



Review of the BBC's Royal Charter

A strong BBC, independent of government

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Foreword by Tessa Jowell, Secretary of State for Culture, Media and Sport

The BBC is as much a part of British life as the NHS. There for everyone, free at the point of use, striving for the highest standards. And like the NHS it faces the need to change so that it can be as effective in the future as it has been in the past.

Since the BBC was founded as a public corporation in 1927 it has been through seven reviews of its Charter, but the review currently underway is truly unique.

Until 1955 there were no other TV stations, and there were no other legal UK radio stations until 1973. Since the BBC's current Charter began, in 1997, the number of TV channels available has more than doubled – there are now more than 400. The number of radio stations has also increased by nearly 50% in the last decade – to over 300.

There are also new ways to watch and listen to programmes – through computers and mobile phones as well as radios and television sets. In particular, digital development lends a new interactive element that is changing the viewing or listening experience. It is already possible, with the right equipment, to rewind or replay programmes. People with personal video recorders spend nearly half their viewing time watching pre-recorded programmes. In future the internet, which already provides access to a wealth of information and services, will allow direct access to an increasing range of audio-visual content. In that world, viewers will be able to piece together their own schedules from a vast online archive.

So we had to ask the question – what kind of BBC do the British people want, when there is now so much content available from so many other sources? And we decided that the people whose opinion mattered the most were the licence fee paying public. They own the BBC and they pay its bills, so they, we decided, should call the shots.

Through opinion polls, focus groups, public meetings and our website we got the views of thousands of listeners, viewers and online users. Their views – your views – were very clear. The BBC is liked and trusted by millions. Its services are valued and enjoyed. It is seen as having a vital role to play in news and in sustaining and informing our democracy. The principles of public service broadcasting (PSB), with the BBC at its heart, are widely understood and widely supported. And although people in their millions are embracing the rapidly expanding choices offered by digital broadcasting they still see the BBC as having a key role in the multi-channel future. If anything, people see maintaining PSB as more important, not less, as more and more commercial services crowd on to the scene.

But people are not uncritical. They often feel that the BBC is remote, too metropolitan, its accountability unclear, its programmes too dull, or too copy-cat of formats working perfectly adequately on other channels. They are worried about value for money. They often think that the BBC is struggling to be properly in tune with the times and is not in touch with younger people or with people from diverse cultural backgrounds. Some commercial competitors feel that the BBC is too free to expand into areas already well-served, and so stifles new and existing businesses and limits creativity.

Government recognises the enormous contribution that the BBC has made to British life and culture, both at home and abroad. We also agree with the majority of British people who want to see that contribution maintained into the multi-channel future. And we also agree that the BBC needs to change

to adapt itself to the rapidly changing demands of that future. The nation needs a BBC that delivers high standard, innovative broadcasting that nurtures British talent, that reflects the nation to itself, and that respects the contributions made by the other players in the media world.

This Green Paper embodies the decisions that we have taken so far, and sets out the areas where we are continuing to consult. Our main decisions are:

- A Charter, more than any other vehicle, continues to give the BBC real distance and independence from Government and so the BBC will be granted a new Charter, beginning on 1 January 2007, and running until 31 December 2016. We believe that a ten year Charter is right, given that the BBC, the public and the wider industry need stability during the period of switchover to digital television. We intend that the BBC should take a major role in assisting the whole country to move into a fully digital environment.
- Despite its weaknesses, there continues to be, as yet, no viable alternative to the licence fee. People recognise this and by and large support its retention, especially when they are asked to consider the other options. We have therefore decided that the licence fee should continue. There should be two reviews, towards the end of the switchover process, one to examine the possibility of alternative means of funding the BBC after 2016 and the other to consider whether any wider funding might be needed for PSB.
- The BBC should continue to be a broadcaster of scale and scope, active in all the main genres and with the ability to adapt to new technologies and new consumer developments. However, it needs to recognise its obligations to concentrate on PSB, to avoid unnecessary overlap with other providers and to be distinctive, creative, reliable and focused on British talent. It should retain the sort of commitment to new talent that has made Radio 3 the largest commissioner of new music in the world and Radio 4 one of the largest commissioners of new writing.
- The BBC's governance needs to be modernised to meet the demands of the modern world. The BBC Governors, with their dual role of directing the BBC but also holding it to account, will be replaced by what we have called a BBC Trust (a working title), more accountable to the licence fee payers, and the custodians of the BBC's purposes and the licence fee. We will also create a formally constituted Executive Board, accountable to the Trust for the delivery of the BBC's services. The functions of the two bodies will be clearly separated, enabling the Trust to judge the management's performance clearly and authoritatively.

In reaching these conclusions we have been greatly assisted by Lord Burns and his panel of independent experts, and I am very grateful for the quality of their work. I am also grateful to the work done by the Select Committee, in its recent inquiry and report on the future of the BBC, and to the BBC itself for the positive contribution it has made to the debate.

I believe that these proposals will deliver to the nation the BBC that they want. A broadcaster of quality, driving up standards across the whole industry. A BBC that is strong, well-funded, independent of Government and responsive to the public.



TESSA JOWELL

Secretary of State for Culture, Media and Sport

Summary

This Charter Review has been a public debate – with the BBC, with the broadcasting industry, but most of all with those who fund the BBC, the licence fee payers. We have listened very carefully and, for the first time, have ensured that the licence fee payer has had a real voice in the journey towards renewing the BBC Charter.

Everything in this Green Paper is based on the widest possible consultation with the public. We asked viewers and listeners what they value about the BBC, what they want it to do for them and how they want it to be run. Our goal, in line with what the public want, is a strong BBC, independent of Government, setting world-class standards. We will give it a new Charter and a licence fee settlement that will last ten years.

But to remain strong the BBC also needs to change. Digital technology is transforming broadcasting. There are hundreds more channels and many new ways to watch and listen to programmes. Already viewers and listeners are putting together their own viewing and listening schedules and that trend will increase with the further development of online services and more sophisticated recording devices. To equip the BBC for this world, and to address the public's concerns that its programmes should be distinctive and of high quality, we will give it a clearer, tighter remit. We will replace the Board of Governors with a new, more transparent BBC Trust that is directly accountable to licence fee payers.

We will also make sure the BBC remains at the forefront of digital development. Ultimately consumers will dictate the pace of change in the new broadcasting world, but the Government wants to make sure the benefits of the digital revolution are available to everyone in the UK. We will ask the BBC to use the licence fee to help drive the process of digital switchover.

The BBC will be strong and independent

Regardless of the arrival of new technology, the public expects the BBC to be a cornerstone of public service broadcasting, delivering high quality programmes that set a benchmark for its commercial rivals. It is a valuable public service – its programmes bring us real cultural and educational benefits. In a world of proliferating media, it is a source of news and information that almost everyone trusts, and it should remain so.

There is evidence that the main commercial broadcasters find it harder to invest large sums in public service programming as the market becomes more competitive and more people have more channels. We therefore want to make sure the BBC is secure, with a steady stream of income.

A Royal Charter

The best way to give the BBC the independence and certainty it needs is through a new Royal Charter, lasting for another ten years. The next Charter will be written, as far as possible, in clear language that everyone can understand.

We have rejected the Select Committee's recommendation that the BBC should be established by an Act of Parliament because it would bring the BBC closer to Government and Parliament, against the expressed wishes of licence fee payers. In ten years' time, there should be an opportunity for a further thorough review of the BBC's role and remit.

The Licence Fee

The licence fee will continue throughout that period – it is the best (and most widely supported) funding model, even though it is not perfect. We will do further work to establish the level of the licence fee and what improvements could be made to the methods of collecting it.

Since technology is advancing rapidly, there will be two further reviews, towards the end of the switchover process, to establish whether new types of funding may be needed to supplement or even replace the licence fee after 2016; and to reconsider whether there is a case for the wider use of public funding, including licence fee money, to fund public service broadcasting beyond the BBC.

Key reforms

The BBC needs to change to meet the public's concerns. While the BBC has a high overall satisfaction rating (75%), the public is far from uncritical. 33% of people believe the BBC offers poor value for money. A third think its TV programmes are getting worse. People question the number of repeats, the amount of on-air trailing for BBC programmes, the perception of 'dumbing down' and the lack of accountability to licence fee payers.¹

The BBC's mission

'Inform, educate and entertain' will remain the BBC's mission statement. But a large number of other broadcasters also fulfil some part of that mission – it does not explain what is meant to be distinctive about the BBC in an age of ever-increasing choice. We will sharpen up the BBC's remit. We will introduce five distinctive purposes that all BBC services should aim to fulfil:

- sustaining citizenship and civil society
- promoting education and learning
- stimulating creativity and cultural excellence
- representing the UK, its Nations, regions and communities
- bringing the UK to the world and the world to the UK

Digital Britain

An additional, sixth purpose for the next Charter period will be building digital Britain. The BBC has already developed an impressive range of new services and it should remain at the forefront of new technology, for instance in promoting digital radio. We expect it to take further steps to ensure it remains relevant to all licence fee payers. One of the conditions of the new licence fee settlement will be that the BBC should play a leading role in the process of switching Britain over fully from analogue to digital television.

¹ DCMS, Review of the BBC's Royal Charter, *What you said about the BBC*, July 2004

How the BBC is run

This is the central issue for this Charter Review. The current BBC Board of Governors has to carry out two potentially conflicting roles – both running the BBC and assessing how well it is performing. This model is increasingly out of step with best corporate governance practice. The two functions need to be more clearly separated in future. It is vital that the BBC is subjected to rigorous scrutiny to make sure it fulfils its public purposes.

We will replace the Board of Governors with a new body that we have called a BBC Trust (a working title) that will be separate from BBC management. The Trust will have ultimate responsibility for the licence fee, and it will be structured so that it is directly accountable to licence fee payers. It will approve a specific licence for each BBC service – to hold the BBC to its public purposes. We will also establish a formally constituted Executive Board, responsible for the delivery of the BBC's services within the framework set by the Trust, with a clear division of functions between the two.

This is the best model for the BBC. It addresses the Independent Panel's concern that different responsibilities should be clearly separated and set out to avoid any possibility of confusion or capture. It is also consistent with the best element of the BBC's *Building Public Value* proposal – it establishes the Trust as a powerful advocate for the public interest, with ultimate power over the licence fee and the BBC.

