

Channel 4's response to the DCMS consultation: "Sustainable independent and impartial news; in the Nations, locally and in the regions"

Introduction

1. Channel 4 welcomes the Government's consultation on using a contained, contestable amount of licence fee revenue to sustain plurality in public service content. The Digital Britain report sets out a renewed commitment to public service content provision in the digital world, and confirms the Government's view that the "wide availability of high quality, UK-produced content across a range of areas—from news and current affairs to children's programming and drama—is essential to the cultural, social and democratic life of the United Kingdom".¹
2. The Digital Britain report endorses the importance of plurality in meeting this commitment, and recognises the need for alternative providers to compete with the BBC. The report sees a strong Channel 4, with a modernised remit, as the main source of UK-wide competition and plurality in the provision of public service content. Channel 4 welcomes this conclusion. The key principle that Channel 4 should remain an independent, publicly-owned public service broadcaster, primarily commercially-funded and focused on delivering innovative content and services on a range of digital platforms, is especially welcome.
3. The Digital Britain report also recognises the fundamental structural changes taking place in the television advertising market, and discusses a range of funding options for securing public service content delivery beyond the BBC. Channel 4's preference has always been for a new form of indirect support (similar to the historic model in which analogue spectrum has performed this role) and it welcomes the Government's encouragement in Digital Britain to pursue partnership conversations with the BBC and other commercial organisations—these discussions remain the primary focus of our activity.
4. However, the issue of public service plurality is broader than Channel 4 and the BBC. Other institutions and providers—such as ITV and Five; or arts and culture organisations that are increasingly generating audiovisual content—can all potentially play a role. The challenge is now to identify the types of public service content that the market, left to itself, would under-provide, and to find a mechanism for funding that content. This response sets out Channel 4's views on these issues.

Importance of plurality

5. The Digital Britain report confirms the Government's support for public service plurality, setting out its ambition to "ensure the provision of engaging public service content of quality and range, from multiple providers on multiple platforms, to a world-class standard".² On 16 June 2009, the Secretary of State for Culture, Media and Sport confirmed that a central theme of the report was

¹ DCMS, *Sustainable, independent and impartial news; in the Nations, locally and in the regions*, June 2009, p 4

² DCMS/BIS, *Digital Britain Final Report*, Cm 7650, June 2009, p 135

“sustaining and strengthening our creative industries and securing plural provision of key public service content in the digital age”.³

6. Channel 4 agrees that it is vital to secure plurality in public service content provision in the digital age. The arguments around plurality have been discussed at length in recent years, but it is worth revisiting in brief why this issue is so important.
 - First, plurality in public service institutions—the BBC, Channel 4, ITV, Five and S4C—has benefited the wider creative economy, creating a UK industry that produces content that is the envy of the world. The competition between broadcasters has led to greater quality and innovation. At the recent International Emmys, for example, the UK won seven out of 10 available awards—an incredible achievement given the relative size of the UK market. These awards were spread among different broadcasters, with Channel 4 taking four awards and the BBC taking three. The breadth of these awards demonstrates the value of cross-genre plurality, with Channel 4 winning in comedy for *The IT Crowd*, documentary for *The Beckoning Silence*, arts for *Strictly Bolshoi* and drama for *Forgiven*. Finally in film, the success of Film4-backed projects over the past year, such as *Slumdog Millionaire* and *Hunger*, undoubtedly provides a creative spur to BBC Films.
 - Second, the UK’s plural broadcasting system has ensured that a wide range of voices and viewpoints are heard. Channel 4 provides a distinctive offering to the BBC by covering different subjects, by airing alternative perspectives, and by innovating and taking risks across a range of genres, including current affairs, drama, documentaries and the arts. For example, Channel 4 has done more than any broadcaster to explain Islam for non-Muslim audiences. Last year’s *Islam Unveiled* season provided a rounded picture of the core beliefs of Islam and succeeded in providing a fresh perspective, with Channel 4/YouGov research from July 2008 showing that 67% of non-Muslims agreed the season presented Islam in a different way than usually shown on television, as did 79% of Muslims surveyed.
 - Third, the existence of a plurality of public service providers helps to ensure the creation of content which serves the broadest possible range of audiences, including harder to reach groups. Channel 4, for example, has a much stronger track record than its competitors in reaching younger viewers and ethnic minority audiences. Channel 4 is the leading broadcast brand for younger audiences, and is the only public service broadcaster to have grown its portfolio viewing share among 16–34 year olds over the last five years—growth of 27% compared to a fall of 19% for the BBC.

