

Submission for the Licence Fee Seminar

Channel 4, 5th May 2006

Introduction

The following submission expresses Channel 4's views regarding the BBC's Licence Fee settlement for its new Charter, due to be renewed in 2007. It also expresses our thoughts on future services proposed by the BBC, and also the BBC's role in driving take-up of new digital platforms. We welcome the Licence Fee Seminar for which this submission is written, and the opportunity to take part in the important debate surrounding the funding of the BBC.

Overview

Channel 4 is broadly supportive of the contents of the Government's recent White Paper, which builds on the proposals set out in the earlier Green Paper. We believe that overall the proposals offer a sensible package of reforms and enhancements to the Charter and Agreement, giving the BBC clearer public purposes, making it more accountable to Licence Fee payers and ensuring that proper account is taken of the BBC's position and role within the wider broadcasting ecology, particularly with regards to the launch of new services in the future. We also welcome the Government's reinforcement of its views regarding the importance of maintaining a strong, competitive, supply of public service broadcasting as a whole – and of the importance of Channel 4's role in achieving this.

Channel 4 believes that the BBC has a vital role to play in the future of public service broadcasting in the UK. We will continue to support the BBC to this end and look forward to providing public service competition to it for many years to come. We recognise the substantial contribution towards the development of UK broadcasting that the BBC has made in the past, and its potential role in building for the future.

However, the scale of the BBC's proposed future activities is very large – the proposed increase of £5.5bn over the first seven years of the new Licence Fee period alone would be enough to cover Channel 4's programme budget for the next ten years.

We therefore believe that, while it is important that the BBC should receive adequate funding for its activities, it should always represent the best value for money to licence fee payers and that particular care should be taken that its proposals will not have a detrimental effect on the overall health of the media sector. We note with interest recent statements regarding the BBC Trust and its role in protecting the interests of Licence Fee payers, including their right to be able to access a plurality of high quality media sources – both public service and commercial. The Trust will have a crucial role to play in ensuring the BBC's activities are proportionate and deliver the appropriate level of public value, in particular via the application of the Public Value Test. This test must be applied to the full range of newly proposed BBC services, including, for example, its newly proposed teenage broadband service. The BBC must not be allowed to argue, for example, that this is simply an incremental change to an existing on-line service. This, in fact, represents a major new service development in a nascent market and its full implications must be understood before go-ahead is given. It is also an area where there is already significant provision by others and the Trust will need to consider whether the BBC moving into this area will offer best public value if viewer/consumer demand is already being met elsewhere.

Clearly everything the BBC does as a publicly funded organisation distorts the market. The important questions are (1) whether that distortion is proportionate, and (2) whether it delivers real public value. The scale of the funding requested by the BBC is so large that it needs to be scrutinised in much more detail before a level is agreed. If, for example, BBC radio secures a disproportionately generous settlement, then its already dominant position is likely to be further reinforced, and listener benefits in terms of increased, high quality competition diminished. Channel 4 is, for example, proposing to bid for a national digital radio multiplex later this year. We will be looking to offer serious public service competition to the BBC in radio – should we win the bid – but our ability to do so will to some extent be determined by the level of the settlement granted to the BBC.

We note with interest PKF's conclusion that the BBC probably does not need as much money as it has requested, that further detailed analysis of the BBC's proposals is required before a proper assessment of its bid can be made, and that there is scope for significant further efficiency savings to be made by the Corporation. We also note, and welcome, PKF's questioning of whether the BBC should be operating in all media fields, especially those where provision already exists such as meeting the vocational needs of 16-19 year olds. Whatever settlement is reached, it needs to be set at a level that encourages the BBC to (a) achieve efficiencies and (b) prioritise its activities.

Given the scale of the BBC's current proposed activities and the level of funding required, it is essential that these funds are allocated with maximum transparency to ensure that the public knows exactly how their money is being used, and so that the BBC can demonstrate that it is being used as efficiently as possible.

