



Submission to the Department of Culture, Media and Sport on the proposed BBC Licence Fee settlement

Introduction

ITN is grateful for the opportunity to make some comments on the BBC's published bid for the next licence fee settlement in the context of news programming and multimedia content. We appreciate that a negotiation is underway between the BBC and the Government over the terms of the next licence fee settlement and this is based on a level of detail that is not in the public domain. However, ITN's comments are based on publicly-available data, including the bid published by the BBC last October, which contains only generalised estimates and no detail on projected news costs. The purpose of this submission is therefore to suggest areas the DCMS could investigate with the BBC in its discussions about the cost of delivering informed citizenship in the next licence fee period.

Importance of having different sources of news

A pluralistic news marketplace is essential to informed citizenship, which is not only the foremost of the BBC's public purposes, but also that of the commercial public service broadcasting sector, as defined in Ofcom's own reviews Public Service Broadcasting.

Pluralistic sources of news cannot, and should not, be delivered by the BBC alone. Since the launch of commercial television half a century ago, ITN has provided robust and healthy competition to the BBC in breaking and delivering news to millions of viewers, in the UK and overseas. This competition has benefited the BBC; through ITN's daily challenge of excellence in news programming, the Corporation has been forced to innovate, to become more efficient and to respond to consumer demand. This has therefore benefited the viewer, ensuring that they can enjoy an ever-higher standard of news programme, delivered more effectively, from a choice of provider.

Today's lightning advances in technology mean that the media market is fragmenting, providing more opportunity and choice to viewers than ever before. In this fast-evolving environment, it is vital to ensure that fair competition and plurality of news provision is maintained, especially when many of the emerging new media markets are fragile and their future paths still far from clear. In this arena, the issue of balancing the public interest with healthy competition and an innovative, creative economy is critical.

BBC's bid

The BBC's opening bid for the 2007-2013 licence fee period would mean the licence fee rises by RPI plus 2.3% each year (though the actual rise after efficiency savings would only be 1.8%). This is in addition to the significant increases the BBC has benefited from with the current licence fee settlement, which has seen the BBC obtain an above RPI settlement of 1.5% per annum (in addition to increases in the licence fee due to household growth, which has been rising by around 2% per annum).

This is totally at odds with what has been happening in the commercial broadcasting marketplace, which experienced a severe advertising recession in 2001-2 as well as rapid audience and revenue fragmentation. This has put continued pressure on programme budgets over the last five to six years.

Advertising forecasts for commercial television and radio over the next licence fee period are varied, but most predict only slow overall growth at best, and a decline in advertising revenue for the major terrestrial commercial channels, ITV1, Channel 4 and Five. In this environment it would be destabilising for the entire media market if the BBC were to be granted licence-fee funding over and above RPI.

It is important that the BBC is able to deliver its public service broadcasting remits, as set by the Secretary of State, but this must also be alongside a flourishing commercial market. Maintaining this balance – now and up to and beyond digital switchover - relies on maintaining some equivalence in the levels of funding, above all for news. The BBC says it provides “good value for money”, but ITN provides outstanding news services at a fraction of the cost of the BBC's news provision. ITN has steadily been reducing its prices for news programming for the past 10-15 years, despite expanding its range of programmes and services across new media, as well as TV and radio.

ITN questions whether the BBC has done all it could to reduce its news expenditure which, by its account, has remained roughly stable since 1997/8¹. The BBC argues that this represents real cost savings, as the total volume of output has more than doubled over the same period, and that these have facilitated investment elsewhere (including BBC Radio Five Live, BBC News 24 and the new digital services). It also argues the high cost is essential to delivering distinctive, quality news content.

However, ITN believes the BBC could achieve excellence across broadcast and new media while reducing the cost of its news-gathering and production still further. ITN produced a 24-hour News Channel for ITV on a production budget of less than £5m by leveraging off the news infrastructure in place for ITV Network bulletins. The cost of BBC News 24 is seven to eight times higher than this level, although the BBC could make the same efficiencies if it wished to do so. On a much smaller news-gathering and production budget, ITN's news programmes for ITV1 compete head-on with BBC1's news and, in the 6.00 p.m. to 7.00 p.m. slot, ITN is often ahead. Furthermore ITN has also managed to lead the way in the development of multimedia news products for mobile phone markets. Large budgets are not vital to make headway in these new media areas.