Audience support for plurality

7. There is clear audience support for the plural provision of public service content. Ofcom’s research, as part of its second review of public service broadcasting, demonstrated that audiences believe it is important that content is provided by more than one broadcaster across a range of genres. For example, 77% of people thought it important that there was a plural supply of current affairs programmes,

³ Secretary of State for Culture, Media and Sport, *Statement on the publication of the Digital Britain Report*, 16 June 2009

as did 73% for UK-made serious factual programmes, and 86% for news. Audiences also expressed support for plurality in news for the devolved nations and English regions (76%) and for children's programmes that reflect life in the UK (70%, rising to 76% among parents).⁴

8. The support for plurality across a range of genres is clear. However, in a time of constrained public resources, it is of course necessary to distinguish the areas where plurality is essential, and in need of public intervention should it not be provided by the market, and where it is merely desirable.

Plurality in news

9. The provision of impartial, accurate news is a core function of the UK's public service content system. News plays a vital role in informing viewers about the world, about the UK, and about local and regional issues. In addition, independent and impartial news underpins the democratic functioning of society, helping to hold public institutions and decision-makers to account.
10. Given the importance of news to democracy and society, it is essential that UK audiences have access to a plurality of news providers. The provision of different news services, from different sources, gives viewers a diversity of viewpoints and alternative perspectives on the day's events, and prevents one outlook from dominating public opinion. Channel 4 believes that it is important to maintain plurality in news provision at all levels—from UK-wide and international coverage through to more tailored coverage for the devolved nations, English regions and more local areas.
11. Ofcom's audience research demonstrates that viewers value plurality in news at a range of levels. Support for plurality was strongest in relation to news in general—86% of people said that this is important—and support for plurality in news in the devolved nations and English regions was also strong at 76%.⁵

Channel 4's news provision

12. News sits at the heart of Channel 4's public service delivery. Channel 4 remains dedicated to its comprehensive UK-wide service and to developing online delivery. The award-winning *Channel 4 News* is the UK's only hour-long peak-time news programme, which allows significantly greater depth and breadth of coverage than any other peak-time news programme.
13. Channel 4 is also committed to enhancing its online news provision. In 2008, *Channel 4 News* redesigned its website (channel4.com/news), providing access to news stories online and to extra services such as *FactCheck*, and Channel 4 recently announced increased investment in political news online. In addition, Channel 4 will invest in a variety of initiatives in journalism and e-democracy through its £50 million 4iP innovation for the public fund, using existing Channel 4 budgets to leverage funds from a range of Regional Development Agencies. For example, political engagement platform *Yoosk* allows people to hold public figures to account by asking and rating questions of those in power,

⁴ Ofcom, *Second public service broadcasting review, Phase one: the digital opportunity*, April 2008, p 34

⁵ Ofcom, *Second public service broadcasting review, Phase one: the digital opportunity*, April 2008, p 34

while the mobile application *Audioboo*, which enables users to record, upload and share audio across the web, has assisted in the coverage of major news events over the past year.

14. *Channel 4 News* also makes a significant contribution to international news coverage. Around 40% of its schedule is devoted to foreign news, and *Channel 4 News* spends more time daily on international stories than any other news programme, including *Newsnight*.

