commercial return; and the BBC will no longer face competition for quality.

2.11 We are committed to maintaining and strengthening PSB and have set out a citizenship-based case for PSB into the digital age. If PSB is to be maintained and strengthened, Parliament, the Government, PSB providers and Ofcom must manage the inevitable decline of the commercial analogue PSB model and create a new digital PSB model, which protects the best qualities of PSB for all.

Principles

2.12 We need to start by redefining PSB for the digital age. In our Phase 1 report, we argued that PSB should in future be defined in terms of purposes and characteristics, rather than in terms of specific types of programmes or the output of certain institutions. It should also aim to ensure that TV continues to provide high-quality material of a kind and on a scale which the market, left to itself, would not provide. This approach received wide support, but improvements to our earlier formulation were also suggested. After further consideration, we believe the purposes of public service broadcasting are:

- to inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas;
- to stimulate our interest in and knowledge of arts, science, history and other topics through content that is accessible and can encourage informal learning;
- to reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences; and
- to make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere.

2.13 We believe that PSB programmes should have distinctive characteristics. They are:

- **high quality** – well-funded and well-produced;
- **original** – new UK content, rather than repeats or acquisitions;
- **innovative** – breaking new ideas or re-inventing exciting approaches, rather than copying old ones;
- **challenging** – making viewers think;
- **engaging** – remaining accessible and enjoyed by viewers; and
- **widely available** – if content is publicly funded, a large majority of citizens need to be given the chance to watch it.

2.14 Plurality is at the heart of successful PSB provision. It involves the provision of complementary services to different audiences; it ensures a range of perspectives in news, current affairs and in other types of programmes; and it provides competition to spur innovation and drive quality higher. This means that we should aim to ensure that there is more than one PSB provider of significant scale and that the production of PSB content is open to a wide range of producers. A new model for PSB in the digital age is therefore needed to avoid the outcome in which the BBC would become a near-monopoly provider of PSB in the world beyond switchover.

2.15 To achieve plurality in future PSB provision, there could be advantages in encouraging new providers into the PSB system to spur innovative ideas and fresh approaches. If new providers receive public funding for PSB, there should be a role for competition between prospective providers in order to generate the best ideas for PSB and to secure value for money.

2.16 There is a clear rationale and evidence to support the continued funding of PSB after switchover. Our research suggests that:

- the UK market would not provide the current range and diversity of TV content without the public subsidies now available, even in the digital age; and
- the public currently want to pay collectively for programming which contributes to PSB purposes and characteristics and which would not be provided in sufficient quantity by the market on a universally available, free-to-air basis.

2.17 So long as PSB content maintains reach and impact in the digital age, our research results suggest the public would support a similar level of public funding in real terms to that available today. If audiences for PSB content were to decline substantially in the digital age, the case for continued funding at near to current levels would be weaker. The right level of PSB public funding will change over time, so we will revisit funding levels in our next PSB review in five years' time.

2.18 Importantly, the PSB model for the digital age should be flexible enough to adapt to the potentially radical changes in technologies, competition and public demands that are in prospect. Over time, public service TV content and its method of distribution should evolve so that it can take full advantage of new technologies and meet changing public demand.

2.19 Our ambition is for an enduring and pluralist system of PSB for the digital age, with a variety of providers. It should supply content which contributes to PSB purposes and characteristics, which has reach and impact, which makes full use of new technologies and distribution systems, but which is value for money and which would not be provided in sufficient quantity by the market.

Our proposals

The BBC

2.20 The BBC should remain the cornerstone of public service TV broadcasting. An effective, strong and independent BBC is essential to the health of PSB in the UK. It should continue to be properly funded by a TV licence fee model.

2.21 The length of the next Royal Charter should run for ten years until December 2016 to take the BBC through the period of digital switchover, but it should include a substantive mid-Charter 2011 review of the BBC's funding and its progress in meeting PSB purposes and characteristics.

2.22 The mid-point review would coincide with Ofcom's next quinquennial PSB review. The two reviews should examine in detail the role and the funding of the BBC in a fully digital world. The advantage of a mid-Charter review is:

- that it would provide the BBC with a strong incentive to contribute to the purposes and characteristics of PSB for the whole period of its next Charter; and
- that it would ensure that preparation for the post-switchover world occurs well in advance of 2016.

