

## ITV plc

### Response to the DCMS Consultation on Sustainable Independent and Impartial News: in the Nations, locally and in the regions

#### **Executive Summary**

ITV plc welcomes this opportunity to respond to the consultation following proposals in the Digital Britain White Paper ('Digital Britain') to create sustainable, independent and impartial news services beyond the BBC in the Nations and regions of the UK.

Digital Britain represents the first really coherent government statement about what needs to happen to take Britain from the analogue to the digital age, spanning content, networks, digital literacy and piracy. It recognises formally that the old analogue regulatory framework has to go.

Underlying a number of the Government's policy proposals in the final Digital Britain report is a clear recognition of the strong case for the progressive liberalisation of the Channel 3 licensees to enable ITV to become a fully commercial network serving the interests of its shareholders whilst continuing to deliver a focussed, sustainable public service commitment centred on original production and news. We strongly endorse this approach and are willing to play a supportive role in solving the issue of nations and regions news.

In this context, the proposal for IFNC's is an imaginative, ground breaking policy proposal to bring a new approach to local and regional news in the UK and is one which ITV has consistently supported as an appropriate successor to ITV's current high quality, successful regional news offering. This response addresses important practical issues around implementation which we are keen to resolve rather than points of principle.

In this response we seek to make six main points:

1. It is in the public interest that in future the costs of ITV's PSB licences should not exceed the benefits of those licences and we welcome the consensus on this issue.
2. It is clear that there is an increasingly material gap between the costs and benefits of ITV's PSB licences from the beginning of 2011 and this analysis is endorsed by Ofcom.
3. ITV is entirely supportive of IFNCS in Wales (and Scotland – though this is not an ITV plc region) beginning in 2010 and will make slots available in the ITV1 schedule for the successful consortium in Wales. We believe that a binding commitment to such implementation should be made as soon as possible facilitated by enabling legislation, if required, in the Digital Economy Bill.
4. The position in the English regions is not so clear cut. ITV remains supportive of the **full** roll out of IFNC's in the English regions in 2010 with a fully competitive tender process for a single main contractor. Again, we believe that a binding commitment to such implementation should be made as soon as possible facilitated by enabling legislation, if required, in the Digital Economy Bill.
5. However, the current piecemeal implementation plan for IFNCs in the English regions is unlikely to deliver an efficient, high quality service to compete effectively with that of the BBC and will not balance ITV's PSB licences in the short to medium term. Ultimately, if it is not possible to expedite the full introduction of the IFNC proposal in

the English regions with one contest for a Master Contractor in 2010, some other route will need to be found to ensure the survival of regional news in the English regions more rapidly than is currently proposed. In this context ITV is keen to continue a constructive dialogue with Ofcom and Government in relation to potential solutions.

6. ITV's support for the IFNC proposal is contingent on additional advertising minutage on ITV not forming part of the solution to the future funding of regional news since it would reduce the existing advertising revenues of ITV1 (and all commercial broadcasters) and the regional press.

We address each of these points in turn below.

1. *It is in the public interest that the costs of ITV's PSB licences should not exceed the benefits of those licences and we welcome the consensus on this issue*

Throughout the current review of Public Service Broadcasting, ITV has made clear that its overriding priority is a new regulatory structure, appropriate to the digital age, in which the costs and benefits of the Channel 3 PSB licences are balanced and ITV remains incentivised to continue to hold its licences in the public interest. Accordingly, the Government is right to recognise in Digital Britain that there will need to be adjustment to ITV's PSB obligations up to and beyond DSO in line with the diminishing value of the licences. We appreciate the steps government and Ofcom are already making in this direction.

Indeed, in view of the government's very clear position on the viability of ITV's PSB licences, ITV believes that it would be in the public interest for the inclusion in the Digital Economy Bill of a new statutory duty on Ofcom to ensure that ITV's PSB licences balance cost and benefit. This would provide reassurance that whoever ran ITV the public could be confident that it would continue to be in the economic interests of the company to hold the PSB licences thereby ensuring the provision of much of the UK's most popular television content to the whole of the UK on PSB DTT capacity reaching 98.5% of the population. As Ofcom note in their response to the current consultation:

*"we believe it is desirable to take steps to avoid licence hand back where there are undesirable policy consequences" (page 9)*

2. *It is clear that there is an increasingly material gap between the costs and benefits of ITV's PSB licences from the beginning of 2011 and this analysis is endorsed by Ofcom.*

In making decisions about what PSB contribution it is realistic to expect ITV to provide it is important to have as robust and accurate an assessment as is possible of the costs and benefits of PSB status for ITV over time. This will ensure that any future PSB role for ITV is rooted in the real economics of the PSB licences. In order to establish the value of the PSB licences in 2007 ITV commissioned a sophisticated model of the current and future economics of those licences which we have continued to update. Moreover, in addition to having a detailed and lengthy dialogue with Ofcom about the modelling of licence value, we have also given Ofcom complete access to the model, including to the underlying assumptions.