News plurality

15. Channel 4 remains committed to plurality in news provision, and will play its part in maintaining a sustainable alternative source of UK-wide and international news to the BBC. Beyond Channel 4 and the BBC, audiences are likely to have access to other sources of UK-wide and international news from a range of providers in future. In some cases, news can generate a commercial return, while in other cases—ITV for example—a UK-wide flagship news service can help to enhance an organisation’s brand and reputation, even if it is not commercially successful in itself.
16. However, Channel 4 agrees that there remains an outstanding issue around the plural provision of news for the devolved nations, English regions and more local areas. Various studies have shown that viewers support plurality in nations, regional and local news. However, the provision of news at this level from organisations other than the BBC has diminished in recent years, and provision may drop further in future. Ofcom’s reviews of public service broadcasting documented the challenges facing regional news provision on ITV; and the Digital Britain report discussed the issues facing print and radio.
17. While *Channel 4 News* focuses on UK-wide and international matters, Channel 4 does rely on the regional production infrastructure currently provided by ITN for ITV. This gives Channel 4 access to newsgathering resources across the UK, allowing Channel 4 to increase the range and diversity of stories it covers on *Channel 4 News*. Given this relationship, Channel 4 believes that damage to ITN’s regional newsgathering capability would have a negative impact on its own news service. It is therefore vital that a new model for nations and regions news is agreed which ensures continued public service competition to the BBC.

Public funding

18. The Digital Britain report concluded that “the market alone will not provide plurality in the ownership, commissioning, editorial and production of public service content that remains essential. That is particularly true of news.”⁶ The Government therefore proposed the introduction of independently-funded news consortia (IFNCs) to meet this gap, and identified that IFNCs—while expected to be run commercially—would likely need to benefit from some public funding to be sustainable in future.
19. The Government proposes to launch three pilot IFNCs to assess the need for public funding. In April 2009, Ofcom estimated that public funding of between £40 million and £60 million per annum would be needed to secure basic linear television news services in the devolved nations and the English regions, and

⁶ DCMS/BIS, *Digital Britain Final Report*, Cm 7650, June 2009, p 141

suggested that a comprehensive cross-platform service with a greater local focus could be delivered for between £60 million and £100 million per annum.⁷ On the other hand, the BBC has estimated that a regional news service, including an extensive web presence, would cost only £30 million to £50 million per annum.⁸

20. While the estimates of the level of top-up funding needed vary, there is a consensus that plural news in the devolved nations, English regions and more locally will require some public funding. Channel 4 agrees that public funding for these types of news is likely to be necessary, and considers that a primary objective of the IFNC pilots should be to generate robust estimates of the likely levels of public funding needed to deliver these services.

Plurality in other public service genres

21. The Digital Britain report asks “whether there are any categories of content beyond plurality of news, which this Report validates as a special category, which might justify public intervention”.⁹
22. The UK’s public service system has historically provided plurality across a wide range of genres. Beyond news, audiences have enjoyed—from multiple providers—high-quality, UK-produced content in a diverse range of areas including children’s programming, drama, documentaries, film and the arts. As discussed above, the existence of plurality has driven higher standards, fostered distinctive voices and alternative perspectives, and increased the reach and impact of public service content.
23. Audiences value plurality in genres other than news. Ofcom’s research showed that audiences believe it is important that content in a range of genres is provided by more than one broadcaster. In particular, audiences value plurality in a number of important public service genres, including UK-made serious factual programmes (73% thought plurality important), children’s programmes (76% of parents, 70% of audience as a whole) and current affairs programmes (77%). Further, 68% of people thought plurality was important in drama that reflects life in the UK and 64% supported plurality in comedies that are made in the UK.¹⁰

At-risk genres

24. While audiences place a great deal of importance on plurality, the breadth of plurality is at risk in the digital age. There is a widespread consensus that, due to the structural changes in the market caused by digital switchover, the ability of commercially-funded broadcasters to sustain plurality in some types of public service content will diminish in future.
25. The Digital Britain report noted that, in the past, the “surplus generated by premium advertising was sufficient to allow the implicit subsidy of public or social goods” including “high-end drama, documentaries on television, investigative journalism, and a long list of genres each with passionate if numerically small audience followings”. However, the report concluded that this

⁷ Ed Richards, Speech to Local Media Summit, 28 April 2009

⁸ Financial Times, *BBC challenges Ofcom over ‘fantasy’ regional news costs*, 1 June 2009

⁹ DCMS/BIS, *Digital Britain Final Report*, Cm 7650, June 2009, p 18

¹⁰ Ofcom, *Second public service broadcasting review, Phase one: the digital opportunity*, April 2008, p 34