The public want to see greater transparency and openness to criticism in the BBC. The Trust's decisions, and the way it measures the BBC's performance, will have to be clearly grounded in viewer and listener opinion. We want there to be an open debate about the ways in which the Trust and the BBC could be made more accountable – options include the webcasting of Trust meetings, the publication of audience research and the election of local representative councils.

The future size and shape of the BBC

The BBC should remain a cultural institution of real size and scope. It should not only be a broadcaster of minority interest programming. It should provide a wide range of different programmes to a wide range of different audiences. Only with this scale and scope can the BBC meet the ambitious public purposes that have been set for it.

Three out of four people support the current range of BBC services and there are no plans to require the BBC to shut down or privatise any of them. But the size and shape of the BBC must be allowed to change over the next ten years as the market, technology, public opinion and consumer behaviour change around it.

The BBC's impact on competition

The fact that the BBC exists is a public policy choice with a direct effect on the broadcasting market. But while we want a strong BBC we also need to sustain a flourishing commercial sector. The BBC needs to be vigilant about its potential to have a negative effect on commercial competitors. To achieve this, the BBC will be subject to tough new internal and external processes:

- The BBC Trust will in future hold the BBC to its distinctive public purposes.

- The Trust will also hold individual BBC services to specific service licences that prevent any significant change in their character.
- Proposed new services will be tested for market impact by Ofcom. The BBC Trust will only approve proposals where it judges public value exceeds market impact. Further work is needed on the methodology for making such judgements.
- For the BBC's commercial businesses, there is a case for drawing a clearer distinction between external competition regulation and internal rules of BBC behaviour. There is a lack of confidence in the current arrangements, where the BBC's Fair Trading Commitment combines these two elements. We will also consider whether, in addition to its powers of external regulation, Ofcom might also be given a power of approval over the BBC's internal rules.
- We will commission further research to assess the value to viewers of the BBC advertising its own services against the potential market impact of such cross-promotion.

The licence fee should constitute venture capital for creative production and should support a strong independent production sector. The BBC needs to make sure it broadcasts the best, most innovative programmes, and that means giving independent and external producers a fair chance to compete to get their ideas commissioned. In the past it has not always done so. We will consider two options for reform in television – the BBC's own proposals to create a new 'window' of fairer creative competition and an increase on the current 25% quota for independent production.

The way the BBC organises itself

The BBC takes its own decisions about the way it structures itself, and it is conducting its own programme of internal reviews. We support the principles that those reviews have established:

- The BBC's nine-point manifesto (June 2004) said that it 'should be big enough to deliver the services audiences demand, but as small as its mission allows.' We agree. That requires an emphasis on efficiency, but also some scale as an organisation, if the BBC is to sustain its contribution to the health of the creative economy – for example through research, training and production.
- If it is to reflect the whole of the UK and its different communities, the BBC needs to make sure that a significant amount of UK production takes place out of London.

Public service broadcasting in the 21st century

The development of digital television has implications for the system of public service television broadcasting that extends beyond the BBC. In its report on the future of public service television broadcasting (PSB), Ofcom has concluded that the BBC could be left as a near-monopoly provider of some services after switchover if the other major broadcasters adopt a more commercial strategy. The Ofcom report argues that such a monopoly needs to be avoided. We agree that plurality – where rival broadcasters compete to provide the best public service programmes – is valuable in the current system. We will need to give further consideration to Ofcom's report and to the different policy options that have been proposed for sustaining plurality in the future. In particular, during the course of the next Charter we will consider whether the public funding, including the licence fee, should be distributed more widely.

Key proposals and questions for consultation

Foundations of a 21st century BBC

The role of the BBC

The BBC's mission is to inform, educate and entertain. In achieving this, all BBC activities should contribute to some core public purposes:

Sustaining citizenship and civil society

- Informing ourselves and others and increasing our understanding of the world through news, information and analysis of current events and ideas

Promoting education and learning

- Stimulating our interest in and knowledge of a full range of subjects and issues through content that is accessible and can encourage either formal or informal learning
- Providing specialist educational programmes and accompanying material to facilitate learning at all levels and for all ages

Stimulating creativity and cultural excellence

- Enriching the cultural life of the UK through creative excellence in distinctive and original programming
- Fostering creativity and nurturing talent – using the licence fee as venture capital for creativity
- Promoting interest, engagement and participation in cultural activity among new audiences

Reflecting the UK, its Nations, regions and communities

- Reflecting and strengthening our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences
- Making us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities within the UK

Bringing the world to the UK and the UK to the world

- Making UK audiences aware of international issues and of the different cultures and viewpoints of people living outside the UK
- Bringing high-quality international news coverage to a global audience through radio, TV and new media

The BBC's commercial services also have a role in supporting this last purpose, by showcasing the best of UK creativity, culture and talent for global audiences, thereby generating additional value for the BBC licence fee payer.

Question 1: Do you think it is helpful to define the BBC's purposes in this way?

Question 2: Are these the right purposes?

The BBC should provide a wide range of content, across every genre, trying to reach the greatest possible range of audiences. Where possible, it should make subjects accessible to new audiences. Its programmes should set standards, especially in news, for other broadcasters to aspire to.

Programmes should aim to be excellent, distinctive and entertaining – that means, more specifically, that they should be:

- of high quality
- challenging
- original
- innovative
- engaging

All BBC services should strive to fulfil the full range of public purposes. Not every individual programme (or interactive service, or piece of internet content) will fulfil such a purpose – although the vast majority should. However every programme should display at least one of the above characteristics of excellence and distinctiveness.

Question 3: Are these the right characteristics?

A sixth public purpose – building digital Britain

The BBC has an important role to play in maintaining universal access to quality broadcasting. New technology – from pay TV to broadband to hard disk video recorders – is creating a widening gap between the digital ‘haves’ and the ‘have-nots’. The BBC has been at the forefront of maintaining universal access to high quality broadcasting and should remain so.

The BBC needs to play a leading role in building digital Britain, developing and promoting new technology so that all licence fee payers can benefit. It should continue to drive the development of digital radio, in particular by meeting its target to extend DAB radio coverage to 90% of the UK population.

The BBC needs to take a leading role in the organisation and funding of digital switchover, using the licence fee to bring the benefits of digital TV to all. The BBC should:

- Help to establish and manage the organisation that will co-ordinate the technical process of switchover – currently known as ‘Switchco’;
- Play the leading role in the public information campaign that will tell consumers when and how the switch will happen, what choices of equipment they have and how they can install that equipment;
- Help to establish and pay for schemes to help the most vulnerable consumers make the switch and pay for it.

Question 4: Do you agree that the BBC should be at the forefront of developments in technology, including digital television?

The BBC’s constitution

The best way of giving the BBC the independence and stability it needs will be to renew its Royal Charter for ten more years. The alternative, an Act of Parliament, risks making the BBC more open to Government intervention while removing the flexibility that exists for the Government and BBC to negotiate changes to the accompanying Agreement during the life of the Charter. After ten years, the extent of change will require a further thorough review of the BBC’s role and purpose.

Funding

The BBC should be funded by the TV licence fee for the next ten years.

Before the end of that ten-year period, towards the end of the digital switchover process, there should be a further review of whether there might be a case for other funding methods, particularly subscription, to make a contribution after 2016.

In the next phase of Charter Review, we will assess the funding needs of the BBC in order to set the level of the licence fee from April 2007. That funding review will be run by Government. It will take independent advice on a range of issues, including value for money and will take account of the public's views. It is important to note that none of the proposals for future BBC activity put forward elsewhere in this Green Paper have yet been fully costed. The funding review that we conduct will need to scrutinise the costs of all such activity as well as the potential for efficiency gains in existing BBC services, before final decisions are made about the future shape of the BBC and its funding package.

Separate work will be done to re-examine any anomalies in the existing licence fee concessions policy, particularly in the ARC scheme that applies to residents of sheltered housing. Finally, we will review the existing licence fee collection policy to consider whether new technology allows collection to be conducted in a more cost-effective way, for example making more use of direct debit and internet payment schemes.

Question 5: Do you support the proposal for a further review of alternative funding methods, before the end of the next Charter period?

Question 6: Do you have a view on any aspect of the operation of the licence fee: concessions, its collection or its enforcement?

Governance and regulation

The BBC governance system needs to be reformed and reconstituted, in order to provide clear structural separation between the functions of delivery (devising strategy and providing services) and oversight (scrutinising strategy and assessing the performance of services).

We propose the creation of a new body that we have called the 'BBC Trust' (a working title) to take on the oversight role, with ultimate responsibility for the licence fee, embodying the public interest and representing the views of licence fee payers. The Trust would approve or reject broad BBC strategies and would determine top level annual budgets. It would then assess performance and hold the BBC to account.

Responsibility for delivery would be delegated to a formally constituted Executive Board, chaired by the Director General or, at the discretion of the Trust, a non-executive. The Executive Board would oversee the day-to-day management of the BBC, developing programme strategies, delivering the BBC's services and taking all detailed financial and operational decisions within the framework established by the Trust. It would contain a significant minority of non-executive Board members, to offer support and an external perspective.

The new structure would give the Trust a number of new tools to make sure it is well equipped to hold the BBC to account:

- Every BBC service would be held to a detailed service licence against which performance could be measured. Service licences would be developed by the Executive but would need to be approved by the Trust.
- Any significant change to a service, or any proposal for a new service, would be subjected to a ‘public value test’ by the Trust. This test will need to be developed further in the next phase of Charter Review.
- Protocols would be written into the BBC’s Charter or Agreement to establish the ways in which members of the Trust should behave – in relation to the BBC Executive and to the public.
- The Trust would be supported by its own body of expert staff – along the lines of the Governors’ recently established Governance Unit.

(**Note:** We have called the new governing body a BBC Trust, a working title, to signify its responsibility for spending the licence fee and its close relationship to licence fee payers, but its legal nature would be somewhat different to that of a conventional Trust.)

For the time being, regulatory responsibilities should be divided between Ofcom and the BBC Trust in the same way that they are currently divided between Ofcom and the BBC Governors. The Trust would retain responsibility for upholding standards of accuracy and impartiality. We propose to leave the arrangements as they are for five years before reviewing them. Ofcom should have a key role in competition issues – conducting market impact tests for proposed new services and agreeing the terminology used for any other such tests (for example those applied to changes to existing services).

