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# Sustainable independent and impartial news; in the Nations, locally and in the regions

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This is a response to the above-named consultation. The Federation of Entertainment Unions (FEU) is concerned that a range of important options that would provide a sustainable future for independent and impartial news within a wider framework of Public Service Broadcasting (PSB) in the UK

In this response, the unions make the case for much more detailed exploration of PSB content funding models that are working in other countries.

It opposes top-slicing of the licence fee and outlines the reasons why industry levies may provide attractive and fair solutions to the problems created by the funding gap that is facing PSBs throughout the UK.

A response  
from the  
Federation of  
Entertainment  
Unions (FEU)

## ABOUT THE FEU.

The Federation of Entertainment Unions is a joint representative body that includes BECTU, Equity, The Musicians Union, the NUJ, the PFA, Unite and The Writers Guild of Great Britain. The FEU takes up issues that are of common interest among these unions and provides a response that is intended to raise the concerns of our 130,000+ members.

This number understates the contribution that our members make to the British economy. Our creative and cultural industries now make up over 7.3 per cent of the British economy. This is equivalent to the financial services contribution to the economy. More importantly, the sector is growing at twice the rate of the economy as a whole.

The FEU is the single largest representative body for people working in public service broadcasting. Our members are not only employees of public service broadcasters, they also work in the wider industries for whom Public Service Broadcasting is a vital cornerstone.

## DO YOU AGREE THAT SECURING PLURAL SOURCES OF IMPARTIAL NEWS FOR THE NATIONS, LOCALLY AND IN THE REGIONS SHOULD BE A KEY PRIORITY?

We believe that this is, indeed a priority. Regional news has been one of ITV's key roles since the company was established. We agree with the comments made by the select committee for Culture Media and Sport in its report into Public Service Content (Nov 2007) that *'in the interests of plurality it would be regrettable if regional news in any area were to become solely the preserve of the BBC.'*

We believe that, if anything, the current settlement reflects a market failure in which the ownership of most newspapers and TV channels is concentrated in the hands of a small number of media-owners.

When commercial media companies argue that the BBC should withdraw from the provision of certain forms of content because they make the market 'uncompetitive', we would argue that a false opposition has been created.

Local printed media with its high entry costs and strong economies of scale tends towards monopolies that secure their position by driving down prices. Government regulation has done little to hinder this. This has resulted in a market failure whereby the need to secure a monopoly drives out local players who would compete on quality as well as price.

In the UK, we now have a handful of media groups that offer a fairly low-level of editorial service, selling newspapers cheaply and handing the profits that accrue from their economies of scale over to their shareholders.

Our problem is that we have consolidated groups of local newspapers, and that suppliers who are prepared to meet a demand for news coverage from paying customers have been driven out of the market.

There is no evidence that reducing the BBC's presence in the marketplace would result in existing media companies behaving any differently. There is no evidence that they will suddenly begin to invest in independent news reporting.

In addition, there is little substance behind the assertion that the small number of dominant players in the marketplace for local news reporting represent a diverse or pluralistic voice – either culturally or politically.

**DO YOU AGREE THAT SUSTAINABLE, IMPARTIAL NEWS IN THE NATIONS, LOCALLY AND IN THE REGIONS IS LIKELY TO REQUIRE SOME TOP-UP PUBLIC FUNDING?**

There is a strong case to be made for funding to be made available to other media players, alongside the BBC, to support impartial news reporting in the Nations, locally and in the regions. There are a number of different options for providing this kind of funding that would not require any appropriation of the existing licence fee.

In answer to a later question in this consultation – *Are there alternative funding mechanisms that you believe would deliver the above objectives more effectively?* – we have provided a good deal of detail on what these mechanisms are.

Since 2007, ITV has cut regional news budgets and reduced / merged news regions. We agree that OfCOM, together with the government, should put a good deal of resources into identifying the potential for alternative forms of funding nations / regions news.