2.23 The BBC should strive to ensure that all its programmes, not just its services, reflect the purposes and characteristics of PSB to some degree. This should also apply to the way the BBC schedules its programmes. Our Phase 1 report identified copycat and derivative programming, and competitive head-to-head scheduling as particular concerns. We welcome the fact that some of the weaknesses in BBC schedules are being addressed by recent moves made by the BBC Governors. In future, the BBC should have regard to the extent to which Hollywood films and other expensive acquired programming meet its own public value test and could not be provided equally well, at no direct cost to the public, by free-to-air commercial broadcasters.

2.24 As the commercial sector faces increasing competition, there will be more responsibility on the BBC to provide those aspects of PSB which are most at risk. In particular, we believe that the BBC may need to play a greater role in the provision of a wider range of regional programming in the English regions, where the cost of provision relative to commercial value is high for other broadcasters.

2.25 Our Phase 1 report proposed that the BBC's other activities, including commercial activities, studio and other production resources, and indeed production should be reviewed carefully against their distinctive contribution to PSB purposes. We therefore welcome the BBC's reviews of its production and of its commercial operations. This should form an important part of the BBC's Charter review process. The review of commercial strategy should be subject to thorough independent external validation before any decisions are taken about the future of BBC Worldwide or the use of the proceeds from asset sales.

2.26 In relation to production, we believe the BBC should be expected to demonstrate that it has clear plans to introduce a commissioning system, outside news programming, which has fair access for independent suppliers and which commands widespread confidence across the sector. If this does not happen, and if the new codes of practice prove ineffective, further action will be needed to secure a fair role for independent producers as suppliers to the BBC.

2.27 In future, any BBC plans for new services should be subjected to a rigorous independent evaluation to ensure that they add public value and would not unduly displace commercial activities. Where it is unclear from independent analysis that the benefits of any new service outweigh the costs, the BBC Governors should decline to take the project forward.[1]

2.28 To maintain its role at the heart of broadcasting in the digital age, the BBC should be properly funded. For the period of the next Charter, a TV licence fee model should continue to fund the BBC; the BBC should not carry advertising, nor should existing services become subscription-funded. We have not carried out a detailed assessment of the BBC's future funding requirements, but we think that there are two important considerations for the funding settlement over the next Charter period:

- the BBC does not envisage any growth in the breadth of its services and is rightly committed to further efficiency savings; and
- the BBC's income will increase by more than the annual rise in the TV licence fee because the number of UK households is projected to grow. After ten years, the BBC can expect to receive an extra £230m every year, from the projected growth in households alone.

2.29 In order to ensure a robust financial model in the more distant future, the Government should consider the case for the BBC to supplement its income with limited subscription services to fund any future expansion. The BBC should be asked to report on the case for limited subscription services at the time of a mid-point review of its next Charter.

2.30 The BBC should take a leading role in the UK plans for digital switchover. As part of the moves towards switchover, the BBC should consider the scope for using new technology in the collection of the licence fee to reduce collection costs, evasion and the consequent burden on the judicial system. TV licence fee collection costs and licence fee evasion exceeded £300m in 2003-04.

2.31 Over the past few years the BBC has been subject to a proliferation of reviews: various services have been scrutinised internally, by Government, by Parliament, by Ofcom, by advisers on its Royal Charter and by independent experts. Our

1 This approach is the same as that recommended by the Graf review of BBC Online, see www.culture.gov.uk

observation is that there are two underlying causes of this undesirable trend: first, that the BBC already receives a very high and rising share of public funding for PSB; and second, that there is a lack of a clear separation between the governance and the regulation of the Corporation. We believe:

- that maintaining a plurality of recipients of public funding is vital to the health of the PSB environment; and
- that clarifying the separate roles of governance and regulation of the BBC should be a central objective of the Charter review process.

ITV

2.32 ITV1 has been an important force in public service broadcasting, and the main source of competition to the BBC, for almost 50 years. Its contribution to public service purposes is sustained today in the wealth of original UK programming, particularly in drama, entertainment and factual programming, as well as its commitment to news, regional news and production outside London. Crucially, ITV1 is broadcast free-to-air and is universally available.

2.33 Over the next five years, our central ambition is that ITV1 continues to deliver universally available free-to-air PSB obligations which provide real value as part of the overall broadcasting environment. We must take account of the costs of production and the funding available. We propose to:

- maintain the current programming quotas or indicative targets for original UK production, news, current affairs, regional news and peak-time regional programming; and
- use the regulatory framework of the Communications Act to ensure that there is sufficient investment in national and international news when the next contract is awarded to ITV1's nominated news provider.