We set out below the summary of the cost benefit analysis of ITV's PSB licences over the years 2009-2014:

PSB costs to ITV (£m)	2008	2009	2010	2011	2012	2013	2014
<b>Total costs</b>	<b>201.7</b>	<b>143.0</b>	<b>129.4</b>	<b>120.8</b>	<b>119.8</b>	<b>120.4</b>	<b>123.1</b>
<b>PSB benefits to ITV (£m)</b>							
<b>Total benefits</b>	<b>232.2</b>	<b>155.5</b>	<b>123.2</b>	<b>76.5</b>	<b>42.6</b>	<b>38.8</b>	<b>40.3</b>
<b>Value (benefits burdens)</b>	<b>30.5</b>	<b>12.5</b>	<b>(6.2)</b>	<b>(44.3)</b>	<b>(77.2)</b>	<b>(81.6)</b>	<b>(82.9)</b>

Ofcom has confirmed to ITV that, after a lengthy dialogue (in the course of which ITV made adjustments to its approach and assumptions in some areas), they regard our analysis of costs and benefits as reasonable. Ofcom's own analysis, submitted to DCMS as part of the response to the current consultation, also shows an increasingly serious deficit in the Channel 3 licences from 2011. The only areas of difference between ITV and Ofcom on the PSB cost benefit figures concern:

1. the subsidy from ITV plc to the Non-consolidated licensees, where we recognise that Ofcom is not in a position to give a final view on the issue pending the outcome of the 2009 Networking Arrangements Review which is looking at this issue and is underway;
2. the decision by Ofcom that a 25% independent quota is an obligation that ITV would meet in any event and which therefore does not impose an opportunity cost on ITV. On this point Ofcom is seeking both to argue that the quota would be fulfilled at its current level without compulsion and yet at the same time maintaining that compulsion is still required i.e. that the quota should be maintained at 25%. ITV continues to believe that the quota does impose a PSB cost on ITV. If this is not the case, then the only appropriate action on the part of government would be eliminate an unnecessary piece of regulation via a reduction of the independent quota to the minimum statutory level.

Ultimately regional news remains by far the greatest of ITV's PSB costs. Accordingly, ITV welcomes the Government's proposals to fund publicly the provision of news in the nations and regions of the UK, carried on Channel 3.

3. *ITV is entirely supportive of IFNCS in Wales (and Scotland – though this is not an ITV plc region) beginning in 2010 and will make slots available in the ITV1 schedule for the successful consortium in Wales. We believe that a binding commitment to such implementation should be made as soon as possible facilitated by enabling legislation, if required, in the Digital Economy Bill.*

We welcome the Government's recognition of the need for public funding of nations and regions news before 2013 and in particular the proposal for pilot IFNCs aiming to begin in 2010 in Scotland and Wales. The proposal for IFNCs is an imaginative, ground breaking policy proposal to bring a new approach to nations and regions news in the UK and is one which ITV continues to support through the offer of slots in the ITV schedule for the carriage of the IFNC produced services.

It seems unarguable to ITV that, as a minimum, there is a case for public funding of news in the nations of the UK to compete with the BBC. In particular,

- Devolution has created a clear need for a serious extended nightly bulletin in each nation.

- Ofcom’s research for the PSB review showed the highest levels of support for nations news and for plurality in its supply (compared for instance to the English regions).
- The financial need is particularly pressing given that the Channel 3 licences in the nations are in an even worse position than at least some of those in the English regions.
- The current subsidy by ITV plc to the Non-consolidated Channel 3 licensees is unsustainable as a means of enabling the NCLs to provide their news services.

Clearly, however, the public funding of an IFNC in Wales (the relevant ITV plc nations licence) from 2010 will not by itself ensure that ITV’s PSB licences balance in 2011 and 2012.