“subsidy is no longer available”.¹¹ Ofcom estimated in September 2008 that, due to the structural changes in the market, between £145–£235 million will drain out of the commercially-funded public service content system by 2012.¹²

26. These changes will undoubtedly have an impact on the ability of providers other than the BBC to deliver public service content. The Government believes that gaps in provision are emerging in “news in the Nations, regionally and locally, on material for older children including online content, and hard factual and documentary”.¹³ The BBC has recently identified the “market failure genres” that it believes are “endangered in [the] tougher commercial world” including “children’s, comedy, specialist factual and drama”.¹⁴ Ofcom has also argued that important genres are under threat such as “high-end drama and original comedy and satire and more generally, content that falls under the banner of innovative”.¹⁵
27. Channel 4 agrees that it is important for a wide range of public service genres to be provided beyond the BBC. The challenges facing the plural provision of news for the devolved nations and English regions and of UK-produced children’s programming are well understood. Beyond news and children’s, Channel 4 agrees that plurality in other important public service areas identified by the Government, the BBC and Ofcom, such as drama, film, comedy and serious factual programming, is also under pressure—and in these areas Channel 4 is likely to be the primary alternative to the BBC. Plural provision in these genres is supported by audiences, and Channel 4 believes that it is essential to maintain plurality to sustain quality, innovation and diversity in the creative economy.

Public funding

28. The fact that certain public service genres are under threat is a necessary, but not sufficient, condition for making available public funding to support these areas. The current debate about plurality has focused on news for the devolved nations and English regions and, to a lesser extent, UK-made children’s programmes. In the broader, ongoing debate about plurality in public service content provision and the scale and scope of the BBC, it will also be important to assess the case for making public funding available to sustain plurality in other essential public service genres. Channel 4 looks forward to engaging in that wider debate over the coming months, but as a starting point, would like to outline a set of criteria which it believes must be fulfilled in order for a public service genre to be eligible for public funding:
- Provision is decreasing and will fall away further in future due to structural changes in the market.
 - Audiences value ongoing plurality and competition to the BBC.
 - Plural provision is essential for achieving the UK’s cultural and social objectives.

¹¹ DCMS/BIS, *Digital Britain Final Report*, Cm 7650, June 2009, p 136

¹² Ofcom, *Second public service broadcasting review, Phase two: preparing for the digital future*, September 2008, p 5

¹³ DCMS/BIS, *Digital Britain Final Report*, Cm 7650, June 2009, p 137

¹⁴ Jana Bennett, Speech to BBC Vision Forum, 22 September 2009

¹⁵ DCMS/BIS, *Digital Britain Final Report*, Cm 7650, June 2009, p 137

- A relatively small amount of public funding will make a large contribution to the sustainability of content provision and to that of the UK's creative economy.
29. Children's programming currently meets all of these criteria. The Digital Britain report recognised the need for intervention to sustain children's programming, and Ofcom has identified that there is a "clear public interest in addressing needs identified for children's content, if funding is available". Ofcom also points out that investment in first run originated produced children's content by the five main PSB channels and on CBeebies/CBBC fell by 37% over the past five years, which has mainly been driven by reduced expenditure by the commercially-funded public service broadcasters (primarily ITV) from £42 million to £11 million.¹⁶
30. The Digital Britain Report set out the Government's intention to enshrine in Channel 4's remit a "solid commitment to children's content, with priority given to older children".¹⁷ Channel 4 fully supports the inclusion of young audiences as part of its formal role, and is currently in conversation with the Government about how best to reflect this in legislation. However, Ofcom has identified that "there are reasons why an amendment to Channel 4's remit may not be sufficient to sustain plurality in children's content". In particular, Ofcom notes that "at a time of pressure on [Channel 4's] ability to deliver its existing PSB requirements, Channel 4 might not have the financial resources to meet significant additional new requirements in children's content". Ofcom concludes that "the needs of younger audiences could also be addressed through a competitive allocation of funds from the contained contestable element of the licence fee, or elsewhere" and adds that "Channel 4—with a revised remit to serve older children—would be an obvious potential bidder for such funding".¹⁸
31. In terms of sustaining delivery of children's programming, Channel 4 is open to funding solutions that will help to maximise our overall public service contribution. Channel 4's funding model ensures that we will continue to be able to deliver considerable public and economic value in line with our remit, within a strict break-even budget. However, as the amount of advertising revenue available to Channel 4 declines, the level of creative and economic investment that Channel 4 is able to make in support of its remit will also diminish. The additional responsibility for children's programming, combined with falling revenue, will put even greater pressure on Channel 4's overall public service delivery. While the Channel 4 Board is willing to take on a specific remit responsibility with regard to older children, our ability to deliver against this objective will be limited by the funds available, and in the first instance we will seek to meet this new requirement primarily online. A major investment in TV content for older children would require additional dedicated funds being made available. As a consequence, should public funding be made available for children's programming, Channel 4 would certainly consider applying for such funding.