2.34 In other areas, we want to end the all-too-frequent negotiations between ITV1 and the regulator over its specific PSB obligations. The Act requires us to introduce a more flexible approach to content regulation. In these areas there will be a move away from hard quotas for specific genres, and towards a new three-layered system that assesses the contribution of programming in terms of what ITV1 is providing and when it is scheduled, what viewers are watching, and whether audiences value what they watch. This model should maintain the public service character of ITV1 in important programming areas such as arts, children's and religion, but in ways which respond to changing public demands and market developments.

2.35 A particular challenge for ITV1 in the transition to switchover is the provision of non-news programmes for the nations and regions. Our proposals for a new framework here are set out later in this summary.

2.36 After digital switchover we propose to maintain a core level of PSB obligations on ITV1, available free-to-air on all transmission platforms: high production value UK programming, news, current affairs and, if financially sustainable, a core regional news service.

Channel 4

2.37 During the transition to the digital age, Channel 4 should remain a vital force in the provision of PSB particularly as a provider of innovative content for its target audience group. We expect Channel 4 to use its considerable financial resources to ensure it maintains a sharper focus on its public purposes, as set out in the Communications Act. We will also encourage Channel 4 to consider developing a suite of free-to-air channels in order to help meet these purposes.

2.38 In line with Channel 4's own ambitions in the years before switchover, we expect it to strive to meet its PSB remit and funding challenges through further operational efficiencies and market-based initiatives, such as increased cross-subsidies from its commercial ventures. Channel 4 should also be given sufficient freedom to form alliances, joint ventures and partnerships with other organisations. Our analysis suggests that there is every reason to expect such efforts to be successful for the next few years.

2.39 We do not support the privatisation of Channel 4; the channel should remain primarily not-for-profit. Not-for-profit status has provided a basis for Channel 4's unique contribution to PSB over the last 20 years and there is no reason to suppose that the same approach is unsustainable in future, particularly if new means of commercial cross-subsidy can be found.

2.40 We recognise that in the longer term, particularly after digital switchover, Channel 4 may face an increasing tension between maintaining advertising revenues and its PSB remit and may not be able to provide the same range of PSB programming as today. This tension did not exist in the early days of Channel 4 when its revenues were not governed by the quantity of advertising its programming generated.

2.41 In the event that operational efficiencies and market-based initiatives cannot deliver sufficient financial strength for Channel 4 to fulfil its PSB remit in a digital age, there may be a case for considering further action such as the transfer of income-generating assets from the BBC to Channel 4. This approach would be consistent with C4's preference for retaining a clear PSB remit based on commercial self-reliance rather than direct public subsidy. The case for any further action could be considered in our next PSB review in five years' time, which will coincide with the mid-point review of the BBC Charter.

Five

2.42 Five plays a modest but important role in contributing to PSB purposes, and the channel's regulatory obligations are lower than others', in part because it only has around 80 per cent terrestrial coverage. Five therefore stands to gain from its PSB status at switchover, which will bring it universal coverage in the UK for the first time.

2.43 Five's contribution to PSB mainly takes the form of its commitment to original UK production and to news. We will expect the channel to invest more in original production in the run-up to switchover. However, we will take a more flexible approach to Five's other PSB obligations, including the scheduling of its news programmes. This new approach will help to provide a test for the likely level of market provision of PSB programming.

Teletext

2.44 Prior to switchover, we will ensure that the public teletext licensee, 'Teletext', is given greater flexibility to meet its public service obligations. This may mean fewer specific page requirements. After switchover, we will seek to ensure that the digital public teletext service will have the same capacity available as now.

The nations and regions

2.45 The future of PSB in the nations and regions has been an important focus of our Phase 2 work. A particular challenge in the years up to digital switchover is the position of ITV1's non-news programming obligations for the English regions and nations of Scotland, Wales and Northern Ireland. These obligations are untenable after digital switchover because:

- the cost of the programming will greatly exceed the value of any privileges available to Channel 3 licensees; and
- much non-news regional programming receives low audiences, is not highly valued by audiences. Especially in England, it has been pushed to the margins of the schedule, with low production values.

2.46 After digital switchover, it will not be possible to oblige ITV1 to produce non-news programming in the nations or in the English regions. Currently, most Channel 3 licensees in England have an obligation to screen three hours a week and licensees in the nations have even higher obligations. S4C's core service will also be affected by falling audiences and declining advertising revenue.