4. *The position in the English regions is not so clear cut. ITV remains supportive of the full roll out of IFNC’s in the English regions in 2010 with a fully competitive tender process for a single main contractor. Again we believe that a binding commitment to such implementation should be made as soon as possible facilitated by enabling legislation, if required, in the Digital Economy Bill.*

ITV also recognises the significant level of public support in the English regions for the continuation of regional news highlighted most recently in both the Ofcom and DCMS market research. In this context, ITV is fully supportive of a **full** roll out of IFNCs in the English regions in 2010 with a single fully competitive tender for a so-called “Master Contractor”.

In our most recent submissions on regional news/PSB, including the joint ITV/OC&C study on implementing IFNC’s submitted to Ofcom and government in April 2009, ITV has made clear its support for a single English regions competition in 2010 for a co-ordinating “Master Contractor” as the only practical way to implement IFNCs. Our proposal is that in the English regions (as in each nation) there would be a single overarching contractor – a Master Contractor-- with whom ITV and Ofcom would deal and who would be ultimately responsible for delivering the IFNC contract. It would be the responsibility of the Master Contractor to co-ordinate the provision of the service to ensure, as a minimum, that the service across each nation was high quality, attractive to viewers and compliant.

At the same time of course, it would be vital that the putative Master Contractors are explicitly incentivised by bid conditions to demonstrate local focus and commitment. This might be demonstrated, for example, by investment in/maintenance of news hubs in localities around England and/or through sub-contracting parts of the provision of the service to others whilst still ensuring appropriate levels of co-ordination and quality assurance. There are very significant advantages for viewers, tax/licence fee payers, ITV and Ofcom in only holding one contest for a single Master Contractor for the news services in England:

- to ensure a smooth transition from one set of regional news arrangements to another preventing the development of different tiers of service in different English regions between 2011-2013. This will ensure continuity for the audience wherever they live in England;
- to ensure a common approach across the English regions to key issues such as quality, reliability, technical competence, fit with ITV1 audience expectations etc which are vital in maintaining the audience appeal of the service;
- to create synergies and reduce the risk of having to fund multiple sets of overheads in each region thus maximising the amount of public money spent on screen not on overheads;

- to minimise the transaction time and costs of 8 or more separate tenders for relatively small value English regions news services as well as minimising the on-going co-ordination problems for ITV of managing 8 or more different English regions services from different providers;
- to maintain schedule flexibility for ITV given the risk (on a region by region approach) of a requirement to negotiate and agree changes with multiple suppliers. Scheduling flexibility has always been a condition of participation for ITV; and
- to avoid the serious risk that a trial contract for a single English region in effect locks in the pattern of subsequent tenders in the English regions because of a contract duration to 2014.
- to avoid the sheer practical difficulty of attempting to create a single seamless offer in the schedule from separate simultaneous live programmes from a different provider in each English region.

The final important advantage of a single implementation of the IFNC scheme in the English regions in 2010 is that it would place beyond doubt the future economics of the Channel 3 licences to 2014 ensuring that whoever ran ITV would have a clear economic incentive to retain the PSB licences broadcasting to 98.5% of the population.

5. However, the current piecemeal implementation plan for IFNCs in the English regions is unlikely to deliver an efficient, high quality service to compete effectively with that of the BBC and will not balance ITV's PSB licences in the short to medium term. Ultimately, if it is not possible to expedite the full introduction of the IFNC proposal in the English regions with one contest for a Master Contractor in 2010, some other route will need to be found to ensure the survival of regional news in the English regions more rapidly than is currently proposed. In this context ITV is keen to continue a constructive dialogue with Ofcom and Government in relation to potential solutions.

By contrast, however, the current proposed partial introduction of IFNCs in only one English region in 2010 does not go far enough, soon enough, to be a solution to the problem of the continued provision of an attractive and efficient nations and regions news service given ITV's future licence economics. As Ofcom's analysis in the PSB Review (recently updated by Ofcom for the purposes of the current consultation) anticipated, the pressures on ITV's licences are such that the timetable and staged introduction of IFNCs as currently proposed, will cause ITV considerable difficulties. Moreover, the proposed piecemeal implementation of IFNCs in the English regions will have none of the advantages for viewers or tax/licence fee payers of the single tender for a master contractor described above.