Question 7: Have we defined the roles of the BBC Trust and the Executive Board sufficiently clearly?

We think the overall public interest remit of the BBC Trust should be to make sure that the BBC:

- fulfils its public purposes;
- sets benchmarks for other broadcasters;
- is editorially independent of Government and commercial interests;
- doesn’t unfairly or unduly damage commercial media businesses;
- is efficient and provides value-for-money to licence fee payers;
- communicates with licence fee payers and takes account of their opinions.

Question 8: Is this the right way to define the public interest remit of the BBC Trust?

Accountability

The BBC Trust should operate a new, rigorous system of performance measurement for every BBC service. That system should be clear and transparent, and it should ensure that the BBC takes account of the thoughts and opinions of those who pay for the BBC – in every household.

The protocols that govern the behaviour of Trust members should include a requirement to maintain a ‘contract’ with licence fee payers, setting out the ways in which the Trust promises to measure and respond to public opinion. We have put forward some options for ensuring that it fulfils this expectation:

- There should be a rolling programme of quantitative and qualitative research designed to track audience opinions about the BBC's performance, and to measure the impact of its programming.
- Such research should be accompanied by open consultation of viewers and listeners through a number of different forums. One way of doing this would be to enlarge or reconstitute the existing regional Broadcasting Councils, which might be elected by local licence fee payers and given a role in formally advising the Trust. New e-forums and open meetings or AGMs could also be set up.
- When key decisions have to be taken by the governing body, they should be informed by deliberative research among representative groups of viewers and listeners.

To promote confidence in this system, the BBC Trust must be open and transparent in everything that it does. Some options would be:

- for the Trust to meet in public;
- to webcast its meetings and any open meetings or AGMs that it holds;
- to publish the minutes of meetings and the results of every piece of research;
- to publish the voting records of each member.

If a combination of these options can de-mystify the processes and decisions of the BBC's governing body, then its members might also be made subject to greater public influence. One additional option would be for members of the Trust to be put through a regular external, independent appraisal process. Licence fee payers might also be given the opportunity to submit their views of Trust members' performance as part of this process, and any member with a particularly poor appraisal might be replaced.

Question 9: How many of these options would you like to see adopted in the Trust's statement of promises? Are there any other options that you would like to see considered?

Finally, an important part of the accountability framework for the BBC is its complaints handling process. The BBC Governors have themselves stated that this process could be improved, and we agree. In future, complainants need to have fair and equal access to a transparent, objective process, with the BBC Trust acting as final arbiters in difficult cases. (Ofcom will remain the final arbiters of complaints relating to standards of harm and offence, privacy and fair treatment.)

Question 10: Have you any views about how the BBC Trust should handle complaints?

Membership of the Trust

We would expect the members of the Trust to be appointed by the Queen, on the recommendation of the Prime Minister. Between them, Trust members need to be able to reflect the interests of a wide range of different UK communities (including members with the knowledge and expertise to understand and articulate the interests of individual devolved Nations) and they need to have a range of expertise in:

- broadcasting and media industries;
- the financial, legal and corporate aspects of overseeing a large and complex business that spends significant sums of public money;
- organising public opinion research and consultation;
- civil society.

Question 11: How many members do you think the BBC Trust needs?

Question 12: What skills and expertise do you think they need?

Question 13: Are there any particular communities or interest groups that you think the Trust members should represent?

More detailed issues of scale and scope

Organisation and infrastructure

The BBC needs to have sufficient scale to continue providing high quality services, excellence in training and research and to sustain a critical mass of in-house production.

The BBC also needs to make sure its services reflect the full range of geographical communities in the UK. In part that will involve making a greater contribution to regional programming for regional audiences. But it should also mean the BBC moving its staff out of London to a greater extent, and supporting a range of production centres across the UK. Detailed decisions in this area will be for the BBC itself, in the context of its new public purposes, but we welcome the consideration currently being given to new investment in Manchester, Glasgow, Birmingham and Bristol.

If it is to broadcast the best programmes, the BBC needs to operate a competitive commissioning system that puts the best ideas on screen, whether they are from BBC producers or independent companies.

In television, the BBC has put forward some proposals that it says will make the commissioning process more competitive, by establishing a new ‘window of creative competition’ – between BBC in-house production and external producers – for 25% of the hours that are commissioned, in addition to the existing 25% of commissions that are reserved for independent producers. We support the principles behind the idea of a window of creative competition and would like the BBC to develop proposals for how it will work and how it will be regulated, so that the proposal can be publicly debated in more detail. We will give further consideration both to this option and to an increase in the 25% independent production quota.

In radio, the BBC is proposing to extend its existing voluntary 10% quota to cover sport, radio in the Nations and the new digital stations. It is also proposing to create a Programme Development Fund to support creative ideas from independent producers. We welcome these proposals, but would like to hear views on whether they go far enough to promote fairer competition and the best outcome for listeners.

Question 14: Do you think a ‘window of creative competition’ can be made to work? If not, would you support a raised quota for independent production in BBC television?

Question 15: Do you think a voluntary 10% quota for radio is sufficient? Or should the quota be increased or made mandatory?

Scope of publicly-funded services

The BBC’s current range of services has broad support and there are no proposals to shut down or privatise any of them.

However there should be sufficient flexibility in the system for the BBC to add and remove services in response to changing technologies and market conditions. Any significant change should be subject to a public value test that incorporates a market impact assessment. Only where the public value of a change outweighs any adverse market impact should it be allowed.

The BBC Trust should be responsible for carrying out these public value tests – although Ofcom should carry out the necessary market impact assessments for new service proposals and should agree the methodology of the assessment for any change to an existing service. The Trust should publish all the relevant analysis. In the case of proposals for new services, the Trust would then make a public recommendation to the Government, which the Secretary of State for Culture, Media and Sport would only be able to veto on the grounds that the process of assessment had been flawed in some way.

The BBC's proposal for a new 'creative archive', to make clips from old programmes available more widely on the internet, should be the first idea subjected to new, enhanced public value and market impact tests.

Question 16: Do you agree that the BBC should be able to propose changes to its range of services over the course of the next ten years?

Question 17: Do you agree with our proposals for handling new services?

Scope and regulation of commercial services

The BBC should be encouraged, as now, to generate income from commercial activity – for example by selling programmes overseas. Since licence fee money is not at stake, the Secretary of State's approval should no longer be required for the launch of new commercial businesses or for the sale of some existing ones.

All continuing activity should be related in some way to the BBC's public purposes and should have a direct connection to publicly-funded programmes or services. Magazines, for instance, should have sufficient links to BBC content. There should be no cross-subsidy for commercial services, and all commercial businesses should be rigorously and transparently regulated.

Question 18: How strictly should the BBC's commercial services be restricted to those businesses that are linked to public purposes and public services?

The BBC's commercial services are subject to a specific Fair Trading Commitment, overseen by the Governors. This combines aspects of competition law (under which the BBC is regulated by Ofcom and other competition regulators) with some of the BBC's own aspirations for the way in which the BBC aims to operate commercial services, such as providing good value for money or limiting any damage to the BBC brand. We will consider further whether it might be simpler to make clear the separation between matters of internal BBC housekeeping and those of external regulation that could be left entirely to the competition authorities. We will also consider whether, in that arrangement, Ofcom might be required to approve the terms of whatever internal BBC rules remained – as a form of ex ante regulation.

Question 19: Is the existing fair trading commitment a useful addition to the arrangements for regulating the BBC's commercial services? If not, what option would you prefer?

Beyond the BBC

The wider system of public service broadcasting (PSB)

The BBC is only one part of a wider system of PSB, where a range of different broadcasters offer complementary and competing services.

In the short term, we believe that Channel 4, ITV and Five will continue to provide this plurality in public service television. We agree with Ofcom's suggestion that Channel 4 has no immediate need for additional stream of funding. However, in the longer term Ofcom suggests that the BBC may be left as a near-monopoly provider of some types of programming, if other major broadcasters adopt a more commercial strategy – even Channel 4 may find it more difficult to balance its public service role against the need to generate advertising revenue in an increasingly competitive market.

Various proposals have been put forward, in response to Ofcom's report, for a longer term solution. Ofcom itself has put forward a potentially exciting idea for the establishment of a new public service publisher (or PSP). Other options include the direction of public funding to Channel 4 and the Independent Panel's proposal to establish a Public Service Broadcasting Commission with powers to award part of the licence fee to other broadcasters on a contestable basis.

Any of these options might require legislation.

To provide some flexibility we propose that, as well as the interim review of alternative post-2016 funding models, there should be a review of:

- the case for plurality;
- Channel 4's longer-term position;
- whether any public funding (including licence fee income) should be distributed more widely, beyond the BBC, in order to sustain plurality and competition in public service broadcasting (and, consequently, whether the level of the licence fee needs to change);
- how any such distribution might take place.

In the period running up to this review, we would welcome more detailed work from Ofcom on the possible form of a Public Service Publisher. We propose that the review should take place towards the end of the process of digital switchover. However, the Secretary of State would retain the power to order an earlier review of the options for maintaining and strengthening plurality in public service broadcasting, if he or she deems it to be necessary at any point.

Question 20: Do you agree that the case for a plurality of publicly-funded broadcasters should be kept under review?

The process of Charter Review

The BBC is established by Royal Charter, and has been so from the very early days of its existence. The first Charter ran from 1 January 1927 to 31 December 1936, and we are now approaching the end of the eighth Charter. The fixed length of the Charter gives an opportunity, every ten years or so, to look carefully at the BBC's role, functions and structure. The current Charter comes to an end on 31 December 2006 and the Government has now completed its first phase of close examination of the BBC's activities and aims.

The review process to date has involved an unprecedented degree of public engagement, involving a range of events, consultation, research and focused analysis. The Department's work has been closely informed by the work of the expert panel chaired by Lord Burns, appointed by the Secretary of State to provide independent advice.

On 11 December 2003 we launched a consultation to ask viewers and listeners what they want from the BBC. We published the consultation document *Review of the BBC's Royal Charter* and accompanying leaflets, inviting the public to submit their views in letter and email form. We received nearly 5,500 responses in total, as well as over 26,000 hits to our Charter Review website.