2.47 Our ambition is to build a sustainable and well-resourced model for PSB in the nations and regions after switchover. A new framework would include:

- a continuing and important role for ITV1 in the reflection of regional stories, characters, places and issues on its main network, with a high proportion of original production made outside London;
- a new commitment to regional programming from the BBC, in line with the Corporation's own proposals. This would include a rebalancing of obligations for non-news English regional programming between ITV1 and the BBC, which does not currently provide such programming on any scale, as well as a new local BBC news service. In adopting any new regional commitments, we suggest the BBC should undertake to support a plurality of regional producers;
- the use of new digital opportunities to provide a range of innovative local TV and new media content services up and down the country; and
- market-driven commercial national programming emerging in TV broadcasting and in many other media, as it already has for some communities in the UK.

2.48 For the English regions, we propose reducing ITV1's regional non-news programming obligation from three hours a week to 1.5 hours in 2005, with all of the reductions occurring out of peak hours. This would focus non-news regional programming in peak hours. Even this level of provision may not be sustainable before switchover. We will continue to review the options and publish firm proposals for managing the transition in Phase 3 of our PSB review.

2.49 In parallel, we propose to raise the out-of-London production quotas to lock-in the current levels of production for ITV1 (over 50 per cent) and to explore the options for a wider dispersion of production outside London and across the nations and regions of the UK.

2.50 Many of the same considerations apply to the nations of Scotland, Wales and Northern Ireland. ITV1's non-news programming obligations for the nations will also be unsustainable after switchover whichever licensee provides it, and will need to change well in advance of that date. But the devolved nations have distinct cultural and political identities that need to be reflected in any PSB framework:

- their programming obligations are currently higher than in the English regions;
- in Scotland and Northern Ireland, SMG and Ulster are individual Channel 3 licensees, part of the ITV network but separate from ITV plc; and
- there are also particular issues surrounding minority-language broadcasting in each nation, focused on the role of S4C in Wales, the new Gaelic Media Service in Scotland and the future of Irish Gaelic and Ulster Scots broadcasting in Northern Ireland.

2.51 Responses to our Phase 1 report emphasised all these areas of difference, and we believe a wider debate is needed, incorporating input from interested parties in the nations, including Ofcom's National Advisory Committees, before we propose any changes to ITV's obligations. We would encourage those with an interest in broadcasting in the nations to take part in this debate.

2.52 We will outline our specific proposals for non-news programming obligations in the nations in Phase 3.

2.53 In the longer term, there needs to be an economically sustainable future for sufficient Welsh and Gaelic language services, using digital transmission capacity and access to adequate public funding.

Production

2.54 Independent producers make a major contribution to PSB purposes across a wide range of programme types. We believe there is more scope for independent production to enhance the delivery of PSB and welcome the BBC's recent commitment to fulfil their 25 per cent quota. We have recommended further progress in this area above.

2.55 Since the new terms of trade between broadcasters and the independent television production sector have only recently been agreed, we believe a period of time should elapse before further consideration of the relationship between broadcasters and independent producers. In 12 months' time, if it is not clear that the market is working effectively, we will take further action.

A new Public Service Publisher (PSP)

2.56 The preceding analysis demonstrates that all the existing terrestrial commercial broadcasters with PSB obligations (ITV1, Channel 4 and Five) face difficulties in maintaining PSB programming as the digital age approaches and the value of the analogue spectrum declines. If no action is taken, the BBC will emerge by default, as the only PSB provider of any significant scale. Such an outcome would undermine the TV broadcasting environment, which has relied on a plurality of PSB organisations and has served the UK well. Viewers would be the losers.

2.57 We believe that maintaining a plurality of outlets for PSB and commissioners of PSB is vital for the health of the system. If the BBC becomes a near-monopoly provider of PSB, neither the BBC's content nor that of the wider broadcasting market is likely to contribute sufficiently to PSB purposes and characteristics.

2.58 After careful consideration of arguments put to us and international evidence, we have rejected a fully contestable fund – an 'Arts Council of the Air' – for PSB on a programme-by-programme basis. It would involve excessive bureaucracy and it is likely that the guardians of the fund would struggle to distribute PSB content on TV channels which had different core values.

2.59 Instead, we note that many of the previous big innovations in broadcasting and in PSB have resulted from new entrants shaking up the market. To refresh PSB for the digital age and to ensure a continued plurality of provision we believe that there is a need for a new publicly-funded service, which we have called a Public Service Publisher (PSP). Just as Channel 4, in its early years, had guaranteed funding and a remit to pursue public purposes with innovative ideas, we believe a new PSP could be created with similar ambitions for the digital age.