The two key issues raised by the current proposed partial implementation of IFNCs are:

- First, the IFNCs in Wales and one English region in 2011 and 2012 would save ITV around £10m. Even if ITV's licence payments are abolished in their entirety from 2010 (following the impending Ofcom review) which is far from certain, a partial IFNC implementation will be far from sufficient to ensure that the cost and benefit of ITV's PSB licences balance in those years something which is confirmed in Ofcom's own response to the current consultation. The assumption that the costs and benefits of ITV's licences will balance in future underwrites ITV's commitment to make available slots in its schedule to accommodate the English and Welsh IFNC produced news services.

- Secondly, a trial IFNC implementation in **only one** English region in 2011 and 2012 (followed presumably by a region by region roll out of IFNCs in the English regions in 2013) are likely to prove much less workable as well as more bureaucratic and more expensive. It will also result in an uneven and less attractive service for viewers than a full IFNC roll out in the English regions in 2010 with a single tender for a Master Contractor to oversee the provision of the English regions service.

Accordingly, there is clearly a challenge in the English regions to devise future arrangements for IFNCs that can deliver a high quality, efficient service as well as giving ITV the reassurance it needs that the costs and benefits of its licences will balance over the next few years.

Pressing ahead with a partial roll out of IFNCs in the English regions risks perhaps the worst outcome from the present process— namely that the proposed trial in an English region is launched but is followed either by (a) implementation elsewhere region by region in 2013 resulting in the patchwork quilt of services the disadvantages of which are set out above or (b) is not followed up at all after the general election with the trial contracted to 2014 with messy alternative arrangements built around it in other regions resulting in a highly unsatisfactory two tier offering to viewers on ITV1 in England. Neither of these outcomes would seem to be in the public interest.

In this context ITV is keen to continue a constructive dialogue with Ofcom and Government in relation to potential solutions.

6. ITV's support for the IFNC proposal is contingent on additional advertising minutage on ITV not forming part of the solution to the future funding of regional news since it would reduce the existing advertising revenues of ITV1 (and all commercial broadcasters) and the regional press.

Finally, whatever solution is chosen for the future of nations and regions news, ITV does not believe that it is reasonable to suppose that there are substantial sums of alternative commercial revenue which might reduce substantially the need for public funding for a nations and regions news service without creating serious consequences elsewhere. Of course, it may be that a master contractor and its venture partners are able to find synergies and cost savings with existing regional news activity which might reduce the amount of public subsidy required but the opportunity for incremental revenue from the provision of nations and regions news programming to ITV is very limited.

In particular, we believe that additional advertising minutage should not be part of the solution to the future funding of regional news. Additional minutage could raise some revenue for the regional news provider, but this revenue would be very limited and it would cannibalise the existing advertising revenues of ITV1 (and all commercial broadcasters) and the regional press. Indeed, any proposal for extra minutage would be self-defeating, since it would in effect be top slicing of ITV (and quite possibly of the regional press).

## Consultation Questions

### **1. Do you agree that securing plural sources of impartial news for the nations, locally and in the regions should be a key priority?**

In general this issue is a matter of public policy which is best determined by the public and their elected representatives rather than commercial businesses such as ITV. However, it seems unarguable to ITV that, as a minimum, there is a case for public funding of news in the nations of the UK to compete with the BBC. In particular:

- Devolution has created a clear need for a serious extended nightly bulletin in each nation.
- Ofcom's research for the PSB review showed the highest levels of support for nations news and for plurality in its supply (compared for instance to the English regions).
- The financial need is particularly pressing given that the Channel 3 licences in the nations are in an even worse position than at least some of those in the English regions.
- The current subsidy by ITV plc to the Non-consolidated Channel 3 licensees is unsustainable as a means of enabling the NCLs to provide their news services.

The position in the English regions is perhaps a little less clear cut and it does appear from Ofcom's own research for the PSB Review that opinions within England toward regional news vary considerably, particularly compared to opinion in the nations. In this context, whilst Ofcom's research showed high levels of support for regional news overall it did show slightly less support for plurality of supply in regional news in England compared to the other nations of the UK. Nonetheless, in absolute terms the support for plurality of supply of regional news in England was still very significant.

### **2. Do you agree that sustainable, impartial news in the Nations, locally and in the regions is likely to require some top-up public funding?**

In view of the significant PSB cost of nations and regions news, ITV welcomes the government's constructive proposals to continue to publicly fund the provision of news in the nations and regions of the UK, carried on Channel 3 from 2013. In addition, we also welcome the government's recognition of the need for public funding of nations and regions news before 2013 with the proposal for pilot IFNCs aiming to begin in 2010 in Scotland and Wales. More generally, the proposal for IFNC's is an imaginative, ground breaking, policy proposal to bring a new approach to local and regional news in the UK and is one which ITV has consistently supported as an appropriate successor to ITV's current high quality, successful regional news offering.