The fact that the BBC has been able to deliver £548 million of efficiency savings from 2000/01 to date strongly suggests that it has been over-funded in the current licence fee period. ITN is sceptical about the very high additional costs the BBC has now

¹ Page 42, BBC's contribution to informed citizenship – submission to Independent Panel (2005)

proposed to fund quality content, digital and local services (all of which include news). In summary, we believe the BBC should be forecasting cost savings in news and that the BBC's appetite for expansion into new media should be challenged.

In its current licence fee bid, the BBC is asking for additional funds of £1.6 billion to deliver "quality content", £0.6 billion to deliver "local services" including local news, and £1.2 billion for "digital infrastructure" which includes online news and "active engagement". The BBC's published figures do not make clear by how much it proposes the total news budget should rise, but ITN notes that an unspecified proportion of the additional £1.6 billion the BBC says it requires for "quality content" would be allocated to improving global journalism.

ITN finds it surprising that these high additional costs include news and journalism in broadcast and new media, but that no specific costs are broken out. There is no detailed analysis, either, in the PKF report, just published for DCMS.

ITN notes that in its "Review of the BBC Value for Money and Efficiency Programmes", published on 26 April 2006, PKF questions "whether there is a need to incur such sizeable expenditure to deliver" quality content including national and regional news² and suggests DCMS could explore with the BBC alternative strategies with lower associated costs, or indeed whether the strategy can be pursued more economically than projected³. PKF also questions the BBC's rationale in proposing to increase investment in non-core items, for example online facilities such as My News Now⁴.

An analysis of the BBC annual accounts since 1998 shows that its reporting of the cost of news provision is inconsistent. Therefore, in the forthcoming settlement, ITN believes there should be much greater transparency in the specific allocation of costs for news-gathering and output, particularly as this is the BBC's foremost public purpose.

The following points sum up the reasons to question whether the BBC requires additional spend on top of the current news budget – which has been more than generously resourced in the current licence period:

- Overall reducing cost of newsgathering

As a commercial news provider, ITN continually strives to achieve greater cost efficiencies and deliver better value to its customers. The company has driven its costs down dramatically over the last decade by harnessing new technologies and pioneering new techniques in newsgathering. ITN's newsrooms have been fully digital since 1998.

This has enabled ITN to drive significant economies of scale without a reduction in quality of news output. ITN's unprecedented eight wins at the Royal Television Society 2005 awards for television journalism are testament to the excellence of its news programmes.

ITN believes that DCMS should examine carefully whether better technology investment at the BBC could drive greater efficiency and cost savings.

² PKF Review, Page 16, paragraph 1.63

³ PKF Review, Page 18, paragraph 1.73

⁴ PKF Review, Page 18, paragraph 1.74

- Better integration

The BBC provides 30,000 hours⁵ of news annually, across its services, and news-gathering costs alone for BBC News 24 in 2004/5 amounted to £18.4m, with a total budget of £48.1m⁶. It is impossible to determine whether this is an arbitrary allocation of central news costs but, nevertheless, it is a high figure. As noted earlier, ITN operated the ITV News Channel on a total budget (both news-gathering and production) which was a fraction of this figure.

ITN's experience is that it is possible to integrate news-gathering and production for different outlets to a considerable degree without loss of originality or quality. ITN's radio service and multimedia services on mobile phones and broadband draw extensively on its TV news-gathering, for example.

The BBC argues that its heavy investment in unique and dedicated news content on each of its services, including BBC News 24 and online, is what makes it distinctive. However, ITN believes that this is again an area the DCMS should discuss with the BBC. There is little justification for significant incremental news-gathering costs.

Using state of the art technology, the BBC should be able to maintain the distinctiveness of its different news services whilst challenging itself to drive costs down using joint deployments and other economies of scale.

- Better international collaboration

An important part of the BBC's news remit is to report on international news. It has 44 international bureaux, as against ITN's six and CNN's 28.

The BBC would argue this large number of bureaux is necessary for it to provide more extensive international news stories and cover breaking news more quickly. Again, ITN would question whether this is still entirely valid. Improvements in satellite technology and the strategic use of partnerships with other news organisations have enabled ITN to provide its customers and viewers with comprehensive coverage of breaking international news as it happens. For example, ITN had a world exclusive on the tragic unfolding of events at Beslan and was one of the first news organisations in place to cover the Asian tsunami and Hurricane Katrina. ITN is able quickly to deploy its top correspondents to any location worldwide, bringing viewers the news from a trusted source without the need to spend the additional overheads of international bureaux.