2.60 In this report we set out an outline proposal for a PSP, which could enhance public service broadcasting in the post-switchover world. It would aim to commission and distribute content as widely as possible, using a variety of technologies to reach households. It could also have the opportunity to explore new ways of contributing to public service purposes, unencumbered by the need to protect existing TV channels.

2.61 The PSP would be different to existing broadcasters. As technology progresses, we could expect the PSP to commission and distribute content on other digital distribution systems such as broadband, networked PVRs, mobile networks as well as cable, satellite and digital terrestrial broadcasting. Inevitably, in its early years in the transition to digital, much of the PSP's digital content would be more likely to resemble traditional TV programmes, but it would not be a TV channel in the traditional sense, nor would it publish books, magazines or newspapers.

2.62 The PSP might:

- operate as a commissioning and publishing body, which used public funds to stimulate the creation of innovative content, across all visual electronic media, from a range of producers;
- commission from independent producers to provide such content in identified priority areas;
- ensure that the content created was effectively promoted, branded and made widely available across all significant distribution systems;
- ensure that all its activities reflect our proposed PSB purposes and characteristics; and
- not be based in London, to strengthen production centres across the UK, and could fund new content for the nations and regions.

2.63 Importantly, the right to set up and run the PSP would be awarded after competition between rival organisations. The winning bidder would be chosen on the basis of the quality of its proposals and might operate for a set period of up to ten years, but, as with the BBC's Charter, subject to a mid-point review. At the end of the period, another competition would be held, enabling fresh perspectives and innovation to be injected into PSB in the UK.

2.64 We expect that the greatest challenge would be to ensure that the PSP achieved sufficient reach and impact to justify public funding, especially in its first few years. For this reason, we would not rule out ITV, Channel 4, Five or other existing broadcasters from bidding to operate the PSP, although the BBC would be excluded from the competition. Nor would we rule out carriage arrangements whereby the PSP secured agreements to distribute publicly funded material on analogue TV before digital switchover.

2.65 However, an equally impressive case for funding might be made by a new provider on different platforms. Any bidding organisation would have to demonstrate clear financial separation between the PSP and its other operations.

2.66 We believe the advantages of creating a PSP could be:

- it could maintain and expand the plurality of PSB in the digital world;
- it could have the potential to start from scratch in providing content which meets PSB purposes and characteristics in a digital world;
- a competitive process for choosing the PSP, which could help the best ideas to get funded, and could open up the process to the possibility of tenders from many different organisations, ranging from other broadcasters, to producers, other media publishing companies, and other creative organisations;
- as there could be a periodic competition to run the PSP, there could be a process of continuous renewal of PSB, and it could ensure an effective discipline on performance, as conditions changed;
- the PSP system could maintain the existing funding arrangements in existing TV channels and would not risk changing their culture adversely; and
- the competitive process for choosing the PSP could help to mitigate serious European state aid concerns which could arise if explicit funding were offered to an existing player.

2.67 We will work to assess and develop the option for a PSP in more detail over the next three months, incorporating proposals or suggestions we receive as part of the Phase 2 consultation process. We want to encourage the widest possible debate about the best way of ensuring plurality and competition in PSB in the digital age.

2.68 New funding for the PSP would be needed and could build up over time. As a tentative indication only, up to £300m a year at switchover (2012) could enable the PSP to provide a deliberately limited quantity of high-quality content, but not a 24-hour TV channel. We envisage that this level of funding could be enough to deliver an average per hour programme budget of around £200,000 if the PSP produced the equivalent of three hours of new content each day.

2.69 A new source of funding would be required to finance the PSP in the digital age and to replace the current implicit subsidies provided by the Government to ITV1, Channel 4 and Five. Since this would replace the current implicit subsidies for PSB, it would not constitute an additional demand on the public. In addition, the public would gain from the value created from spectrum released at digital switchover.

2.70 The initial source of funding for the PSP could come from three sources:

- tax revenues: the principle for tax-financed PSB has already been established for the BBC via the £400m it receives annually from the Department for Work and Pensions in respect of the free over 75s licence fee and the £220m it receives from the Foreign Office in respect of World Service, and the £85m S4C receives in its Government grant. Funding from tax revenues could either come from general taxation or from hypothecated spectrum-related revenues;
- an enhanced licence fee: by setting the licence fee higher than that required to fund the BBC properly would provide a secure income stream which could fund PSB in the digital age; and
- a tax on the turnover of UK licensed broadcasters: This source of revenues funds the regulation of the broadcasting industry and could be used to finance PSB, although it would raise barriers to entry, could create problems of avoidance and could reduce the funding available for programming in other broadcasters.