Our main thoughts can be summarised as follows:

- The BBC's proposed increase to the Licence Fee is very large, necessitating a particularly high degree of scrutiny
- Funds for achieving digital switchover should be allocated to the BBC – but strictly ring-fenced so that they may not be used for other activities
- Transparency is key to ensuring that the rest of the funds are allocated in a fair, proportional and accountable way
- It is vital that new services should undergo a Public Value Test and Market Impact Assessment, as proposed...
- ...and that the funds earmarked for services which fail these tests at some future point should be re-distributed via a pre-determined process

The remainder of this document will expand on these points in more detail.

Size of the BBC's proposals

Based on the information made publicly available by the BBC, the Corporation plans to inject up to £5.5bn of additional investment into the television, radio and new media marketplace over the first seven years of its new Charter period, the majority of which is earmarked for new content, service and platform initiatives. The total increase to the licence fee would be even higher, as this figure excludes costs for targeted help to achieve digital switchover.

To put this into context, the proposed increase of £5.5bn over the first seven years of the Licence Fee period alone would be enough to cover Channel 4's entire programme budget for the next ten years.

These costs are broken down in the BBC's proposals as follows:

- £0.7bn for digital infrastructure (e.g. DTT, DAB, High Definition TV)
- £1.2bn for digital services (e.g. on-demand, interactivity)
- £1.6bn for quality content
- £0.6bn for new local investment
- £1.4bn increase in base costs

This represents a significant incremental public intervention in the broadcasting market, with the potential to adversely affect the competitiveness of other players and place inflationary pressure on key talent, rights and resources. There is a danger that this could therefore weaken the UK's successful model of plurality of provision in public service broadcasting.

The BBC has estimated that it could fund 70% of its ambitions through self-help measures alone, requiring no real increase in the Licence Fee for the next Charter period. These self-help measures, which the BBC estimates will cover £3.9bn of the costs above, will be achieved through the following:

- £2.6bn net efficiency across the BBC
- £0.2bn from modernising the Licence Fee collection
- £0.7bn capturing household growth
- £0.4bn from commercial dividends

Given that these self-help measures alone could fund 70% of the BBC's ambitions, particular attention should be paid to whether the marginal benefit of the remaining 30% of funding requested justifies the additional contribution by UK households compared to other uses to which they might put their income. Value for money for the Licence Fee payer must remain a key criterion for deciding the funding settlement.

PKF's recently released report (*Review of the BBC Value for Money and Efficiency Programmes*) recommends further scrutiny of the costs in several areas of the BBC's proposals, indicating an opportunity to reduce these. It argues that the current proposals do not always offer the best value for money – for example, that quality content could be delivered for less than the £1.6bn proposed by the BBC.

The report also points to the BBC's efficiency proposals and its treatment of super-inflation as areas where a reduction to the settlement might be possible following further scrutiny. We await with interest the BBC's response to these recommendations, and hope that this proposed further scrutiny takes place.

Funds for digital switchover

Channel 4 believes that the funds in the BBC's proposals relating to digital switchover should be granted, as the BBC has a crucial role to play in this government initiative. It is important that these funds are strictly ring-fenced for this purpose, however, and not allowed to filter into any other BBC activities or be compromised as part of the wider licence fee negotiation.

We endorse the Government's position that the BBC 'should take a leading role in making digital switchover happen'. All licence fee payers are currently funding the BBC's digital services, even though not all can receive them. It is therefore imperative for the BBC to achieve digital switchover, in order to allow universal access to its services. The BBC has also historically played a lead role in driving the take up of new audiovisual technologies and its funding and 'trusted guide' status mean it is uniquely well placed to drive the switchover process forward.

It has been recognised by Government that communicating the switchover programme will require significant expenditure to ensure that the programme's objectives are met. We therefore welcome proposals that funding for the switchover communications programme, as well as providing targeted financial support for those groups most in need, will form part of the BBC's funding responsibilities under the new Charter and Licence Fee agreement.