We are somewhat agnostic on how these funds should be distributed, though we would point out that ITN and Channel 4 have existing TV news operations that have historically had a high level of investment in training, infrastructure and formats. They also have a much better track record than any other UK channels in terms of the percentage of revenue that goes into actual content-generation.

The priority, however, should be to ensure that the majority of investment should go into frontline news provision as opposed to administration or shareholder dividends – and there is overwhelming evidence that existing PSB-related suppliers have a head-start in this respect.

We would suggest that these broadcasters would represent a much lower risk than untested providers if they were in receipt of such funding.

**DO YOU AGREE THAT THE TELEVISION LICENCE FEE SHOULD BE USED TO SUPPORT IMPARTIAL NEWS IN THE NATIONS, LOCALLY AND IN THE REGIONS IN ADDITION TO BBC SERVICES?**

The BBC remains the only major news source in the UK that has managed to retain a commitment to investment in news reporting. In terms of efficiency, funding the BBC is hugely more effective than funding other providers to do a similar job.

We would also question the impact that such government action would have over the BBC's independence. If it were within a government minister's gift to take Licence Fees away from the BBC and allocate them to other broadcasters, it could reduce the independence that the BBC has.

**DO YOU AGREE THAT ANY FUNDING WITHIN A CONTAINED CONTESTABLE ELEMENT OF THE TELEVISION LICENCE FEE NOT REQUIRED FOR IMPARTIAL NEWS SHOULD POTENTIALLY BE AVAILABLE TO FUND OTHER FORMS OF ESSENTIAL PUBLIC SERVICE CONTENT, OR SHOULD SUCH FUNDING BE LIMITED TO NEWS?**

We do not believe that such a contained contestable element of the TV licence fee is required. It is not the role of the government to dictate how the BBC arranges its priorities, and any 'top-slicing' of the licence fee would

result in much less efficient methods of news gathering and reporting being employed. There is no evidence that any such provision would increase the quantity, quality, diversity or pluralism of news coverage.

## ARE THERE ALTERNATIVE FUNDING MECHANISMS THAT YOU BELIEVE WOULD DELIVER THE ABOVE OBJECTIVES MORE EFFECTIVELY?

Yes. Industry levies provide a win-win alternative to top-slicing. This is a very underexploited opportunity and one that represents additional funding instead of a reallocation of a dwindling pie.

Nothing proposed here should be understood as a request to divert any monies that already are given to rights holders and individual creators. For example, we would object to levies on consumer hardware that would fund public service broadcasters to the exclusion of levies that are intended to provide income to the creators and performers, such as European private copy levies. This is an important caveat to what follows as our objective here is to *increase* the size of the revenue that goes to creators and to ensure that PSB thrives in a diverse economy that also supports individual creatives.

Firstly, we need to recognise that this issue is overwhelmingly a political one. This issue would not be raised in this way if the industry wasn't one in which powerful media interests didn't have a direct financial stake. Under normal circumstances, the structural contribution that PSBs make to the UK economy would be very apparent, and many of the measures that are proposed here would be very well received. The proposals that we are advancing – below – are deemed to be problematic, not because of the economics or the practicality of them, but because they are objectionable to a small number of media owners who exercise enormous political influence in the UK. This is a separate issue, but there is an irony in such publishers exercising a veto over solutions that would, in turn, guarantee a more diverse and pluralistic news media.

OfCOM's research into this matter – Putting Viewers First<sup>1</sup> showcased public opinion research that showed a stronger support for industry levies than for any other option for funding Public Service Broadcasters. This quote from that document underlines this:

*5.53: "In our phase 2 research consumers found an industry levy to be the most acceptable of the potential new sources of funding. In the consultation responses, support for an industry levy was more mixed."*

This can be accurately paraphrased thus: "The public are more open to levies than any alternative proposal. Some sections of the industry are not. We will therefore shelve this idea."

This consultation is – at least in part – the symptom of regulators who are unwilling to adopt popular options that have strong economic arguments supporting them.