We also conducted a major programme of survey research, between late January and early June last year to support and test the consultation, and to make sure we reflected the views of all sections of the population. This encompassed qualitative, deliberative and quantitative survey research. Demographic factors – from age, ethnicity and geographical location, to media consumption behaviour – were taken into account. We published a summary of the consultation and research findings in *What You Said about the BBC*, in July 2004.

The Department has also conducted four independent reviews of the BBC's new services, the conclusions of which have fed directly into this Green Paper. These reviews were: the Lambert Review of BBC News 24 (2002); the Graf Review of BBC Online (2004); the Barwise Review of the BBC's Digital Television Services (2004); and the Gardam Review of the BBC's Digital Radio Services (2004). The reviewers were not only required to assess the services' performance against their approvals, but also to provide any views on how the services might develop in the future within the context of Charter Review.

The BBC itself has been fully engaged with the Charter Review process and with the independent panel's series of seminars. It published its own set of proposals for reform, *Building Public Value*, in June 2004, and it has held four major internal reviews of efficiency, independent production, 'out of London' location of services, and commercial services, the results of which were announced in December.

Lord Burns and his panel held a series of 11 seminars from July to December 2004 looking in detail at all aspects of the BBC, from funding and governance, to educational and international issues. The Panel published an interim paper on 1 December outlining options for new governance models, and this was followed by their final paper on 28 January, which set out their conclusions.

There have been a number of external reviews and events that have also contributed significantly to the process. Ofcom has conducted a major review of public service broadcasting – publishing its final

report on 8 February 2005. It is also mid-way through a review of radio regulation. The House of Commons Select Committee on Culture, Media and Sport published a report on Charter Review in December 2004, and the Government has published its response alongside this Green Paper. The House of Lords is also expected to hold its own inquiry later this year.

The publication of this Green Paper marks the launch of another phase of public consultation, and this will be followed by a White Paper later this year and a suitable opportunity for Parliamentary debate. At the start of this year we commissioned further qualitative research to explore people's views on the emerging proposals from this Green Paper, as a precursor to the process of consultation. The research report has been published simultaneously.

All Charter Review documentation can be found at www.bbccharterreview.org.uk, including: submissions from individuals and organisations as part of our initial consultation; survey research reports; submissions from the BBC; the reports of the reviews of new BBC services; Ofcom's review of public service broadcasting; and the advice of the Independent Panel.

A note on terminology

The BBC is no longer exclusively a broadcaster. A large amount of its creative output now appears online, and it undertakes a wide range of community interest and educational activity.

Much of the text of this Green Paper uses the terms 'programmes' or 'programming' as shorthand for what the BBC does. However, where we want to emphasise other activity we have sometimes used terms such as 'content' and 'output' (to specifically include the internet) or 'activity' and 'services' (to cover everything that the BBC does).

We have also used the term Public Service Broadcasting (PSB) to refer to the general concept of public subsidy for the main terrestrial television channels. But where the term PSB is used in relation to the BBC, the concept also extends to radio.

How to respond to this Green Paper

We want to hear from anyone who has an interest in the future of the BBC, including:

- viewers, listeners and online users;
- consumer groups;
- broadcasters and platform operators;
- production companies;
- other media organisations; and
- organisations with links to the BBC.

Please send us your responses to the issues raised in this Green Paper by **31 May 2005**, preferably via our website.

Website: www.bbccharterreview.org.uk

By Email: bbccharterreview@culture.gsi.gov.uk

By Post: BBC Charter Review Consultation
Department for Culture, Media and Sport
2-4 Cockspur Street
LONDON
SW1Y 5DH

If you would like to contribute to the consultation but are unable to put your response in writing, please call the Charter Review team on 020 7211 2188.

In the spirit of Freedom of Information, we would like to publish your response on our website. If you would prefer your contribution not to be published, please make this clear in your response, and state (in brief) your reasons why.

Please note that the Department may receive a Freedom of Information request for the consultation responses that we do not publish. Your reasons for asking us not to publish your response will be taken into account when the department considers how to respond to any such request for information.

In addition, we may be asked to disclose your personal details. Please make it clear in your response if you are happy for your name and address to be released on request.

If you have a complaint about how this consultation has been conducted, please address it to:

Simon Cooper
Department for Culture, Media and Sport
Strategy Division
2-4 Cockspur Street
LONDON
SW1Y 5DH

Impact on business, charities and the voluntary sector

The BBC and the activities it undertakes in certain areas have potential impacts – positive as well as negative – on UK businesses, charities and voluntary sector organisations. We would like to use this opportunity, where appropriate, to gather specific information about the impact of the proposals and options in this paper on business, charity or voluntary sector organisations.

We would welcome your comments on any of the proposals and options in this paper, and their potential positive and negative impacts on your sector or organisation. Please be as specific as possible.

Section 1: Foundations of a 21st century BBC

1. The role of the BBC

Our policy

The BBC is the origin and cornerstone of public service broadcasting in the UK. It is a key part of our culture and our public realm and it plays an important role in making our democracy function.

The BBC's traditional mission has been to 'inform, educate and entertain.' But in today's complex media market, where many other broadcasters are fulfilling some part of this very general remit to some degree, the BBC's role needs to be more clearly defined and more widely understood. In this Chapter, we have set out the five enduring public purposes we expect it to fulfil through its programming and other activities. The next Chapter adds a sixth, additional purpose that has particular relevance for the next Charter period – building digital Britain.

In delivering these purposes, the BBC also needs to make sure its programmes are of high quality and that they are original, innovative, challenging and engaging. And together they need to continue to reach a wide audience across the UK, across the whole range of different genres of programming.

The BBC should aim to be distinctive from commercially-funded services: it should compete on the basis of quality, not aggressively for ratings. The vast majority of BBC programmes should contribute to its public purposes – those programmes that make no direct contribution must be able to justify themselves in terms of their excellence or distinctiveness. It should set standards for other broadcasters in terms of the quality and distinctiveness of its services and their contribution to UK programming and production.

Why is public money put into broadcasting?

- 1.1 Public service broadcasting costs the UK around £3.4 billion every year, and nearly £3 billion of public funding goes to the BBC in the form of the TV licence fee². But why do we put such a large amount of public money into broadcasting and not other creative industries, like the music industry or publishing? For two main reasons:
- broadcasting can contribute to society in ways that other media do not; and
 - as citizens, we wouldn't get everything that we have come to expect from broadcasting if we relied on commercial providers alone.
- 1.2 Television and radio audiences are huge. Almost every programme on the major terrestrial channels will reach millions of people simultaneously. That places such broadcasters in a

² Ofcom estimate that the opportunity costs of public service obligations on ITV1, Channel 4 and Five total around £400 million every year – see Ofcom review of public service television broadcasting, *Phase 2 – Meeting the Digital Challenge*, p. 22

uniquely powerful position, and since the BBC was first established, in the 1920s, it has been commonly accepted that such power should be harnessed for society's good. Audience research shows that the public agree with this principle³. They want programmes to inform and educate as well as entertain. They recognise the positive contribution that broadcasting can make to the effective functioning of democracy. While they continue to watch television and listen to the radio in such large numbers, it will retain the potential to deliver these benefits.

- 1.3 Audiences will not reap the full benefit, however, without large-scale public funding. As the scale and sophistication of pay-TV options increase, television viewers may benefit from an increased choice and diversity of different types of service. Ofcom's review of public service broadcasting has concluded that fully commercial providers will never provide us with high quality public service broadcasting on anything like the current scale. There are some things that we value about television – for example its ability to interest us in new ideas, the way it can reflect the lives of other communities – on which we need to spend public money, and for which we need the BBC.
- 1.4 The case for public service radio is, if anything, stronger than that for TV. Even if audiences wanted to pay for the sort of distinctive content that the BBC provides, there is as yet no price mechanism that could allow them to do so. Radio is entirely free-to-listen. Commercial stations do fulfil a public service role in some ways – particularly through the provision of news and local information. However, the only available commercial models rely on advertising and sponsorship and commercial stations therefore tend to cluster towards the middle ground of taste, in order to reach the greatest possible audience. Whereas average audiences for the BBC's main television channels are falling as digital competition increases, in radio, digital development has yet to have a significant effect on audiences, which remain relatively stable for the larger, well-established stations.
- 1.5 In the last decade, the BBC has moved beyond broadcasting into online and interactive services. Such services do not generally have the same sort of mass impact as television or radio programmes – the internet is a more personal, one-to-one medium. Nevertheless the internet is an increasingly important source of information for millions, and the BBC has established itself as a central, trusted presence in the online world. BBC Online is the most popular site in the UK. In this context, the independent review of BBC Online conducted by Philip Graf⁴ identified some clear purposes for BBC Online that place it alongside the BBC's television and radio services – sustaining social values and providing high quality, innovative and accessible content for UK users. In addition, that review noted that BBC Online plays a valuable role in the development of the web itself: using the BBC's position as a trusted guide to bring new users to the internet; encouraging users to try new interactive technology; and setting a benchmark of innovation and creativity. The BBC's internet presence also offers valuable support to its traditional TV and radio programmes – for instance in its ground-breaking coverage of the 2004 Olympics. Increasingly, it will give viewers and listeners a new way of finding and using BBC broadcast content.

³ Ofcom review of public service television broadcasting, Phase 1 – *Is Television Special?*

⁴ Report of the Independent Review of BBC Online – see www.bbccharterreview.org.uk

What are the public purposes of the BBC?

The current Charter and the Communications Act

1.6 The current Royal Charter gives the BBC a general objective to provide, as public services, sound and television programmes of information, education and entertainment for general reception in the UK. Some of the purposes of the BBC are set out in slightly more detail in its current Agreement with Government.⁵ The terms of the Agreement are reflected in the statutory purposes of public service broadcasting (PSB) set out in section 264 of the Communications Act 2003. Even in the Agreement, however, the BBC's objectives are framed in quite general terms. To fulfil them, the BBC is expected to provide programmes of certain specific types. Box 1.1 provides a summary.

Box 1.1 The existing purposes of the BBC

The purposes of the BBC are to:

- deal with a wide range of subjects;
- cater for the widest possible range of audiences – across different types of programme; and
- maintain the highest standards of programme-making.