The BBC is also in a unique position to provide significant on-air support across its network of national and regional television, radio and new-media services. No other broadcaster has the reach and impact of the BBC in the United Kingdom, and its support for the switchover programme will be crucial to its successful conclusion.

Transparency is key

Given the potential impact on the market and the current broadcasting model of the proposed increase in funding, it is vital that important decisions and details surrounding it are made as transparent as possible. This holds true both for the BBC's proposals going into the process, and the eventual outcomes. This will be essential to ensure proper allocation of funds, and to ensure that the BBC can be held properly accountable for the use of these funds in the future.

We would therefore like to see wider publication of more detailed information about the specific initiatives and investment plans that comprise the BBC's proposals. This will enable Channel 4 and other interested parties to properly assess the possible impact on the wider market of Licence Fee-funded activities in the next Charter period, giving all those affected an equal opportunity to plan for the future. At the moment, the information in the public domain does not provide the level of transparency necessary for this.

We fully support the idea of the Licence Fee Seminar for which this submission is written, and the resulting opportunity for key industry players to enter the debate. However, detailed breakdowns of the BBC proposals will need to be made available much more widely if the debate is to be as informed and effective as possible. We hope that this seminar will be a valuable step towards this.

Proposals for new services

The new service licences detailed in the White Paper provide a vital tool for holding the BBC properly to account for the delivery of its public purposes. We agree that all proposals for new services or significant changes to existing services should trigger the conduct of a Public Value Test (PVT) by the Trust, together with a Market Impact Assessment (MIA). We urge the Trust to take seriously its duty to analyse and judge what merits a 'significant change' if the BBC is to be held properly to account. This will not always be an easy judgement and we accept that the system should not create constant interference with day-to-day editorial matters.

However, we noted with concern the recent decision to drop news services from BBC3 – originally a core element of its agreed 'service licence' – without any public consultation or explanation from the BBC as to how this matches with its commitment to deliver 'public value' on all BBC services. Such a dramatic shift within a BBC service would definitely seem to qualify as a 'significant change' in our view and any similar move in future should trigger a PVT and MIA.

It is important that PVTs are carried out on all major new service developments proposed by the BBC. We welcome the BBC's public commitment to conduct a PVT on its proposed interactive media player (IMP). We support the BBC's moves to break new ground and drive new market developments but it is vital that we understand the potential market impact in these nascent areas before decisions are taken and that, where appropriate, constraints are placed on the BBC's activities. In this context, it is critical that the definition of 'new

services' is drawn broadly enough to capture the full range of initiatives that the BBC is proposing. We believe, for example, that the new services envisioned by the Director General in his recent Creative Review must go through a PVT and MIA. The BBC should not be able to avoid open and public scrutiny of these proposals by arguing they are incremental changes. Proposals to re-launch the BBC website to include more personalisation and user-generated content and to create a new teen brand delivered by broadband, TV and radio, represent major new service developments. These moves have the potential to have a major distorting effect on the media marketplace and should be properly and publicly scrutinised before approval is given by the Trust.

In assessing such proposals the Trust should also take into account the BBC's need to prioritise its activities and focus on areas of the market not already being served by commercial or other public service providers. There should not be an assumption that the BBC should be doing everything. For example, Channel 4 has, in recent years, made major strides in the provision of an online/broadband portal for music (Slashmusic), which includes (amongst other things) a facility for unsigned bands to upload their own music. BBC proposals to build a broadband music portal will potentially have a distorting effect on Channel 4's ability to offer and develop such services, and may not offer best public value if it is effectively replicating a service that is already available. The implications of such developments need to be properly taken into account via the PVT/MIA process prior to their launch. It is important, therefore, that these new services are not approved before the creation of the Trust (and the introduction of the Public Value Test process) has taken place, to ensure that all new services undergo the same approval process.

The proposals for an increased Licence Fee require the allocation of funds for new services and activities that have not undergone these tests. This risks Licence Fee money being allocated in advance to projects whose specifications change drastically, or are not launched at all, following more detailed scrutiny. This is a clear concern, and we feel that it is important that considerations for this eventuality are explicitly written into the Licence Fee agreement.

