

# CHANNEL 4 RESPONSE TO DCMS CONSULTATION ABOUT NEW BBC 3 DIGITAL TELEVISION SERVICE PROPOSAL

## Executive Summary

Channel 4 questioned the need for BBC 3 when it was first proposed in January 2001, arguing that any licence-funded service needed to be more distinctive and "provide a significant amount of news, current affairs, educational and multi-cultural content for young people". Further information published by the BBC responded to these criticisms and was welcomed by Channel 4, which made it clear that it had no objection, in principle, to the new channel going ahead if the proposed changes were implemented and there was a proper process to ensure they were implemented on an ongoing basis.

The current and far more detailed proposal from the BBC exacerbates rather than allays Channel 4's concerns. It also appears in a very different economic climate which has had a significant impact on all commercially funded broadcasters, including Channel 4, but has had no impact at all on the BBC with its guaranteed licence fee income. It is Channel 4's emphatic view that to allow BBC 3 to go ahead in this climate, and on the basis and at the level of funding currently proposed, would have a serious and damaging impact on E4 and, more seriously, on Channel 4 itself.

Channel 4's main concerns are these: -

- **The remit.** The proportion of the BBC3 schedule devoted to news, education and factual programming is minimal. Some of the specific proposals and much of the aspirational language duplicate rather than complement what Channel 4 already does as part of its public service obligations.
- **The budget.** The proposed budget of £97million, plus a proportion of a £20 million marketing budget, is out of all proportion to existing digital channels and to the other proposed BBC digital services, being greater than the budgets for the other three new BBC channels combined.
- **The target audience.** By redefining its target audience as 25-34 year olds, rather than 16-34 year olds as originally proposed, the BBC undermines its declared intention of providing a range of digital services for all. 14-24 years olds would be left with no service.
- **The approval system.** Firm evidence is needed of the extent to which the BBC will be held accountable for meeting commitments made in its submission on a regular, annual basis, and of the extent to which that process of accountability will be public.
- **The contribution to driving digital take-up.** Part of the justification for the whole suite of proposed BBC digital channels is to drive digital take-up. The BBC 3 target audience already has a high take-up of digital services and is better served by existing digital channels than other sections of the population. To devote more public money to new services for this group than for the rest of the population together is inappropriate.

## **Introduction**

Last September the Secretary of State found that the original proposals for BBC 3 did not describe a service that was distinctive, had clear public value or would have a significant additional impact on its target audience. Channel 4 believes that the current, more detailed proposal for BBC 3 raises new questions - about how distinctive this service would be; about whether it would contribute significantly to digital take-up; and about the extent to which it would impinge on other broadcasters, including public service broadcasters and in particular Channel 4 itself.

Channel 4 is also concerned that the sharp drop in advertising revenues since the summer have altered considerably the balance of advantage between a licence fee funded BBC 3 and those commercially funded channels aimed at younger audiences.

## **Channel 4's Attitude to BBC 3**

Channel 4 questioned the need for BBC 3 when it was first proposed in January 2001, arguing that such a service needed to be more distinctive and "to provide a significant amount of news, current affairs, educational and multi-cultural content for young people". The channel also said it did not believe it contained "any unique programming ideas to suggest it will grow the digital youth market any further", but that it would "draw its audiences from existing services and threaten their commercial success as a result".

The further information about BBC 3 issued in June 2001 responded to these criticisms with programming proposals in the areas of news, factual and education programming. It stated unequivocally that BBC 3 "would be a mixed genre channel". Channel 4 welcomed this "redefining of BBC 3 as a genuinely multi-genre channel", believing that this validated its launch as a service that would make a distinctive contribution to digital viewers' choice – but remained sceptical as to whether it would "prove a significant force in winning new audiences for digital overall".

However, the new, far more detailed proposal gives more serious cause for concern. It is clear that although BBC 3 will be a mixed genre channel, the overwhelming majority of its output will be in entertainment and drama (precisely those genres that provide most of the schedule of E4 and other digital channels pitched at a younger audience). Many of its detailed programme and off-screen proposals mirror work already being done by Channel 4. And the research document that accompanies it states that it is seeking to build its audience by taking viewers away from Channel 4, Channel 5 and E4 (among others).