¹⁶ Ofcom, *Public response to the DCMS consultation 'Sustainable independent and impartial news; in the Nations, locally and in the regions'*, September 2009, p 13

¹⁷ DCMS/BIS, *Digital Britain Final Report*, Cm 7650, June 2009, p 147

¹⁸ Ofcom, *Public response to the DCMS consultation 'Sustainable independent and impartial news; in the Nations, locally and in the regions'*, September 2009, p 13

Using licence fee revenue to sustain plurality

32. The Government proposes to use a “contained contestable element” of revenue generated by the television licence fee to support essential public service content priorities. The Government envisages that this element would be used primarily to provide funding for independent providers of news for the devolved nations and English regions, but it could also be used to sustain other priorities such as the provision of original content for older children.
33. The Government has rightly identified the views of audiences as a particularly important factor in this debate, and it commissioned research in August 2009 to investigate attitudes to supporting non-BBC regional news from the TV licence fee. The Government’s research demonstrated that nearly half of the audience (48%) are willing for a small part of the licence fee to be used to support certain at-risk types of public service content on channels other than the BBC. These programmes would include news, and possibly also UK-made documentaries, children’s programmes and quality dramas. By contrast, only a third of people (35%) thought the licence fee should be used exclusively for BBC content and services.¹⁹
34. The use of licence fee income to support public service content provision beyond the BBC also carries the support of a wide range of stakeholders. Ofcom, for example, argued in its second review of public service broadcasting that “any unused funds currently allocated towards switchover before 2012 and the licence fee switchover surplus after 2012 (if retained) are both credible funding options” for public service content.²⁰
35. Wider distribution of licence fee income to support public service plurality is also supported by MPs and peers from all main political parties. For example, in April 2009 the House of Commons Culture, Media and Sport Select Committee recommended to the Government that “a proportion of the licence fee should be made available to Channel 4, in order for it to sustain its public service programming”.²¹ In addition, the House of Lords Communications Committee also recommended the establishment of a contestable fund, financed by the licence fee, to support public service content provision beyond the BBC.²²
36. Channel 4 agrees that licence fee income is an appropriate source of funding for public service content provision beyond the BBC. Licence fee income is guaranteed to rise every year for the next four years, peaking at around £3.9 billion in 2012. By contrast, television advertising revenue is widely forecast to fall until 2011, potentially returning to growth in 2012/13—and will not return to historic levels due to the structural changes in the market. This year, licence fee income is forecast to grow by nearly 3%, while the television advertising market is forecast by independent analysts to be down at least 15%, resulting in an imbalance of around £1 billion developing next year.²³ Given the

¹⁹ DCMS, *Digital Britain: Attitudes to supporting non-BBC regional news from the TV licence fee*, September 2009, p 2

²⁰ Ofcom, *Second public service broadcasting review, Phase three: putting viewers first*, January 2009, p 12

²¹ Culture, Media and Sport Committee, Fifth Report of Session 2008–09, *BBC commercial operations*, HC 24, p 33

²² Select Committee on Communications, Second Report of Session 2008–09, *Public service broadcasting: short-term crisis, long-term future*, HL Paper 61, pp 17–18

²³ Channel 4 analysis

increasing and unintended funding imbalance, there is now the opportunity to rebalance the system and distribute licence fee income more fairly to support the wider provision of essential public service content areas that would not otherwise be funded.