To fulfil these purposes, the BBC is asked to:

- inform, educate and entertain; and
- support an appropriate range and proportion of production outside London.

The BBC must also support the following types of programming:

- programmes that reflect UK cultural activity (through drama, comedy, arts, music and feature film);
- news and current affairs (domestic and international);
- sport and leisure;
- education;
- science;
- religion;
- programmes addressing international and social issues;
- children's programmes;
- programming reflecting different communities, interests and traditions within the UK (including those of local communities in particular parts of the UK).

The need for a new definition

1.7 The existing definition of purposes needs to be refined. The headline mission – to 'inform, educate and entertain' through a wide range of subjects targeted at a wide range of audiences – is essentially unchanged from the original remit given to the BBC in the 1920s. It has given the BBC the freedom to expand and develop its services over the past eighty years. But while it remains valid, it is no longer sufficient.

⁵ See Chapter 2 for an explanation of how the BBC's Charter and Agreement are structured

- 1.8 Today's media market is much more complex than that of the 1920s. Viewers and listeners now have far more choice, and if they are to continue to pay for the BBC they need to have a much clearer understanding of what they can expect it to provide. The independent panel on Charter Review has concluded that the BBC's remit should give it a mandate to 'maintain a powerful presence over a range of content and channels' but that it should also set out the limits of that mandate.⁶
- 1.9 We agree that clarity of purpose is vital. It is not enough to say that everything the BBC does, being funded by the public, must constitute public service broadcasting. Many commercial media companies now provide elements of information, education and entertainment. To retain a distinctive role, the BBC needs to have a more closely defined set of purposes that can be understood by the Corporation, by commercial rivals and by the public.
- 1.10 Nor should the BBC's purposes be defined in terms of the sorts of programmes it is expected to provide. The case for the public funding of the BBC, and for public service broadcasting in general, is based on the benefits it can bring to society. The BBC should be set objectives that reflect those benefits. It should be defined by its goals as a public service – not only by its programming output.
- 1.11 'Inform, educate and entertain' should remain the mission statement of the BBC, but the new Charter should explain more clearly how we expect that mission to be achieved. It should set out a coherent set of public purposes. Over the last year, work has been done by Ofcom, by the BBC and through our own public consultation to define these purposes. The results, set out below, show a striking degree of consensus.

The public's view of the BBC

- 1.12 What do the public think those purposes should be? Research shows that audiences recognise and value the fact that broadcasting can fulfil a social purpose beyond entertainment. They agree that television should provide debate and information, high-quality UK programming and a 'balanced diet' of different types of programmes for different audience groups.⁷
- 1.13 We asked people what they particularly valued about the BBC, through quantitative surveys, qualitative research and wide consultation.⁸ There was very strong support for what respondents felt were two particularly distinctive characteristics: its independence and its lack of advertising. People also mentioned the BBC's positive contribution to society in a number of areas, summarised in box 1.2.

⁶ Independent Panel on BBC Charter Review, *Emerging themes*, pp. 8-9

⁷ Ofcom review of public service broadcasting, *Phase 1 – Is television special?*, p. 48

⁸ For full, detailed results see DCMS Review of the BBC's Royal Charter, *What you said about the BBC*

Box 1.2 What people value about the BBC

In our public consultation and research, people mentioned the BBC's role in:

Education

47% think the BBC can be described as 'educational' – more than twice as many as think the same of any other major broadcaster

53% watch documentaries on the BBC and 24% say they would like to see more

"If you want something a bit more educational then you go to BBC 1 and 2" (AB, 16-20, medium TV watcher, Scotland)

Sustaining an informed democracy

85% think the BBC has an important role in keeping the public well informed

62% think the BBC provides better UK news and current affairs programming than any other broadcaster

84% listen to or watch BBC news every week

Supporting the UK's culture

75% believe the BBC is important to British culture

Qualitative research demonstrated the value people place on the BBC's contribution to creativity in the visual arts, music and film

Representing the UK's different Nations, regions and communities

42% think the BBC is the best broadcaster of information about their area or region (level with ITV)

Many people feel the BBC is too focused on London

In the devolved Nations, there is a strong view that the BBC should aim to reflect the lives of different communities back to the whole of the UK – not just to those communities themselves

Promoting the UK abroad and reflecting international issues at home

49% think the BBC has a good reputation in the world – more than agree with any other prompted description of the BBC

The World Service is almost universally praised

In the US, 40% of opinion-formers in Boston, Washington and New York say they use BBC news every week

Setting standards for other broadcasters

The most common spontaneous response, when people were asked what they valued about the BBC, was 'high quality programmes'

64% agree that 'parents can rely on the quality of the BBC's children's programmes'. There was an even higher level of agreement among those with children.

Ofcom PSB review

- 1.14 Ofcom has combined an analysis of market failure in television with the results of its own audience research to put forward a definition of the purposes of public service television broadcasting (PSB) that is summarised in box 1.3. In establishing the principles that broadcasters should work towards, this goes beyond the Communications Act's classification of the different types of PSB programming (news, sport, arts, religion and so on). Indeed Ofcom is clear that public service broadcasting should no longer be defined in terms of 'specific types of programmes or the output of certain institutions', the BBC included.

Box 1.3 Ofcom's proposed PSB purposes and characteristics

Ofcom suggests that PSB should in future be defined in terms of purposes and characteristics, rather than in terms of specific types of programmes or the output of certain institutions. PSB should also aim to ensure that TV continues to provide high-quality material of a kind and on a scale that the market, left to itself, would not provide. Ofcom proposes that the purposes of public service broadcasting should be:

- to inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas;
- to stimulate our interest in and knowledge of arts, science, history and other topics through content that is accessible and can encourage informal learning;
- to reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences; and
- to make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere.

Ofcom also suggests that PSB programmes should have distinctive characteristics. These are:

- **high quality** – well-funded and well-produced;
- **original** – new content, rather than repeats or acquisitions;
- **innovative** – breaking new ideas or re-inventing exciting approaches, rather than copying old ones;
- **challenging** – making viewers think;
- **engaging** – remaining accessible and enjoyed by viewers; and
- **widely available** – if content is publicly funded, a large majority of citizens need to be given the chance to watch it.

- 1.15 Ofcom's purposes and characteristics will be the basis on which the programming output of the other major terrestrial television broadcasters is judged. But for the BBC, they do not represent the whole picture. The BBC also runs radio and internet services alongside its television operation, and in some areas it has a role as a public institution that goes beyond

programming, into community development, education and cultural patronage. Ofcom has itself acknowledged that there may be a different set of public purposes for radio, and is conducting further work to consider what these might be.

The BBC's view – Building Public Value

- 1.16 The BBC – in *Building Public Value* – has suggested there are five key areas in which it adds 'public value'.⁹ Its list is broadly consistent with Ofcom's and with the BBC formulation from the last Charter Review process. Three of the five forms of public value correspond to Ofcom's purposes. However, the BBC adds two additional BBC-specific roles: the creation of cultural value through the support it offers the creative sector; and the showcase it offers for British values, culture and talent to audiences overseas. The BBC also suggests that it will need to play a key role in the next decade helping to develop and extend new digital services across the UK.

Box 1.4 The BBC's definition of its own public purposes

The BBC creates public value in five main ways:

- Democratic value: the BBC supports civic life and national debate by providing trusted and impartial news and information that helps citizens make sense of the world and encourages them to engage with it.
- Cultural and creative value: the BBC enriches the UK's cultural life by bringing talent and audiences together to break new ground, to celebrate our cultural heritage, to broaden the national conversation.
- Educational value: by offering audiences of every age a world of formal and informal educational opportunity in every medium, the BBC helps build a society strong in knowledge and skills.
- Social and community value: by enabling the UK's many communities to see what they hold in common and how they differ, the BBC seeks to build social cohesion and tolerance through greater understanding.
- Global value: the BBC supports the UK's global role by being the world's most trusted provider of international news and information, and by showcasing the best of British culture to a global audience.

Conclusion

- 1.17 The BBC should continue to meet all its legal obligations to provide certain specific types of programmes. Ultimately, however, it should be defined in terms of its broad public purposes rather than by the number of hours of any particular sort of programming that appear in the schedule. What matters is the impact of its activities and the benefits they bring the public. Our public consultation, and the informed seminars that Lord Burns and his independent panel have held, have demonstrated that there is broad agreement among the public and the broadcasting industry with the sort of analysis set out by Ofcom and by the BBC itself. The process of consultation has helped us define the core purposes that we think BBC services should fulfil:

⁹ As part of Charter Review, the BBC submitted papers outlining the contribution it makes to building public value in each of these five ways. The papers can be found at bbccharterreview.org.uk

Sustaining citizenship and civil society

- Informing ourselves and others and increasing our understanding of the world through news, information and analysis of current events and ideas

Promoting education and learning

- Stimulating our interest in and knowledge of a full range of subjects and issues through content that is accessible and can encourage either formal or informal learning
- Providing specialist educational programmes and accompanying material to facilitate learning at all levels and for all ages

Stimulating creativity and cultural excellence

- Enriching the cultural life of the UK through creative excellence in distinctive and original programming
- Fostering creativity and nurturing talent – using the licence fee as venture capital for creativity
- Promoting interest, engagement and participation in cultural activity among new audiences

Representing the UK, its Nations, regions and communities

- Reflecting and strengthening our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences
- Making us aware of different cultures and alternative viewpoints, through content that reflects the lives of other people and other communities within the UK

Bringing the UK to the world and the world to the UK

- Making UK audiences aware of international issues and of the different cultures and viewpoints of people living outside the UK
- Bringing high-quality international news coverage to a global audience through radio, TV and new media

The BBC's commercial services also have a role in supporting this last purpose by showcasing the best of UK creativity, culture and talent for global audiences, thereby generating additional value for the BBC licence fee payer.

A separate section, at the end of this chapter, provides more detail on the ways in which we expect the BBC to fulfil each of these public purposes. Chapter 2 explains the role we expect the BBC to play in fulfilling a sixth purpose – building digital Britain.

What sort of content will contribute to these purposes?