### **Perspective: A small sum of money to solve a big problem**

Let us get the scale of the problem in perspective here. The total revenue of the consumer telecoms and technology industries – including fixed and mobile telephony and broadband, internet advertising and hardware sales – is very significantly larger than broadcasting.

The total revenue from the 'broadcasting universe' in the UK (TV, pay-TV and radio) was £12.4 billion in 2007.

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<sup>1</sup> [http://www.ofcom.org.uk/consult/condocs/psb2\\_phase2/statement/psb2statement.pdf](http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement/psb2statement.pdf)

In 2007, the total revenue of customer telecoms and ISP providers just from the provision of communication capacity was £27 billion – more than twice as much as broadcasting. In addition, 2007 saw a massive £15-20 billion being spent on communications hardware.

As an appendix to that observation, we should look at the importance of high-quality public service content in driving up the demand for this connectivity and these expensive bits of hardware. It is also public service broadcasters who are generating a substantial proportion of the content and formats that are contributing so generously to the UK's balance of payments. Though the UK only represents 6% of the global content market, it currently exports over 53% of the world's TV format hours.

Given what is at stake – the need to drive demand for broadband and for hardware, as well as the need to ensure that the UK's exports of content and formats remains healthy – the cost is very small. We are looking around for ways to fill an estimated funding gap of around £375m – in order to sustain an industry that is the cornerstone of massive profits for broadband providers, hardware manufacturers, and – let us not forget – the pay-TV operators that need PSB channels included on their platforms to ensure their continued growth. All of these observations come before we even discuss the huge advantage that Public Service Broadcasters offer in terms of catering for pluralism, diversity and high-quality reporting.

#### **Top-slicing and efficiency: A non-sequitur**

The whole debate around BBC funding seems to be ignore a key point. That in the provision of news and current affairs programming – as with other types of programming – the BBC offers an extraordinarily efficient means of providing this. If money were taken from the licence fee and given to other news providers to spend, there is overwhelming evidence that it would be spent in a significantly less efficient way. To give this licence fee money to another provider, it would involve taking it off a broadcaster that can efficiently produce quality programmes, in order to give it to broadcasters that will not deliver anything comparable in terms of either quality or quantity.

The BBC is massively more efficient than its commercial rivals in terms of 'cost-per-hour' of programming. As Prof. Patrick Barwise of London Business School has argued<sup>2</sup>. To put this in perspective, even though ITV is suffering a slump in advertising revenues, it actually receives more revenue than the portion of the licence fee that goes to BBC TV. Traditional PSBs are responsible for over 90% of the investment in UK originated content. The new multi-channel platforms that receive 2/3rds of the revenue that comes into UK TV and internet platforms contribute less than 10% of UK original programme spend. The BBC is more efficient than ITV. PSBs are *very significantly* more efficient than commercial multi-channel companies.

#### **Solving the problem of copyright collection**

Many of the problems that we are concerned with here would be solved if we could ensure that the people who originate original content could actually collect as much content-licensing revenue that is fair and practicable. Paid-for subscriptions or pay Video-On-Demand have shown themselves to be – at best – unproven alternatives to a compulsory licence fee. Advertising revenues are falling. There is plainly a political reluctance to increase the licence fee. The optimal solution is, surely, to find other intelligent means of collection based upon usage. Means that would actually add to the sum of revenue rather than looking for ways to spread the existing monies more thinly.

For this reason, the FEU are advocating new levy-based forms of funding. Top-slicing reflects a political desperation to pick the pocket of the only successful funding solution in order to avoid this question. It is only reasonable that content producers should be able to collect revenues when their content is used. The music

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<sup>2</sup> <http://www.bectu.org.uk/filegrab/NewFormsofFundingforPSBbyProfessorPatrickBarwiseFEU22.6.09.doc?ref=310>

industry is often berated for their slowness to adapt their business model to reflect the way that the public consume music, or their ability to deal with online piracy – yet the PRS and MCPS ‘blanket’ fees are a very effective way of collecting for the use of licensed content. It is time that our most culturally and economically important industry did the same, allowing news content consumers to benefit in terms of quality, diversity and pluralism.