We also note with interest PKF's thoughts on the new services proposed by the BBC in their future plans. PKF recommends that the DCMS "scrutinise in detail the investment plans proposed by the BBC to satisfy themselves that each and every investment is absolutely required to deliver the role of the BBC as set out in the Green Paper. It may transpire that some investments are not strictly necessary, and therefore it may be possible to agree a settlement which would enable the BBC to fund lower priority investments if it was able to generate further, genuine organisational efficiency savings or additional income from commercial businesses." They go on to suggest that "scrutiny may identify investments that are not in line with DCMS's interpretation of the Green Paper and thereby obviate the need for the investment allowing for a lower settlement". We hope that this scrutiny takes place, and that the resulting details are made publicly available, in the spirit of transparency discussed above.

One further point for concern is the apparent additive nature of the BBC's plans for the future. By this we mean that new services are being proposed, with little mention of whether other, less effective services are to be scaled down to make way for some of these. In commercial organisations this would happen naturally: parts of the business which did not perform effectively would be quickly highlighted and closed down, unless there were very good reasons for keeping them going. We believe that the BBC should constantly review the effectiveness of its existing services in the same way, and should consider moving on from any services which are expensive but which cannot still be proven to be contributing effectively to its public purposes. This should be an integral part of the BBC's efficiency drive – indeed, it is possible that similar measures are already included in the £2.6bn net efficiency savings that the BBC believes it can make by 2014, though more detail needs to be made public in order to gain any clear understanding of this.

Services which do not pass the public value test and market impact assessment

As the Licence Fee settlement will be put in place before full public value tests and market impact assessments can take place for all the future planned services, there is a clear possibility that funds will be allocated now to services that fail to pass these tests at some point in the future. In the event that this should occur, we think it is important that a process is put in place to determine, in advance, what will happen to funds that have been earmarked for these specific purposes.

It is important that these funds are not simply redistributed to other BBC activities for which they were not initially intended, such as main programme budgets, as this would potentially have unplanned, detrimental effects on the commercial marketplace. We believe that the mechanism for how these extra funds are highlighted and re-distributed should therefore be agreed as part of the settlement.

Summary

Channel 4 believes that the BBC should receive adequate, proportional funding for its activities, within a framework that allows for transparent allocation of funds to new and existing services, and full accountability for the BBC. New services should be subjected to a public value test, including a market impact assessment carried out independently by Ofcom. The Trust should set out clearly how it will consider the conclusions of MIAs within its overall test of new BBC services.

Without seeing more detailed information on the costs of the BBC's proposals, it is difficult to comment on what the most appropriate level of the Licence Fee would be. The BBC has argued that an 'RPI-plus' settlement is required due to the incremental duties imposed on it by government since the last settlement, and the changing nature of their commitments, particularly in relation to digital switchover and new digital services.

However, we echo the feelings of the House of Lords Select Committee who have recommended that RPI should not be taken as a baseline for licence fee increases, believing that "the link to RPI gives the BBC less incentive to make economies and efficiency gains". Further, we believe that the changes to the BBC's commitments should not be assumed to be incremental by default – the BBC may need to do new things, but it is possible that some of these can be achieved through evolution, rather than expansion.

We believe that the debate on the exact level of funding should not hinge around the RPI, but around the exact nature of the proposals for new services and how the BBC is planning to evolve to accommodate these. The appropriate level of funding might then point to an RPI-plus settlement, or an RPI-minus settlement; it is impossible to know for sure without more detailed analysis based on the detail behind the BBC's proposals, which we have not seen. Certainly, PKF's recent report, based on information not yet publicly available, suggests that there may be significant scope to reduce the proposed settlement level, and we hope that the recommendations of this report are pursued.

We believe it is vital, then, that further detail on the BBC's future plans should be released to a wider audience, to enable the start of a fully informed, inclusive debate on the exact level of the Licence Fee.