- 1.18 The BBC's public purposes represent the organisation's reason for being – they are the justification for spending billions of pounds of public money. They mainly deal with the first two parts of the Corporation's mission – to inform and to educate. But viewers also look to the BBC for high quality entertainment, and the BBC needs to provide programmes that large audiences enjoy, so the public feels that its money is being well spent. It should not be a broadcaster that only shows minority-interest programming. It should provide a wide

range of programmes, across every genre, trying to reach the widest possible range of audiences. Where possible, programmes should appeal to new viewers as well as their existing audience.

- 1.19 This conclusion is consistent with Ofcom's view that public service TV should display certain **characteristics** or qualities. One such characteristic is 'widely available', and BBC services should certainly all be made widely available (on a range of digital platforms, where appropriate). In addition, publicly-funded programmes should be excellent, distinctive and entertaining. In delivering public purposes, therefore, BBC content, in radio and new media as well as television, should aim to follow Ofcom's suggestion that it be:
- of high quality;
 - challenging;
 - original;
 - innovative;
 - engaging.
- 1.20 All BBC services should strive to fulfil the full range of public purposes. Not every individual programme (or piece of internet content) will always fulfil such a purpose – although the vast majority should. However every programme should display at least one of the characteristics listed above.

Performance measurement

- 1.21 All BBC programmes should aim to contribute in some way to at least one public purpose or to display at least one of the characteristics of excellence and distinctiveness set out above. The set of purposes and characteristics should form the basis for a new, more rigorous system of regulation and performance measurement. That system needs to measure the extent to which audiences value programmes and services, and their impact, as well as measuring the amount of each sort of programming that has been provided. It should also ensure that the BBC meets all the requirements made of it in the Communications Act. We make more detailed proposals about the way such a system might function in Chapter 5, on governance and regulation.

Setting a benchmark

- 1.22 The BBC exists within an ever-more complex broadcasting market, and within a system of public service broadcasting that extends to ITV, Channel 4, Five, S4C and Teletext. The Communications Act established the BBC's position at the top of the hierarchy of public service broadcasters. As such, it should:
- broadcast programmes across the full range of the public service broadcasting remit set down in the Act, both on television and radio;
 - support the types of programmes – for instance in classical music – that commercial broadcasters don't tend to commission.

- 1.23 There was a marked perception in the focus groups we conducted – both last year and at the start of this year – that the standards of BBC TV programming were declining. In particular, there was concern about the number of repeats and the extent of ‘dumbing down’, derivative and ‘copycat’ programming. Ofcom research (for phase 1 of its review of public service broadcasting) suggests that television viewers are also concerned by the amount of competitive head-to-head scheduling that the main terrestrial channels engage in. The BBC should aim to complement what is available on commercial channels, rather than always competing directly against it. Its role should involve:
- setting high benchmarks, across all types of programming, that the rest of the industry has to live up to – avoiding derivative formats, for example, and being clear that it should compete on grounds of quality not just share;
 - ensuring that all journalism is fair and precise and that all journalists are thoroughly trained;
 - adopting a public service approach to scheduling – not competing aggressively to take audiences away from PSB content on other terrestrial channels, but seeking to offer a complementary schedule that offers the widest possible choice for audiences.
- 1.24 As our major publicly-funded broadcaster, the BBC also has a particular responsibility to serve UK audiences by:
- providing more original programming (not repeated or bought-in) than any other broadcaster;
 - supporting local and regional programming and out-of-London production;
 - offering a fair deal and transparent terms to independent producers, to ensure the best ideas are commissioned.

The BBC should stay out of bidding wars for expensive foreign imports except where it is clear that no other terrestrial broadcaster would show all the programmes or films in question, or that the acquisition would clearly contribute to a public purpose.

- 1.25 The BBC recently unveiled a new programme strategy that makes welcome steps towards re-establishing its position as a standards setter. It commits the BBC to:
- set standards of excellence and innovation;
 - reduce the number of peak-time repeats and derivative or formulaic programmes;
 - invest more in original UK drama, comedy, news, documentaries, the arts and music.

A strategy for other BBC activities

- 1.26 The BBC is not only a broadcaster. Beyond its programming output, the BBC runs cultural educational and community outreach projects that often have no direct link to television or radio services.
- 1.27 For example, the BBC says it ‘creates a range of learning output because it aims to reach everybody and to engage them in active learning’¹⁰ and it provides online resources such as GCSE *Bitesize* and *Skillswise*. For hard-to-reach communities, the BBC told the Independent

¹⁰ BBC, *The BBC's learning impact* (September 2004)

Panel that its commitment to universality moved it to find 'non-traditional ways of reaching people'¹¹. This activity extends to running 7 Learning Centres and 12 Learning Buses, helping to deliver skills and learning to hard-to-reach groups throughout the UK. It has also included the publication of a free magazine, *Cashwise*, to teach basic financial management skills through distribution to libraries, colleges and Jobcentre Plus.

- 1.28 Much of this activity is valuable. Some of it has high impact – 69% of Year 11 pupils use GCSE *Bitesize*, for instance. However, the link to the Corporation's publicly-funded broadcasting services and its public service broadcasting remit is not always clear. In future, therefore, where such activity is worthwhile and the BBC is the only provider, it should continue, but only where it is part of a coherent, published strategy in pursuit of one of the Corporation's five public purposes. Structures should be put in place to review its public value against its market impact, as part of the performance measurement system that operates for core services. Such activity should not be undertaken where it is going to be unsustainable in the longer term (except where activity is being piloted), and where possible the BBC should work with external partners to ensure that this is the case.

¹¹ BBC, *The BBC's contribution to informed citizenship* (September, 2004)

What should each public purpose mean for the BBC?

This section provides more detail on each of our proposed public purposes, explaining the BBC's current remit in each area and the future role that we think it should have.¹²

It is important to note that at present none of the proposals put forward for future BBC activity have been fully costed. It will be an essential part of the next phase of Charter Review to scrutinise the costs of such activity as well as the potential for efficiency gains in existing BBC services, before final decisions are made about the future shape of the BBC and its funding package – see Chapter 4 for more details.

Sustaining citizenship

Informing ourselves and others and increasing our understanding of the world through news, information and analysis of current events and ideas.

Current BBC commitments and services

A commitment to informed citizenship has been at the heart of the BBC's remit since its establishment in the 1920s.

The BBC's Agreement requires it to broadcast impartial coverage of news and current affairs in the United Kingdom and throughout the world and to support fair and informed debate at local, regional and national levels. Amendments to the Agreement at the time of the Communications Act required the BBC Governors to establish quotas for the amount of news on BBC1 (including a quota for news in peak time) and the amount of current affairs on BBC1 and BBC2 (again including a peak-time quota). The Governors must secure Ofcom's agreement before they allow such quotas to be set at any level below 2002 levels of output.

In its submission to the independent panel on Charter Review, the BBC suggested that one of its roles is 'to help equip the public with the knowledge and capability necessary to act as informed citizens', by:

- providing accurate, impartial and balanced coverage of news and current affairs in order to help the public make informed choices;
- reporting the proceedings of the political process in the UK and internationally;
- stimulating the public debate on a range of social, political and other current affairs issues.

In *Building Public Value* the BBC identified some new ways to pursue these aims, some using new technologies – 'personalised learning tools, access to previously closed archives, new ways of connecting communities, more convenient ways to watch and listen to programmes, more localised content, and tailored services for minority groups.'

¹² References to public and industry opinion can be found in more detail in *What you said about the BBC*, at www.bbcharterreview.org.uk. References to Ofcom's PSB definition are taken from the three reports it has produced in its review of public service television broadcasting – see www.ofcom.org.uk

The Neil Report

After the Hutton inquiry in 2004, the BBC commissioned a panel chaired by Ronald Neil, former Director of BBC News and Current Affairs, to review the BBC's editorial standards. The Neil report set out recommendations and guidelines intended to strengthen BBC journalism.

The Report says that 'as the largest employer of journalists in the UK, the BBC has an obligation to take the lead in strengthening training in craft skills and promoting debate about journalistic standards and ethics in broadcasting'. The Report set out journalistic standards for:

- truth and accuracy;
- serving the public interest;
- impartiality and diversity of opinion;
- independence;
- accountability.

The Report includes a proposal that the BBC should establish a college of journalism. This would help train journalists in defining and applying journalistic standards. Ultimate responsibility for meeting the five principles would lie with editors.

Ofcom's PSB definition

Ofcom has concluded that one of the four purposes of public service broadcasting (PSB) should be 'to inform ourselves and others and to increase our understanding of the world through news, information and analysis of current ideas and events.' We have adopted this wording in defining the BBC's role.

In Ofcom's audience research, 55% of people said television was their main source of news, and 87% said that they thought it was important for television to provide 'news and other programmes to keep the population well informed'.

Public and Industry opinion

It was clear from responses to our Charter Review consultation and accompanying research that, for the British public, there is a strong association between the BBC and the functioning of democracy in the UK. The BBC has a reputation amongst the majority of the UK public for reliable, accurate and impartial news reporting – more than twice as many people consider the BBC to be accurate and trustworthy than say the same about ITV, Channel 4 or Five.

At the seminar held by the independent panel, and in responses to our consultation, concerns were expressed by some in the broadcasting industry that in using new services such as the internet and digital television to engage the public, the BBC with its licence fee funding had an unfair advantage over competitors and could ultimately become monopolistic in these areas.

Future role

The BBC should continue to inform the public and increase our understanding of the world through news, information and analysis of current events and ideas. Its news and current affairs coverage should set standards of quality and should be resourced accordingly. It should continue to engage the widest possible cross-section of the UK population with differently-targeted services, including BBC Online. It should show a continued commitment to local and regional news, although the proposed ultra-local digital TV news services should be subjected to a public value test and market impact assessment before any decision to launch.

The BBC's programming outside news and current affairs should also where possible and relevant contribute towards stimulating engagement with social and political issues – for example through themed seasons or campaigns.

The BBC has a particular responsibility to help people understand Parliament and the UK political system, including the devolved administrations, so that they can be informed, media literate participants in our democratic system. BBC Parliament should continue to carry dedicated coverage of Parliamentary matters, and there should be regular coverage of Parliament in both news and other programming on mainstream channels.

The BBC should be able to contribute to democratic debate in forms other than broadcast content – for example by organising seminars and e-discussion forums, distributing information and working on campaigns with partners in the public and voluntary sector. But such activity should have clear limits and clear links to broadcast output – it should be part of a single clearly defined, published strategy for sustaining citizenship.