Another area of cost-saving is the way television news reports are sent back to head office. ITN now makes use of internet-based filing, which costs just a few dollars to transmit an entire report. One recent example was the filing of coverage from China on London Mayor Ken Livingstone's visit.⁷

Regional News

ITN collaborates with the ITV regional network to deliver strong regional coverage in both national and regional bulletins. This co-operation is based on clear targets to achieve cost efficiencies where possible.

There are no specific targets set by the BBC by which to measure 'better co-operation' between its various services so it is difficult to see what improvements

⁵ Page 33, The BBC's contribution to informed citizenship – submission to Independent Panel (2005)

⁶ Table 12, page 143 Annual Report & Accounts 2004/5

⁷ ITN paid \$58 for approximately 30 minutes of feed; the supplier used by the BBC for the same coverage quoted a charge of \$900 per 10 minute feed.

additional funding would make. For licence fee payers to see clear efficiencies in joint news-gathering, targets should be set and progress against them clearly reported.

- **Multimedia**

The BBC argues that it needs to invest further in its multimedia offering in order to drive "Digital Britain". ITN believes it has already spent far more than necessary. The BBC website, www.bbc.co.uk, has a budget which, at nearly £70 million, is almost certainly more than the combined costs of the UK's leading commercial media websites. No other organisation can afford website funding on this scale. Now the BBC wants more. But ITN believes it is possible to operate new media websites on a much lower cost base.

The BBC further positions itself as being at the cutting edge of new market developments. One of the key recommendations in its "Creative Future" strategy is to develop a new pan-platform journalism strategy, including mobile devices, as well as putting 24/7 news on the web, broadband, TV and radio.

This risks swamping markets which are well-served by commercial operators. ITN is already providing these services without public funding. ITN's multimedia business is growing quickly and ITN is now the UK's leading supplier of news, entertainment and other video content to 3G mobile phones and broadband. Making content accessible in numerous ways and on a variety of platforms is vital to extend its appeal across different generations and to different audiences. ITN's multimedia products are pitched to a broad demographic range and, via mobile, are reaching young audiences who want news delivered in ways other than the traditional appointment-to-view, linear model of consuming content.

There is no evidence of any kind of commercial failure in this market and it is therefore very unclear as to why the BBC should need to allocate so much resource to it. Although it is important that the BBC can continue to innovate and find new ways to reach its audience, it is a publicly-funded broadcaster and, as such, should not see its role as a pioneer for new media products or invest in them on a scale likely to be to the detriment of a thriving commercial market.

By arguing for a single Service Licence for www.bbc.co.uk and all the BBC's additional services under its online remit, the BBC is furthermore demonstrating a lack of transparency, not only in terms of the remit but also the budget for each new service.

Educational provision

BBC Digital Curriculum

Another important aspect of the BBC's public purposes is its educational content provision. The Secretary of State, the Rt Hon Tessa Jowell MP, approved BBC Jam in January 2003 but with a large number of conditions. Condition 4 states: "The service must innovate continually and exploit the extensive archives of the BBC and its media rich resources, and promote technological and pedagogical experimentation. The service, taken as a whole, should be distinctive from and complementary to services provided by the commercial sector."

ITN, which has a stake in a competitor to the BBC - Espresso, a commercial company supplying educational content to schools - believes that if approval for BBC

Jam was given with conditions imposed, then the BBC should comply with those conditions.

However, in its report to Ruth Kelly in December 2005, the official monitoring body for the service, the Content Advisory Board (CAB), highlighted significant concerns that BBC Jam was not meeting the required conditions – particularly Condition 4 - nor did CAB have assurances that it would be able to do so. CAB recommends an early review by DCMS, to be completed by September 2006, with the terms of reference allowing for a fundamental review, including the possibility of significant changes to the scope, coverage and timing of the service.

ITN believes that an early review is vital if the commercial sector suppliers of educational content are not to be severely damaged by the operations of BBC Jam. The requirement for any additional public funding should be questioned if the service is not fulfilling its objectives.

Conclusion

The BBC's bid documents give no detail on what levels of news expenditure they envisage across all their services. This is not transparent and we believe DCMS should be entering discussions with the BBC about this.

ITN believes that, by taking advantage of new technology to drive economies of scale, as ITN itself has done, the BBC can deliver quality news across all its services, including new media, whilst still reducing costs for news.

We believe the BBC's new media strategy is once again too expansionist, and that it shows no sign of curbing its tendency to throw public money into developing new media platforms, at licence payers' expense. ITN believes the BBC's online news strategy could be funded at much lower cost cost.

The BBC must deliver value to the licence payer but the licence fee settlement needs to be benchmarked with competitors in the commercial market so that the BBC cannot stifle competition and therefore pluralism.