For the reasons set out above, we believe that the case for implementing the IFNC proposal in Scotland and Wales as soon as possible in 2010 is unarguable.

However, whilst warmly welcoming the government's proposed approach in relation to the implementation prior to 2013 we have two key concerns over the timing and approach to this initial phase of implementation. These concerns are:

- The partial implementation of IFNCs (in Scotland, Wales and an English region only) in 2011 and 2012 will be far from sufficient to ensure that the cost and benefit of ITV's PSB licences balance. The balancing of the costs and benefits of ITV's licences has always been the critical component of ITV's support for any future PSB role for Channel 3 and underlies ITV's commitment to make available slots in its schedule to accommodate the English and Welsh IFNC produced news services; and
- A trial IFNC implementation in only one English region in 2011 and 2012 (followed presumably by a region by region roll out of IFNCs in the English regions in 2013) are likely to prove much less workable as well as more bureaucratic and more expensive with greater uncertainty over the quality of service for viewers than a full IFNC roll out in the English regions from the beginning of 2011 with a single master contractor.

We deal with these concerns in turn below.

### The Economics of ITV's PSB licences in 2011 and 2012

In a number of submissions to government and Ofcom over the past 18 months ITV has made clear that its overriding priority is to be free from analogue regulation with sustainable PSB licences which, through balancing cost and benefit, continue to incentivise ITV to hold the licences in the public interest. This continues to be an overriding concern for ITV and our support for new approaches to the provision of nations and regions news on Channel 3 (via slots in ITV's schedule) is contingent on the costs and benefits of ITV's licences at least balancing out.

In this context we have been encouraged by the recognition by government, in the final Digital Britain report, of the strong case for the liberalisation of the Channel 3 licensees so that we can move towards becoming a fully commercial network serving the interests of our shareholders whilst continuing to deliver a focussed, sustainable public service commitment centred on original production and news. In particular, the government recognises that there may well need to be adjustment to ITV's PSB obligations up to and beyond DSO in line with the diminishing value of the licences, and we appreciate the steps government and Ofcom are already making in this direction of which the proposal for a trial of IFNCs are part.

Indeed, in view of the government's very clear position on the viability of ITV's PSB licences, ITV believes that it would be in the public interest for the inclusion in the Digital Economy Bill of a new statutory duty on Ofcom to ensure that ITV's PSB licences balance cost and benefit. This would provide reassurance that whoever ran ITV the public could be confident that it would continue to be in the economic interests of the company to hold the PSB licences thereby ensuring the provision of much of the UK's most popular television content to the whole of the UK on PSB DTT capacity reaching 98.5% of the population.

Against this backdrop, and in order to ensure a sound economic basis for decision making, over the past 18 months or so ITV has had an extensive and detailed dialogue with Ofcom in relation to the future costs and benefits of ITV's PSB licences. In order to establish the value of the licences ITV commissioned a very sophisticated model of the current and future economics of the PSB licences which we have continued to update. In addition to the detailed dialogue with Ofcom we have also given them complete access to the model including to the underlying assumptions. Following detailed scrutiny by Ofcom we have also made a number of changes to parts of the model and to the underlying assumptions.

Whilst precision in future predictions is clearly difficult, Ofcom has confirmed to ITV that, after a lengthy dialogue, it regards our analysis of costs and benefits as reasonable. The only areas of difference between ITV and Ofcom on the PSB cost benefit figures concern:

(a) the subsidy from ITV plc to the Non-consolidated licensees where we recognise that Ofcom is not in a position to give a final view on the issue pending the outcome of the 2009 Networking Arrangements Review which is looking at this issue and is underway;

(b) the decision by Ofcom that a 25% independent quota is an obligation that ITV would meet in any event and which therefore does not impose an opportunity cost on ITV. On this point we are concerned that Ofcom is seeking both to argue that the quota would be fulfilled at its current level without compulsion and yet at the same time to argue that compulsion is still required i.e. that the quota should be maintained at 25%. ITV continues to believe that even at 25% the quota does impose a PSB cost on ITV though if this is not the case then the only appropriate action on the part of government would be eliminate an unnecessary piece of regulation via a reduction of the independent quota to 15% or lower.