We welcome the BBC's recognition and implementation of the core recommendations of the Neil report – concerning fairness, precision and the need for thorough training of journalists. These will be reflected as appropriate in the next BBC Charter and Agreement.

Promoting education and learning

- *Stimulating our interest in and knowledge of a full range of subjects and issues through content that is accessible and can encourage either formal or informal learning*
- *Providing specialist educational programmes and accompanying material to facilitate learning at all levels and for all ages*

Current BBC commitments and services

Education has been at the heart of the BBC's remit from the start. The Agreement commits the BBC to produce 'programmes of an educational nature (including specialist factual, religious and social issues programmes as well as formal education and vocational training programmes)'.

Its most recent Statements of Programme Policy commit the BBC to ‘contribute to education for all by creating a wide range of accessible programmes and services that feed curiosity and enable people to learn throughout their lives – across all ages and needs, and this year to include piloting the digital curriculum service’.

The BBC defines its provision in this area under three categories:

- i. *Formal learning output.* These services are defined by their intent – all are closely linked to achieving a particular learning objective or qualification and are often related to nationally-set educational goals. Examples given by the BBC include the digital TV channel CBeebies, and the schools services, Skillswise and Webwise. Since 2000, the BBC has also rolled out seven Learning Centres and twelve Learning Buses as part of an experimental scheme for delivering learning support directly to communities, offering a range of facilities from basic skills to creative ‘digital storytelling’ assistance.
- ii. *Informal, targeted learning.* These services aim to provide relevant, engaging learning opportunities to every citizen over the age of seven. These opportunities are not connected to formal or course-related learning. Examples include factual landmark programmes such as How to Be a Gardener, online factual services, social action campaigns around subjects such as domestic violence, the digital children’s channel CBBC, and continuing learning services such as OneMusic.
- iii. *Informal learning from general programming.* This includes a wide range of factual, current affairs and drama programming that the audience learn from simply because it is good, informative programming. This output is not created with specific learning objectives in mind, but the explicit aim is to make complex factual subjects accessible for a wide audience across television, radio and online and interactive television.

Ofcom’s PSB definition

Ofcom states in Part II of its Review of Public Service Television Broadcasting that one of the core principles of PSB should be ‘to stimulate our interest in and knowledge of arts, science, history and other topics through content that is accessible and can encourage informal learning’.

Public and Industry opinion

Our public consultation showed clearly that, for all ages and social groups alike, the BBC’s contribution to learning (both formal and informal) is one of the BBC’s most important roles: one of the things that sets the BBC apart from other broadcasters is its educational element. It is seen as having a particularly important role in the educational, social and cultural development of children, young people and adults alike.

These findings are supported by Ofcom’s research into public service television – 76% of people think that it is important that terrestrial channels should provide ‘specialist educational programmes for children and adults’, and 58% thought ‘programmes that promote or support educational and other public initiatives’ were important, although the majority thought that these elements should be there as a social, not personal, benefit.

Contributors to the independent panel's work in this area supported the BBC maintaining an educational presence on all mainstream TV channels, radio stations and online given that so much learning is gained 'incidentally' through watching balanced, high-quality content delivered in an accessible manner. The majority opinion also supported the idea that the BBC should have a clearly articulated statement of strategy and purpose in this area, and that any interpretation of its remit 'to educate' should show that the BBC fully understands, and is sensitive to, the market within which it operates.

Future role

We believe the BBC, with its considerable reach and impact, should continue to be a major force in education and learning. It is well placed to stimulate our interest in and knowledge of a full range of subjects and issues, from traditional support for curriculum topics to areas with a wider impact on society – for example, healthier lifestyles (as recently illustrated by the BBC's *Fat Nation* season).

In line with our principle of clarity of purpose, we believe the BBC should publish a coherent long-term strategy for its contribution to education. That strategy should make a clear distinction between:

- the formal educational material that will be provided, particularly through BBC Online, in all areas of the curriculum; and
- the role it expects to play in encouraging informal learning through mainstream programming, particularly factual programming – engaging audiences in new issues and areas of interest, and taking account of the different systems of formal education in the Nations.

The strategy should also set out how the BBC will meet the different needs of different audiences, ranging from pre-school and school to adult learners and those in further education.

The BBC's education strategy should be complemented by a set of performance measures and an annual review of its impact – including an element of independent scrutiny and an appropriate emphasis on measuring educational benefit. The framework for this system is set out in Chapter 5.

Technological changes such as the switchover from analogue to digital television, and the growth of broadband and interactive opportunities will change the way in which audiences engage with content and learn. The BBC should be at the forefront of harnessing these opportunities, to deliver both formal and informal learning.

However, some of those in greatest educational need are those least likely to have access to new technology. In developing and promoting digital technologies, the BBC should aim to encourage these audience groups to take full advantage of the technology and learning opportunities open to them, and drive up media literacy amongst all social and age groups.

The BBC should make use of all its services, as appropriate, for educational purposes, including its larger broadcast channels, its archive and its local services. BBC1 and 2, for

example, have a key role to play in supporting education and directing audiences to educational material and opportunities available elsewhere.

In delivering all its aims, the BBC must keep in mind its privileged position and its potential market impact. The BBC brand is a particularly powerful tool in drawing people to learning, and the BBC must make the best use of its trusted and renowned status. It should work with appropriate partners within the educational community and the commercial education industry. The development and publication of a forward-looking strategy should help potential partners and competitors know what the BBC plans to do.

Stimulating creativity and cultural excellence

- *Enriching the cultural life of the UK through creative excellence in distinctive and original programming*
- *Fostering creativity and nurturing talent*
- *Promoting interest, engagement and participation in cultural activity among new audiences*

Current BBC commitments and services

The BBC's Charter requires it 'to organise, present, produce, provide or subsidise concerts, shows, variety performances, revues, musical and other productions and performances and other entertainments (whether live or recorded) in connection with the broadcasting and programme supply services of the Corporation or for any purpose incidental thereto.'

The BBC Agreement places a requirement on the BBC home services to 'stimulate, support and reflect, in drama, comedy, music and the visual and performing arts, the diversity of cultural activity in the United Kingdom'.

Under the Communications Act, all public service television services should ensure:

'That cultural activity in the United Kingdom, and its diversity, are reflected, supported and stimulated by the representation in those services (taken together) of drama, comedy and music, by the inclusion of feature films in those services and by the treatment of other visual and performing arts.'

In *Building Public Value*, the BBC argues that its purposes should be considered in terms of the public value created. One of its five specific purposes is to create:

'Cultural and creative value: the BBC enriches the UK's cultural life by bringing talent and audiences together to break new ground, to celebrate our cultural heritage, to broaden the national conversation.'

In its submission to the independent panel on Charter Review, 'The BBC's impact on culture', October 2004, the BBC states that it does not have an 'overarching cultural strategy'. It states that:

‘The BBC’s contribution to culture is broad, its impact not limited to the content of its “cultural” programmes. Rather this impact stems from the entirety of the BBC’s activities in pursuit of its public service remit’ (p. 2). The BBC outlines the role it believes it should fulfil in:

- Developing the culture of broadcasting
- Providing universal access to culture
- Creating new works
- Supporting, promoting and encouraging creative talent
- Investing in the creative industries
- Training the industry
- Facilitating cultural events across the UK
- Promoting UK culture overseas

Ofcom’s PSB definition

Two of the purposes that Ofcom set out for PSB relate, indirectly, to the BBC’s own conception of its cultural contribution, as follows:

- To stimulate our interest in and knowledge of the arts, science, history and other topics through content that is accessible and can encourage informal learning; and
- To reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences.

Public Opinion

A recurring theme of our qualitative research and public consultation was the value of the BBC’s cultural role. This value was placed not only on what the BBC brings to audiences and communities, but also on its role in supporting the wider creative industries and bringing on talent across a range of areas like the visual arts, music and film, as well as its contribution to other elements of the UK’s culture, like sport. When asked what type of programmes they personally watched nowadays, ‘films’ was the most popular choice amongst participants in our quantitative survey.

Many people who work in cultural sectors – as well as those who are familiar with the BBC’s cultural activities – responded to our consultation. In general, such respondents acknowledged the excellent work already being done, but urged the BBC to use its broadcast services to encourage viewers and listeners to participate more in cultural activity. The Arts Council, for instance, argued that the BBC should increase its commitment to the sort of campaigns that can promote grass-roots participation in the arts, particularly among children and younger people. It cited the recent Roots project as one successful example.

Some respondents also argued that the BBC needs a more coherent cultural strategy, running across all genres and networks. From this perspective, the newly formed

Creative Board is a welcome step towards such a strategy, and a framework for measuring its effectiveness.

Future role

The three elements we have identified for the BBC's cultural purpose amount to:

- *Showcasing excellence* – celebrating the very best across the genres, to stimulate, inspire and challenge new or established audiences through distinct content of the very highest quality. As well as new comedies and innovative BBC dramas, the Olympics and Music Live are clear examples of the BBC's ability to provide a platform for, and mass access to, the very best that British cultural life has to offer. In addition, the BBC has a responsibility to use its unique funding position to take more risks than its commercial counterparts: from programme content, its format and production, to its distribution, the BBC's output should be distinctive and at the cutting edge of innovation – challenging, as well as entertaining, its audience. The BBC should also accept the Select Committee recommendation to put together a film investment strategy to ensure that the best UK films are shown to a wider television audience.
- *Fostering creativity and nurturing talent* – The BBC has a unique ability to inspire, support and showcase the work of the best of the UK's creative talent. Many artists and performers receive huge support from the BBC, and our cultural landscape is richer for it. In particular, the BBC should maintain its vital contribution to new music, from Radio 1 to Radio 3.

The BBC's film strategy should reflect other aspects of BBC strategy, including its commitment to original content, its contribution to skills development and training and the way in which it reflects the UK's cultural identity and its different communities.

- *Promoting engagement with and participation in cultural activity* – by providing audiences with a gateway to cultural experiences and pathways to further exploration. The BBC provides a cultural space in which significant numbers of people can explore new ideas or experiences in a safe and trusted environment. That space should reflect all aspects of UK culture. For example, in sport the BBC can help to promote interest and participation in the sort of smaller, minority-interest sports that are less well covered by commercial networks.