2.71 There are many possible variants of each of these three options. The source of replacement funding in the digital age is a matter for Government and for Parliament.

2.72 We are strongly of the view that such funding is desirable to sustain the UK's distinctive PSB environment, to maintain plurality and to strengthen the contribution of visual content to PSB purposes in the digital age.

Summary

2.73 Our proposed framework for PSB in the digital age is:

- a new mix of funding, regulation and institutions which will meet the challenges of a radically different TV market and audience demands, building on existing institutional value but also encouraging innovation and fresh perspectives in the creation and delivery of PSB;
- a well-funded BBC, producing distinctive and high quality programming, at the heart of this new system;
- plurality beyond the BBC – competition for quality in the supply of well-funded UK programming and a competition for the right to receive public funding for the best new model of PSB provision;
- a new provider, the PSP, charged with making imaginative use of new technologies and distribution systems to meet audience needs in the digital age and securely funded from either an enhanced licence fee model, tax revenues, or a tax on the turnover of broadcasters;
- a continuing role for Channel 4 as primarily a not-for-profit provider of innovative and diverse programmes for its target audience group;
- a sustainable level of PSB obligations on ITV1, focusing the channel on a set of central PSB components, before and after switchover;
- a new approach to programming for the nations and regions: regional production and, if possible, regional news on ITV, a transfer of some non-news regional obligations to the BBC and the use of digital opportunities to create a new tier of more local services;
- increased investment in original UK programming on Five, alongside a more flexible system of content regulation; and
- the provision of programming which contributes to PSB purposes and characteristics by broadcasters without specific privileges or financial incentives, as a more effective broadcasting market develops.

How to respond to this consultation

2.74 This report marks the end of Phase 2 of our review and takes account of the responses we received to our Phase 1 report. It seeks views on the conclusions we have come to and the questions we have raised. Section 8 summarises the questions for consultation.

2.75 We are seeking views from all organisations and individuals who have an interest in the future of public service broadcasting, including:

- viewers;
- television broadcasters, channels and platforms;
- production companies;
- other media organisations;
- organisations in sectors that have close ties to television (e.g. sport, the arts, film);
- anyone with a commercial or employment interest in the broadcasting industry (e.g. trade unions, trade associations);
- consumer groups;
- anyone concerned about the importance of television to the economy; and
- anyone concerned about the importance of television to citizens.

2.76 Responses will be used to inform Phase 3 of our review, and our final report.

2.77 The supporting documents to this report are available, alongside copies of our Phase 1 report and a summary of responses to it, from Ofcom's website at www.ofcom.org.uk. The website also contains links to the working papers we commissioned from other individuals and organisations during Phase 2.

2.78 Please send written or electronic responses, marked 'PSB Review – Phase 2 response' by **Wednesday 24 November** to:

Khalid Hayat
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: khalid.hayat@ofcom.org.uk

2.79 If you are a representative body, please summarise the persons or organisations represented. Electronic versions of responses, in Word format, would be appreciated.

2.80 Any confidential parts of a response should be placed in a separate annex, so that non-confidential parts may be published along with the respondent's identity. If the whole of a response is confidential, including the name of the respondent, that should be clearly stated. Copyright in responses will be assumed to be relinquished unless specifically retained.

2.81 We would be grateful if respondents could complete the consultation cover sheet provided on our website – a sample is included in Annex C.

2.82 One of Ofcom's stated consultation principles is to allow ten weeks for responses. Since this is only an interim report, and represents the second of two major consultation exercises in the course of the PSB review, we have shortened this period slightly, to eight weeks.

2.83 See Annex C for a summary of Ofcom's stated consultation principles.

2.84 The Ofcom senior team with responsibility for this consultation and review are:

Ed Richards
Senior Partner, Strategy and Market Developments

Robin Foster
Partner, Strategy

Tim Suter
Partner, Content and Standards

2.85 Ofcom has also appointed a Consultation Champion, Philip Rutnam, who is responsible for the quality of Ofcom's consultation process in general. Any comments or complaints about the conduct of this consultation should be put to our consultation helpdesk on 020 7981 3003, or sent to:

Philip Rutnam
Partner, Competition and Strategic Resources
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