As can be seen from the table below, which summarises the overall cost benefit position for ITV's PSB licences, it is clear that they will be significantly in deficit in 2011 and 2012 and Ofcom itself has highlighted this issue in its own response to the current consultation saying that:

*“there are likely to be transitional financial issues for the Channel 3 licensees until the funding for a full roll out of news consortia is secured”.*(Ofcom response p11)

Against this backdrop, even assuming:

- that no licence fees are payable at all from 2010 (following Ofcom's review of our licence payments which will begin imminently) saving ITV around £7.3m in 2011 and
- the public funding of an IFNC news service in Wales and a service in one English region in 2011 and 2012 (relieving us of PSB costs of around £10m)

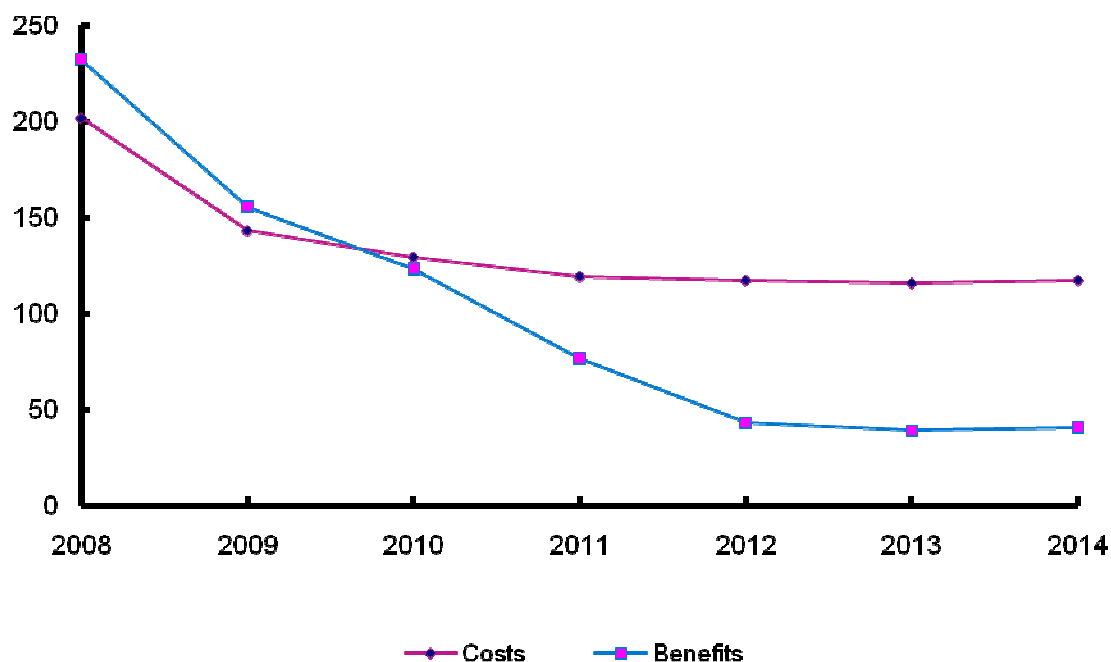
our licences would still be in significant deficit in 2011 and in 2012.

In short, whilst the pilot, publicly funded, IFNC proposals in an English region and Wales from 2010 will make some difference to the economics of ITV's licences they will not balance cost and benefit in 2011 and 2012 and it is not obvious at present how such a balance will be achieved without full implementation of the IFNC proposal in the English regions in 2011.

#### *Costs and Benefits of PSB status for ITV plc*

PSB costs to ITV (£m)	2008	2009	2010	2011	2012	2013	2014
Total costs	201.7	143.0	129.4	120.8	119.8	120.4	123.1
PSB benefits to ITV (£m)							
Total benefits	232.2	155.5	123.2	76.5	42.6	38.8	40.3
Value (benefits burdens)	30.5	12.5	(6.2)	(44.3)	(77.2)	(81.6)	(82.9)

### ITV PSB costs and benefits 2008-2014



### The practicality and ultimate cost of a piecemeal IFNC implementation in the English regions

In the light of the clear wish of both Ofcom and government to maintain plurality in nations and regions news in the UK, ITV has for some time been a supporter of the proposal for IFNCs paid for from public funds with the resulting news service carried on Channel 3. In particular, in partnership with OC&C, we produced a significant report exploring how a publicly funded solution for nations and regions news might work in April this year which we submitted to both government and Ofcom. We do not intend to repeat the content of that report in this submission though we would reiterate that ITV's overriding priority, in the public interest, is to carry a high quality nations and regions news service which is attractive to viewers and which looks and feels part of the ITV1 service. In addition, we would particularly draw the government's attention again to the key principles around ITV participation in any IFNC project namely:

- That there are clear on going mechanisms to ensure delivery and a high quality service which fits editorially and presentationally with the ITV1 schedule as it evolves;
- That ITV should not bear the consequences of compliance failure and associated reputational risk
- That there is no increase in nations and regions news volume obligations and a commitment to continued scheduling flexibility
- That there continues to be access to facilities and pictures for the Channel 3 and Channel 4 Network news provider;
- Any solution should not involve incremental cost or loss to ITV beyond the provision of airtime for carriage of the ITV1 service.

Finally, and above all in the present context, in our submissions on IFNC's to date we have consistently made clear the importance of one tender for a single co-called "master contractor" to oversee or itself provide the services in the English regions. It would be the responsibility of the Master Contractor to co-ordinate the provision of the service to ensure, as a minimum, that the service across each nation was high quality, attractive to viewers and compliant.

There are very significant advantages for viewers, tax/licence fee payers, ITV and Ofcom in only holding one contest for a single provider/overall contractor for the news services in the English regions. In particular, a single England wide contest for the provision of services in the English regions from the beginning of 2011 would:

- ensure a smooth transition from one set of regional news arrangements to another as opposed to the development of different tiers of service in different English regions between 2011-2013. A smooth transition will ensure continuity for the audience and ensure that regional news does not disappear from Channel 3 at any point;
- help to ensure a common approach across the English regions to key issues such as quality, reliability, technical competence, fit with ITV1 audience expectations etc which are vital in maintaining the audience appeal of the service;
- maximise synergies and reduce the risk of having to fund multiple sets of overheads in each region;
- significantly reduce the transaction time and costs of 8 or more separate tenders for English regions news services. The burden of such tenders and the resulting contract management (set alongside the relatively low annual contract value) should not be underestimated. In particular, the creation of separate transactional relationships between each English regions news provider and both ITV and Ofcom is hard to justify in relation to the delivery of a relatively small amount of programming each day;
- significantly reduce the co-ordination problems for ITV of managing 8 or more different services from different providers. By contrast, a region by region approach might well result in a diminution of on screen quality/continuity as well as risking an incoherent and unreliable approach to compliance across different regions;
- help ITV to maintain schedule flexibility given the risk (on a region by region approach) of a requirement to negotiate and agree changes with multiple suppliers. We have set out very clearly in the OC&C report that a condition of our participation would be continuing scheduling flexibility in order to meet the expectations of the audience in relation to the ITV1 schedule;
- avoid the serious risk that a trial contract for a single English region in effect locks in the pattern of subsequent tenders in the English regions. This might well be the outcome of a trial based approach in a single English region since if such a modest contract is to be attractive it is likely to need to give certainty to potential bidders for a significant duration.
- to avoid the sheer practical difficulty of attempting to create a single seamless offer in the schedule from separate simultaneous live programmes from a different provider in each English region

At the same time of course, it would be vital that the putative Master Contractors are explicitly incentivised by bid conditions to demonstrate local focus and commitment. This might be demonstrated, for example, by investment in/maintenance of news hubs in

localities around England and/or through sub-contracting parts of the provision of the service to others whilst still ensuring appropriate levels of co-ordination and quality assurance. In this context we would draw the government's attention to, for instance, para 4.1.3 of the ITV/OC&C report for a further discussion of the possible different types of bidding consortia. In ITV's view a single tender for a single master contractor for English regions news services from the beginning of 2011 would be a far better solution than a piecemeal region by region roll out over a number of years.

In short, against this backdrop, we have significant practical, editorial and economic concerns in relation to the government's proposal to pilot an IFNC in only one English region from 2010 with full implementation delayed until 2013. We believe this approach risks creating a more bureaucratic and expensive set of processes, with greater uncertainty over the quality of service for viewers, and without fully addressing the shortfall in the value of ITV's licences in 2011 and 2012. Accordingly, the decision as to whether there is a single contest for a master contractor for the English regions services or a series of regional tenders is likely to determine whether the scheme is deliverable, practical and makes economic sense.