Use of the contestable licence fee fund

37. The Government proposes that the use of any contained contestable element of licence fee income should be required to fall within the public purposes set out in the Royal Charter for the continuation of the BBC. These are:

- Sustaining citizenship and civil society;
- Promoting education and learning;
- Stimulating creativity and cultural excellence;
- Representing the UK, its nations, regions and communities;
- Brining the UK to the world and the world to the UK;
- In promoting its other purposes, helping to deliver to the public the benefit of emerging communications technologies and services and, in addition, taking a leading role in the switchover to digital television.

38. Channel 4 agrees that use of any contained contestable element of licence fee income should be focused on supporting wide public service objectives, as the overall aim of a fund is to sustain the plural provision of content from a range of providers. In this context, the public service objectives outlined in the BBC Charter represent a credible set of criteria for allocating public funds, as do the public service purposes and characteristics set out by Ofcom as part of its PSB review. Both sets of purposes are likely to evolve over time and there will be a need to ensure that any criteria against which the use of a contained contestable element is judged, are consistent with the forms of public service plurality sought.

Licence fee pilots

39. The Government intends to launch a series of pilot IFNCs to test the use of public funding to provide news for the devolved nations, English regions and more locally. The Government has identified that a contained contestable element of the licence fee could also potentially be used to sustain other essential public service content priorities such as “the provision of plural original content for children”.²⁴ Channel 4 notes that Save Kids’ TV has proposed that a pilot for a new cross-media children’s service should also be established.²⁵ Given the strong public support for, and falling levels of investment in, UK-produced children’s programmes, Channel 4 endorses the idea of some form of pilot to investigate the use of public funds to support children’s content.

40. Pilots will be the key mechanism for establishing the levels of public funding necessary to sustain news in the devolved nations, English regions and more locally. The pilots will also provide a key testing ground for how a contestability process might operate in practice, and will help gauge likely levels of interest

²⁴ DCMS, *Sustainable, independent and impartial news; in the Nations, locally and in the regions*, June 2009, p 10

²⁵ Save Kids’ TV, *Response to the DCMS consultation ‘Sustainable independent and impartial news; in the Nations, locally and in the regions’*, September 2009, p 24

from potential providers. In addition, pilots might also help assess the most cost effective way of providing and managing services. These questions are equally relevant for UK-produced children's content.

41. The Government has identified the projected under-spend in the Digital Switchover Targeted Help Scheme as the main funding source for the IFNC pilots. The BBC recently estimated that, over the life of digital switchover, between £200 million and £300 million could be available from the help scheme fund.²⁶ This suggests that, in the absence of major problems with the switchover programme in future, there will be a substantial amount of money available to pilot alternative public service delivery beyond IFNCs and the universal service fund.

Giving the BBC certainty

42. The BBC has raised a range of concerns about the Government's proposals to use licence fee income to sustain plurality. The BBC has suggested that distributing the licence fee more broadly would:

- Compromise the BBC's independence.
- Result in rising demands on licence fee payers to fund non-BBC projects.
- Damage BBC output.
- Reduce accountability to licence fee payers.
- Break the "clearly understood link" or "special relationship" between licence fee payers and the BBC.

43. Channel 4 agrees that the BBC needs to be sure of its independence and have a reasonable amount of certainty over its future funding levels. In any scenario, the BBC will continue to be the UK's primary provider of public service content in future, with licence fee income projected to grow to £3.9 billion by 2012. And through multi-year licence fee settlements, the BBC has certainty over its future income to a far greater degree than its commercial competitors, who have to rely on forecasts of a fluctuating advertising market.

Capping the contestable element

44. The Government has recognised the BBC's concerns about security and independence, and proposes to cap the maximum percentage of licence fee income that could be set aside as a contestable element. The Government envisages that the contestable element would be capped at a level broadly equal to the current switchover surplus—around £130 million or 3.5% per annum.

45. Channel 4 agrees that it is sensible to cap the proportion of licence fee income that can be used to finance public service content from providers other than the BBC. A cap would allay the BBC's concerns that a contained contestable element might in future lead to decreased funding for BBC services in future. This would mark a change from the current arrangements in the Agreement between the BBC and the Government, which allow the Secretary of State for Culture, Media and Sport to pay the BBC any amount less than the whole amount of net licence fee revenue. Channel 4 agrees that amendment to the BBC Agreement to cap this level would provide adequate protection for the BBC's future funding.