#### **Looking to Europe – recording equipment levy**

The kind of solutions that the FEU is advocating are neither original or untested. We seem to either look at existing UK solutions or options that are framed by the US market – a parochial position for a cosmopolitan industry. For instance, almost every country in Europe applies a small levy to recording equipment. Outside of the UK and Ireland, the only EU countries that fail to do so would probably be too small to administer one (Luxembourg, Malta and Cyprus).

As more usable Personal Video Recorder (PVR) devices come onto the market (Sky +, Humax recorders for Freeview and Freesat, etc), viewers are able to add value to scheduled content by time-shifting it. In addition, the ability to scroll through commercial breaks is very popular, thereby reducing the attractiveness (and revenues) of spot advertising. Consumers are beginning to extract more utility value out of recording than they ever have done before.

These digital recorders represent a huge growth industry. The quality and specifications are improving rapidly and the prices are falling. Oliver & Ohlbaum estimate that the current 20% of households with such devices will grow to 75% in 2013. Typically in EU countries, this means at £10-20 charge on the purchase of a recording device. Oliver and Ohlbaum’s estimates suggest that this could raise 176 million in the UK by 2010 and over £200m per annum by 2015.

The strongest argument that has been put against this option is that licence payers have already paid for BBC content already – why should they pay for it again? In reality, licence fee payers have only paid for scheduled broadcasts and iPlayer options. Millions of licence-fee payers buy DVDs every year containing re-licensed BBC content. Allowing viewers to store content on PVRs without any cost will also damage PSB content sales on DVD unless the steps here are taken.

#### **Looking to Europe – re-transmission of PSB content**

The take-up of new digital services such as PayTV and broadband has been driven, substantially, by the content of PSBs. The BBC’s iPlayer has made broadband considerably more attractive. BSkyB’s pay TV platform would have struggled to achieve anything like the take-up that it currently enjoys if it hadn’t been able to also carry the main PSB channels – indeed, most of the users of BSkyB’s platform spend most of their time watching the main PSB channels. It is surely a time for PSBs to be able to charge other carriers for ‘retransmission rights’ – currently, PSBs even have to pay to be carried by some PayTV platforms. The UK is almost unique within the EU in not offering this.

Subscription revenue now exceeds advertising revenue – up 6% to £4.3billion in 2007 from over 9million BSkyB subscribers and over 3.5million virgin subscribers. These platforms – largely driven by their ability to serve up PSB’s content – are doing so at the expense of commercial PSBs. A 1% levy on these broadcasters would raise over £70m for UK PSBs.

#### **Broadband levies**

There can be no question that the huge contribution that PSBs make to the quality of web content that is available to UK web users is responsible for a good deal of the take-up of broadband services. Huge profits are being generated by broadband providers, at least partially, by the public’s demand to watch PSB’s content

over their infrastructure. Despite this huge consumer expenditure on these communications channels, they make a tiny contribution to the content that they carry.

They are benefitting massively from PSB content without contributing to it. The public are clearly prepared to pay sums that rival the licence fee with broadband providers just so that they can watch PSB content in different formats. 14.2 million households now have broadband connections with substantial monthly fees. In France, President Sarkozy has removed advertising from PSBs and replaced their revenues with levies on ISPs and telephone operators raising €800m to allow this to happen. An annual flat-rate £5 fee per broadband subscriber would raise 71million per annum in the UK. A 1% levy on mobile phone operators in the UK would raise £208m. This would be a very small imposition that would result in very substantial benefits.

### **Internet advertising**

In many respects, it could be argued that search engines help to drive up advertising revenues to public service broadcasters by driving traffic to them. But PSBs fund a huge amount of the content that funds this – and search engine profits are very large by comparison. Only a tiny fraction of the revenue that is generated by advertising on search engines reaches the providers of content (as opposed to commercial services) that drive the take-up of web-services.