Channel 4 welcomes increased competition in the multi-channel environment, but does not see the case for so much licence fee money to be spent duplicating the other main public service broadcaster and potentially depriving it of revenue it needs to fulfil its public service goals.

## The BBC 3 Programme Offer

The BBC 3 proposal makes much of providing "a unique public service to young adults, with much clearer commitments particularly in news, current affairs, education and music and arts programmes". But on examination the number of hours to be devoted to these genres is less impressive.

The Table below compares the hours to be devoted to these genres with the hours transmitted on Channel 4. Even taking account of the fact that Channel 4 is a 24 hour a day channel with a programme budget several times larger than that currently proposed for BBC 3, the latter's commitment to factual genres is vastly less than that of a public service broadcaster committed to a wide range of output.

### Hours per year dedicated to different programme genres

'Key commitments' in BBC 3 proposal document, compared to Channel 4 output detailed in Report and Financial Statements 2000, page 65

	<b>BBC 3</b>	<b>Channel 4</b>
News	65	305
Current Affairs	26	247
Education	30	1,000
Music and Arts	50	247

The number of hours devoted to the genres of news, current affairs, education, music and the arts would be around 15% of all output (page 46) – only the same proportion that the BBC says is devoted to factual genres on E4 (page 15). The bulk of output will be entertainment and drama - precisely the genres specialised in by commercially funded channels with an orientation to younger viewers, such as E4, Sky One and Paramount.

If BBC 3 is to add value in a public service broadcasting environment it must include a much greater proportion of public service programming.

Some of the ambitions set out for BBC 3 ignore the strengths and reputations of other channels, including BBC1 and BBC 2. Statements such as BBC 3 "will be the home of intelligent new British entertainment and drama" (page 25), that it will "be the UK's creative leader in showcasing new formats and talent for a young multicultural audience" (page 27) and that it "will stand out in the marketplace as the home of British programming and talent" (page 38) deny the rich range of creative achievement on existing channels.

A number of claims for originality and distinctiveness duplicate work already being undertaken elsewhere, much of it on Channel 4. For example:

- BBC 3 entertainment is proposed to have "a strong appeal to audiences with a young mindset, a modern multicultural approach and a focus on new shows and new talent". These are the characteristics of Channel 4, which in the last two years alone has introduced such talents as Dom Joly, Ali G and Richard Blackwood and pioneered shows such as *Smack the Pony*, *Black Books* and *Spaced*.

- Six talent initiatives each year are proposed, in such areas as new writing, film-making, comedy and animation. Channel 4 already sponsors well-established and well-funded talent events in such areas - for example, the Perrier Award for comedy, the FilmFour Lab for new film-makers and three separate schemes for animation organised respectively with the BFI, the Arts Council and NESTA.
- The proposal claims a distinctive approach to drama that "will reflect and challenge the often difficult and complex issues faced by young adult audiences in a watchable and entertaining way". *Teachers*, *Swallow* and *Queer as Folk* are just some of the recent Channel 4 dramas that have achieved those ambitions.
- The proposal says interactivity will offer "new and innovative ways of connecting with younger audiences". Through *Big Brother*, *Banzai*, *Test Cricket* and much else, Channel 4 and E4 are already providing sophisticated interactive services.

Channel 4 welcomes competition, but believes that as the dominant public service broadcaster the BBC should strike a proper balance between complementing and competing with Channel 4 and E4. Close examination of the BBC 3 proposal suggests many of its allegedly distinctive attributes are imitative of Channel 4 – while it lacks Channel 4's wide-ranging public service obligations.

## **The Impact on Channel 4 and E4**

Channel 4 believes the proposed BBC 3 would have a damaging impact on other youth-targeted services in the market, both terrestrial and pay-TV. The current economic climate and pressure on advertising revenue exacerbate this. The combined impact of the decline in commercial advertising revenue, the costs in the commercial sector of new digital services, and the increased BBC license fee has already shifted the balance of economic power from commercial channels to license-fee funded channels by approximately £1 billion during the 2001 year.

The first quarter of 2002 has shown continued decline of more than 10% in ITV and Channel 4 revenues. Channel 4's revenues in 2001 were 5% less than a year earlier, and may fall again in 2002, as a result of which this year's programme budget has been reduced already. To launch BBC 3 with such light public service benefits at this stage of the economic cycle could be significantly detrimental to ITV, Channel 4 and Channel 5.