²⁶ Caroline Thomson, Speech to Westminster Media Forum Digital Britain Conference, July 2009

46. In terms of setting the cap, Channel 4 believes that the amount of the current switchover surplus should remain the working assumption for the level of the cap. Licence fee pilots for INFCs and children's content will provide a much fuller understanding of the levels of funding required to sustain public service plurality. It will of course be important to ensure the BBC has a reasonable amount of certainty over its funding, and in any scenario Channel 4 foresees the BBC as the recipient of the overwhelming majority of licence fee revenue. However, it will also be important to ensure that the contained contestable element is of sufficient scale to ensure that it can sustain essential public service content that achieves reach and impact: a key consideration if funding was not won by an established institution.

Accountability

47. Channel 4 agrees that it will be important to ensure that governance and accountability measures are put in place to guarantee proper scrutiny of any contestable fund. Channel 4 is confident that appropriate mechanisms could be established to protect funding recipients' editorial independence, while at the same time ensuring that public funds are spent accountably and in line with the public interest.

48. A contained contestable element could, compared to current arrangements, strengthen accountability and make clearer to licence fee payers where their money is being spent. The Government's research demonstrated relatively low understanding of what the licence fee is currently used for—with only 26% of people aware that an element of licence fee revenue is currently spent on the digital switchover help scheme. The Government's research also demonstrated that, while 77% of people think licence fee revenue funds BBC1 and BBC2, only 59% believe it funds the BBC's digital services and 50% its online services. A significant minority of people believed that the licence fee already funds commercial public service broadcasters.²⁷

49. The low levels of understanding of what the licence fee pays for suggests that wider distribution of the licence fee would not break any clearly understood link. In addition, the high level of audience willingness to distribute licence fee income beyond the BBC to sustain public service plurality—with the Government's research showing that 48% of the audience support this approach—indicates that the public is open to new funding arrangements.²⁸ The establishment of a contestable element of licence fee income could therefore provide an excellent opportunity to clarify and define to the public the content and services for which their licence fee pays.

Concluding comments

50. Channel 4's unique funding model—generating commercial income to fund public policy objectives—ensures that it is a highly efficient organisation. As a not-for-profit business, Channel 4 operates within a strict break-even budget and

²⁷ DCMS, *Digital Britain: Attitudes to supporting non-BBC regional news from the TV licence fee*, September 2009, p 2

²⁸ DCMS, *Digital Britain: Attitudes to supporting non-BBC regional news from the TV licence fee*, September 2009, p 2

is committed to generating the maximum possible amount of commercial revenue to invest in the delivery of its remit.

51. Commercial success and efficiency savings alone cannot compensate for the declining revenues caused by structural changes in the market. For several years, Channel 4 has been forecasting the financial pressures caused by digital switchover, and has consistently argued that historic levels of spending on public service content by the commercially-funded PSBs (primarily Channel 4 and ITV) will not be sustainable. This clearly does not mean that, without intervention, Channel 4 will deteriorate into a loss-making organisation—for the foreseeable future, Channel 4 will continue to be able to deliver significant public and economic value within a strict break-even budget.
52. However, what is at risk is the scale of creative and economic investment from public service broadcasters other than the BBC. Channel 4's preference has always been for a new form of indirect support (similar to the historic model in which analogue spectrum has performed this role) and it welcomes the Government's encouragement in Digital Britain for Channel 4 to pursue partnership conversations with the BBC and other commercial organisations.
53. It is clear that without additional, direct support historic levels of provision in certain essential genres of public service content will continue to diminish from providers other than the BBC. In this context, Channel 4 believes that a contestable licence fee fund should be made available for pilots for children's content, as well as for news for the devolved nations, English regions and more locally. The fund would be available to a wide range of providers, and would be allocated to the organisation best placed to deliver the public service content in question. In the absence of funding being made available, the BBC will inevitably become the monopoly supplier of content in a growing range of genres, which Channel 4 does not believe will be good for viewers, the wider production sector or indeed the BBC itself.

29 September 2009