#### Apart from public funds are there other potential sources of funding for nations and regions news?

ITV does not believe that it is reasonable to suppose that there are substantial sums of alternative commercial revenue which might reduce substantially the need for public funding for a nations and regions news service without creating serious consequences elsewhere. Of course, it may be that a master contractor and its venture partners are able to find synergies and cost savings with existing regional news activity which might reduce the amount of public subsidy required but the opportunity for incremental revenue from the provision of nations and regions news programming to ITV is very limited.

In particular, ITV's support for the IFNC proposal is contingent on additional advertising minutage not forming part of the solution to the future funding of regional news. Additional minutage could raise some revenue for the regional news provider, but this revenue would be very limited and it would reduce the existing advertising revenues of ITV1 and the regional press. Indeed, any proposal for extra minutage would be self-defeating, since it would in effect be top slicing of ITV (and quite possibly of the regional press):

- Under the Station Average Price (SAP) mechanism, any increase in advertising minutage – even if such additional minutage were hypothecated for ITV1 regional news – would lead to a reduction in the price of advertising on ITV1
- All the major stakeholders responding to the recent Ofcom review on the RADA rules agreed that a reduction in the price of advertising would not be offset by an increase in demand – as there are neither capacity constraints nor latent demand for TV advertising. Therefore, any advertising revenue generated for the news provider would inherently cannibalise existing ITV1 revenues
- Any increase in minutage would therefore contribute further to the problem of over-supply of impacts identified by Government in the Digital Britain process. As the Digital Britain interim report noted: “The huge growth of advertising inventory has produced a parallel reduction in the value of advertising impacts and their ability to fund professional long-form content.”<sup>1</sup> Adding further to this supply of advertising minutes will only exacerbate the problem

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<sup>1</sup> Digital Britain interim report, page 45.

- This idea would therefore amount to top-slicing of ITV in order to pay for regional news – this would be a perverse proposal, which would undermine ITV’s ability to sustain investment in other key areas of public service content
- The risk of top-slicing continues to exist even if the additional minutage were sold outside the SAP mechanism – as any additional “spot” minutage might well be sold to existing ITV1 advertisers, who would divert advertising spend from elsewhere in the ITV1 schedule
- It is theoretically possible to target any additional minutage to small local advertisers – but the revenue opportunities afforded by such advertisers are minimal. Moreover, even some of these businesses already buy airtime on ITV1; and those that do not advertise on ITV1 will purchase advertising space in the regional press – meaning that additional advertising minutage would necessarily divert revenues from ITV and/or from the regional press.

Therefore, additional advertising minutage would not be part of the solution to the future funding of regional news. Indeed, if ITV believed that hypothecated minutage or similar commercial opportunities could improve our ability to sustain regional news, we would have already argued that Ofcom and Government should make such minutage available for ITV. However, we have not argued for such minutage precisely for the reasons set out above.

Finally, however, although unlikely to be very substantial, it is possible that a new news provider might be able to strike some commercial agreements to generate some revenue, for instance:

- To provide footage to ITV Network e.g. for early round FA cup coverage
- To provide regional news material for GMTV
- To allow the commercial exploitation of footage by ITN other than for the C3 and C4 news contracts
- To continue to provide office space for ITV’s regional sales teams (and potentially other programme makers in Wales).

**3. 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?**

ITV does not have a view as to the most appropriate source of public funding for a nations and regions news service – that is a matter for policy makers and politicians to decide informed by the views and interests of the public.

**4. 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?**

Again, ITV does not have a view on this matter which is for policy makers and politicians to decide informed by the views and interests of the public.

**5. Are there alternative funding mechanisms that you believe would deliver the above objectives more effectively?**

We have set out above the potential for meeting the costs of a nations and regions news service from ITV's residual licence value or from commercial revenue. Against that backdrop it is for policy makers and politicians to decide what sort of nations and regions news service is required (which clearly impacts on cost) and therefore how such a service is most appropriately funded bearing in mind the limitations of funding sources other than those guaranteed from public resources.

**6. Do you agree with the proposal to set a maximum percentage of the Television Licence Fee revenue which could be set aside as a contained contestable element?**

**7. Do you agree that amending the BBC Agreement could provide the necessary protection to the BBC's future funding and independence?**

**8. Do you agree that the use of any constrained contestable element within the Television Licence Fee should be restricted to the public purposes set out in the BBC Charter?**

We believe that these are matters which are best decided by policymakers and politicians informed by the views and interests of the public.