BBC 3 would have a significant impact on E4. Not only would the BBC 3 programme budget (£97 million) be more than twice the E4 budget, BBC 3 would be entering an already crowded marketplace. Digital channels such as E4, Sky One, Paramount, and MTV already provide entertainment, comedy, music and drama targeted at a youth audience – but such genres represent 85% of BBC 3's output.

The BBC 3 proposal does not provide sufficient evidence that it would grow the digital market any further and Channel 4 believes its share of viewing is likely to come from current commercially-funded services whose financial bases would be threatened as a result. Indeed, the Oliver & Ohlbaum assessment of the impact of the proposed BBC 3 estimates that Channel 4 would lose over five per cent of its audience in multi-channel homes and that E4 will lose around 15% of its audience. If the BBC analysis is correct, the effect on Channel 4 could be the loss of tens of millions of pounds in advertising revenue, and corresponding further reductions in its programme budgets.

The BBC has stated that BBC 3 represents "a major injection of money into the British TV economy". Its impact is more likely to be a reduction in revenues and programme budgets of other commercially funded channels.

### **The BBC 3 Audience and Budget**

It is not clear why the BBC has narrowed the target audience of the proposed BBC 3 from serving 16 - 34 year olds to one catering primarily for 25 - 34 year olds. Channel 4 questions whether this narrower demographic focus can justify a budget considerably greater than those for all the BBC's other new television services put together.

The proposal document itself argues (page 25) that, with the already approved children's channels catering for the under 6s and 6-13 year olds and BBC 4 likely to attract an audience which is mainly over 35, "the BBC is keen to ensure that it ...has a digital channel aimed at the audiences which lies between those age groups". Yet by focusing BBC 3 on 25 - 34 year olds, it is self-evidently failing to provide directly for 14 - 24 year olds.

Channel 4 questions whether the BBC is justified in spending £97 million each year on such a relatively small proportion of the population containing a high proportion of digital adopters - especially when it is proposing to spend less than a third of this amount on BBC 4, which is designed to serve an audience of older viewers not in the forefront of those adopting digital television. As a major part of the justification for new digital services is that they will help drive digital take-up, there should be equivalence at the very least between the budgets of BBC 3 and BBC 4.

It is unclear how the BBC will allocate costs between its various channels. For example if BBC 3 were to schedule same day repeats of EastEnders four nights a week (as BBC Choice does now), or even first showings, would its £97 million budget be charged with the very substantial amount that the open market would pay for such programmes?

## **Approvals and Assessments**

Channel 4 welcomes the government's commitment<sup>1</sup> to ensuring that the actual programming of new BBC services is consistent with the approvals set out for them. But rather than the government being wholly responsible for this process with OFCOM having an advisory role, OFCOM should be made fully responsible for it. OFCOM will have more knowledge of the impact of BBC services on the wider market, and will have the objectivity and credibility to make judgements balancing the interests of the BBC and its commercial competitors. Channel 4 believes that the BBC should report annually to OFCOM on how BBC 3 is fulfilling its remit, in the same tried and tested way that Channel 4 and other ITC-licensed channels are held to account currently by the ITC.

The BBC has failed so far to ensure that its digital channels keep to the remits on the basis of which approval for them was given. BBC Choice, for example, included sport and regional programming as major planks of its programming proposal – but neither feature in its current schedule. Channel 4 is concerned that, whatever approvals may be given for BBC 3, its character cannot be changed without a further process of review and consultation.

## **Conclusion**

Channel 4 believes that viewers should have a broad range of high quality programming from which to choose in the digital age. Its own strategy of developing a portfolio of digital channels is geared to that end. Channel 4 believes the BBC is right to be developing a broader multi-channel strategy.

However, Channel 4 does not believe the current BBC 3 proposal is sufficiently distinctive either to make a significant contribution to digital take-up or to avoid causing commercial damage to other channels that appeal to younger audiences. To launch BBC 3, as presently defined, in current market conditions would cause significant and disproportionate damage to existing commercially funded services.

Channel 4 therefore urges the Secretary of State not to approve the proposed BBC 3 channel.

*Channel 4 Television*

*Friday 25 January 2002*

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<sup>1</sup> set out in the last paragraph of the Secretary of State's 13<sup>th</sup> September letter to the Chairman of the BBC and in paragraph 14 of the accompanying Annexe B