Online display advertising for content-owners raises a tiny fraction of that earned by search engines. The search market has one highly dominant player in Google, and as such, a diffuse group of content providers are in a highly unequal relationship. Until this issue is addressed, content producers will suffer massive handicaps in raising revenues from search engines. In the meantime, there is clearly a justification for charging a fee to search engines for accessing copyright content.

### **The cost of ducking the opportunities offered by levies**

PSBs make a massive contribution to the quality of content that is available to UK citizens. Huge revenues are being made by Pay-TV operators, ISPs and consumer hardware manufacturers. All of these revenues are driven (in some cases, dominated) by consumers' desire to watch PSB content on new platforms. Added to the advertising income made by non-PSB commercial broadcasters, these revenues dwarf those of PSBs. Yet PSBs are responsible for 90% of the UK originated content that is available on our screens.

These economic arguments should not be allowed to eclipse the fact that PSBs also provide a level of pluralism, diversity and commercial independence that the UK media is even less willing to provide than it used to be. In the UK, the quality and quantity of local newspapers is tumbling with many local authorities feeling that they have no option but to provide local news themselves. TV stations are cancelling news programmes from their schedules and running the ones that remain on a shoestring. This market failure is potentially disastrous for our democracy. The decline of investment in news reporting and investigative journalism have failed our consumers who have a right to expect diligent investigations of commercial suppliers. It has also had a clear impact upon the quality of policymaking in the UK, and the failure to hold the finance sector, or commercial companies like Metronet to account must – at least in part – be borne by the policymakers that have allowed our journalism base to wither in the way that it has.

Each of the solutions that we have proposed here are, to some extent, politically problematic. But it is an indictment of our public policy processes that our content-related industries are mushrooming in size while the revenues available to content creators is tumbling. It is a betrayal of our obligation to ensure that we have a pluralistic, diverse and independent news media. Ironically, we have allowed media owners that occupy near-monopoly positions within the news media to exercise effective vetoes over many of these options. With even OfCOM allowing political considerations to rule out any further investigation into the policy options that are most welcomed by consumers, it is important that the DCMS and BIS should look into the proposals listed in this document in more detail.

These options not only hold out the possibility that they could plug the funding gap that is emerging: They could also provide a base to grow PSBs as a contributor to the UK economy – jobs and exports. Any government that wants to increase the take up of new digital channels should be ensuring that we are making more public service-standard content – not less.

**DO YOU AGREE WITH THE PROPOSAL TO SET A MAXIMUM PERCENTAGE OF TELEVISION LICENCE FEE REVENUE WHICH COULD BE SET ASIDE AS A CONTAINED CONTESTABLE ELEMENT?**

We do not agree with any proposal for a ‘contained contestable element’ for the reasons set out above.

**DO YOU AGREE THAT AMENDING THE BBC AGREEMENT COULD PROVIDE THE NECESSARY PROTECTION TO THE BBCS FUTURE FUNDING AND INDEPENDENCE?**

We do not. We also do not believe that this is the appropriate time to discuss this question. The BBC’s independence from government is an important one, one that deserves extensive consideration on its own. The current BBC charter came into effect in 2007 and the appropriate time to discuss this – involving Parliament to the fullest extent – is the next Charter Renewal Process.

Any such move by a particular government would damage the high level of trust that the BBC is held in.

**DO YOU AGREE THAT THE USE OF ANY CONTAINED CONTESTABLE ELEMENT WITHIN THE TELEVISION LICENCE FEE SHOULD BE RESTRICTED TO THE PUBLIC PURPOSES SET OUT IN THE BBC CHARTER?**

We do not agree with any proposal for a ‘contained contestable element’.

**HOW TO CONTACT THE FEU**

If any further information on the FEU, or on this consultation is required, in the first instance, please contact Paul Evans, Secretary and Coordinator - Federation of Entertainment Unions.

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