The potential benefits offered by **partnerships** are also important. Many respondents to our consultation cited examples of how major BBC programmes had contributed to a rising interest in their sectors – *The Big Read*, *Restoration*, and *Proms in the Park* being the most obvious examples. The BBC can do more of this, in partnership with other public sector organisations. We welcome its new draft partnership code, which should ensure that both sides of any deal obtain the maximum value from their collaboration – for the benefit of both organisations and ultimately for the viewer and listener.

Reflecting the UK's Nations, regions and communities

- *Reflecting and strengthening our cultural identity through original programming at local, regional and National level, on occasion bringing audiences together for shared experiences*
- *Making us aware of different cultures and alternative viewpoints, through content that reflects the lives of other people and other communities within the UK*

Current BBC commitments and services

The BBC is committed, through its Agreement with DCMS, to services that ‘contain comprehensive, authoritative and impartial coverage of news and current affairs in the United Kingdom and throughout the world to support fair and informed debate at local, regional and national levels’. Amendments to the Agreement following the Communications Act:

- require the Governors to set quotas for high quality National and regional programming on BBC1 and BBC2 – including quotas for peak-time provision – which cannot fall below 2002 levels without agreement from Ofcom;
- require the BBC to produce a significant proportion of all UK-made programmes (constituting a significant proportion of production spend) outside the M25, at a significant range of different production centres, in a significant range of genres.

The BBC submitted two documents to the Independent Panel on Charter Review setting out its role in representing nations, regions and communities.

In these documents, the BBC sets out how it seeks to “celebrate and reflect the diversity of the UK and connect its changing communities” by:

- providing programmes and services intended to meet the needs and interests of audiences in different parts of the UK – through programmes provided on national and regional versions of its television channels, through its range of national and local radio stations, and increasingly through a series of local interactive services;
- ensuring that programme-making talent from all parts of the UK makes a proper contribution to the BBC’s UK-wide services;
- developing a positive and active presence in communities across the UK.

The BBC defines the main elements of its representational provision as encompassing:

- providing relevant national/regional/local news accessible at all times;
- developing platforms for community debate and creating community connections;
- delivering localised learning opportunities to enhance and complete the BBC’s network provision;
- showcasing and celebrating national/regional/community talent, culture and events;
- empowering people to be active citizens and to release their creativity;
- giving people a voice and creating a richer cultural experience for everyone in the process.

Ofcom's PSB definition

Ofcom's phase 2 report stated that its "proposed future framework for PSB" includes:

"a new approach to programming for the nations and regions: regional production and, if possible, regional news on ITV, a transfer of non-news regional obligations to the BBC and the use of digital opportunities to create a new tier of more local services".

In its final phase 3 report, Ofcom suggest that the BBC should find new and different ways of providing more regional programming beyond news, to be the lead provider of such content.

Public and Industry Opinion

The Department's public consultation and research showed that the public values the work that the BBC does to represent the nations, regions and communities, with 42% asked thinking that the BBC was the "best broadcaster of information about their area or region" (although ITV registered a similar approval rating) and 63% of the view that the BBC is "good at representing cultural diversity". From a nations perspective, views about the BBC's output in Northern Ireland were particularly positive, and the BBC's commitment to Welsh language is evidently highly valued by Welsh speakers.

There were critics, however. There was concern from across the UK that the BBC was too focused on, and around, London and from organisations representing minority groups that felt that more could be done to capture all social, cultural and geographic groupings. There was also a feeling from Scotland that – with the exception of Gaelic programming, which was well received by Gaelic speakers – media coverage, generally, of Scottish issues was thin.

Future Role

Programming

The BBC should provide network programming that reflects the activities and cultures of the diverse range of different communities within the UK. It should take care to ensure that such output provides an accurate and balanced reflection of the community in question. The BBC also has a role in bringing audiences together, across the UK, for shared experiences, for example by broadcasting sporting events of particular national importance.

The BBC should reflect modern Britain's diversity through the on-air portrayal of ethnic minorities, those with disabilities and those from other minorities in mainstream as well as specialist programmes. For instance, it should attempt to address the fact that some young ethnic minority age groups appear to feel alienated by the mainstream media.

It should also provide a range of programming reflecting different religions and other beliefs that is appropriate to multi-faith Britain. Such programming in prominent positions in both TV and radio schedules, reflecting diversity within, as well as between faiths and beliefs. Such programming should include coverage of acts of worship and

key events in the religious calendar as well as drama and current affairs programming that explores religious issues and other belief systems in different ways, for different audiences.

The BBC should continue to provide news and current affairs programmes on television at a regional level. It should also maintain its network of local radio services and locally-focused internet sites. Together, these services should continue to promote community debate and localised learning. The concept, which has been touched on by the BBC in only the broadest terms to date, of an “ultra-local” service is one that could – in a fully digital world – bring production and programme-making within the reach of many more people. There are potential implications for commercial competitors. The BBC should explore the possibilities with Ofcom.

In line with Ofcom’s recommendation, the BBC should consider what scope it has for expanding its contribution to regional programming. Whilst opt outs have been utilised in news programmes for some time, there has been evidence more recently of the BBC using it more imaginatively (for example, by way of a regional opt out at the end of *British Isles: A Natural History*) and the BBC should consider how these and other ideas could be used to expand regional programming in new and valuable ways. However, the BBC should not simply compensate for the reduction of ITV regional output.

Devolution has changed the political fabric of the UK, and the BBC should continue to provide a larger amount of dedicated programming in and for each of the devolved nations (Northern Ireland, Scotland and Wales). That should include provision in indigenous minority languages across a range of platforms – the internet has particular value in supporting these languages. More detail on Welsh and Gaelic is set out below.

S4C

The principle of the BBC contributing to Welsh language programming is well established, but the obligation on the BBC to provide ten hours a week of Welsh programming free of charge to the Welsh Fourth Channel Authority, S4C, has not changed since S4C began in 1982. The Laughton report on S4C, commissioned by DCMS and published in July 2004, noted that BBC expenditure on Welsh programming for S4C had not risen in line with the Corporation’s overall public expenditure or its expenditure in Wales on English language programming in recent years. It recommended that the BBC and S4C be invited to agree a new formula for the supply of programmes and other services by BBC to S4C, appropriate for the current needs of Welsh language public service broadcasting.

Ofcom has recommended that there should be greater transparency in the relationship between the BBC and S4C, with clearer commitments from the BBC. Further consideration will be given to the details of any new BBC/S4C settlement, including the level of the BBC’s contribution; whether it should be expressed in monetary terms rather than in hours of programming; how best to ensure its value is maintained over time and where responsibility should rest for decisions on content.

The Government is committed to a sustainable future for Welsh language television broadcasting. S4C's relationship with the BBC will be important in stabilising and strengthening its position over the coming years. The Government also accepts the Laughton report's conclusion that 'a revised settlement...for the digital age is a target worth achieving and a priority for all who care about the ecology of public service broadcasting in Wales'.

Gaelic broadcasting

The BBC has a crucial role to play in safeguarding Gaelic cultural heritage, and it has a history of commitment to Gaelic across a number of platforms. The Government is keen to see a better deal for Gaelic – perhaps including a dedicated channel, as Ofcom suggests. We are currently working to bring the Gaelic Media Service together with the BBC and a number of other parties (including Ofcom, Scottish Media Group and the Scottish Executive) to put together a sustainable strategy for Gaelic television. The BBC will have a key role to play in any future channel.

Production

Out of London production can bring some benefits to local audiences if the programmes produced reflect local characters, stories or settings. It also provides economic benefits – in terms of jobs and investment. The BBC's role in supporting out of London production is discussed in more detail in Chapter 7.

Bringing the world to the UK and the UK to the world

- *Making UK audiences aware of international issues and of the different cultures and viewpoints of people living outside the UK*
- *Bringing high-quality international news coverage to a global audience through radio, TV and new media*

The BBC's commercial services also have a role in supporting this last purpose by showcasing the best of UK creativity, culture and talent for global audiences, thereby generating additional value for the BBC licence fee payer. However, as discussed in Chapter 10, it is important that all such commercial services are also linked to the other public purposes of the BBC.

Current BBC commitments and services

In its evidence to the Independent Panel, the BBC defined the core purpose of the BBC's global news operations as being 'to provide trusted and unbiased news to audiences around the world'. The two principal elements of the BBC's international role are BBC Global News Division – comprising BBC World Service, BBC World (a commercial television service), the BBC's international online news sites, and BBC Monitoring – and BBC Worldwide, the BBC's commercial subsidiary, which exploits the BBC's intellectual property in the UK and around the world.

The World Service is funded by the tax-payer in the form of a grant-in-aid of £225 million (rising to £239 million in 2005/6) provided through the Foreign and Commonwealth Office (FCO). Recent increases in funding have enabled the World Service to continue its development of new services, including its successful expansion into online services. The BBC's international websites are paid for partly by the World Service's grant-in-aid, and partly by the licence fee. All foreign language internet offerings are provided by the World Service.

The BBC's international news operations have been combined into the BBC Global News Division to ensure greater global co-ordination and impact by allowing the strengths of television, radio and new media to complement each other.

The Agreement

In relation to the BBC's international role, the Agreement concentrates on the BBC World Service. The Agreement commits the BBC to broadcast or transmit programmes and deliver other services in the World Service to such audiences overseas and in such languages as agreed with the FCO. The BBC undertakes to plan and prepare its World Service programmes in the national interest, while maintaining high standards of editorial integrity and programme content and quality.

The Agreement also sets out the general long-term objectives relating to the World Service's operations, including the provision of an accurate, unbiased and independent news service covering international and national developments, the presentation of a balanced British view of those developments, and an accurate and effective representation of British life, institutions and achievements.

Statements of Programme Policy

In its Statements of Programme Policy 2004-5, the BBC undertakes to 'support the UK's role in the world by being the world's most trusted provider of international news and by showcasing the best of British culture to a global audience – including BBC World Service, BBC World and BBC Prime, and by developing long-term global co-production and broadcast partners'.

In relation to the international provision on its television channels, the BBC is committed to reflecting the increasing importance of international affairs to UK audiences. Examples given by the BBC include a Panorama special looking at the atrocities committed in the Rwandan civil war, and the programme *Iraq: Untold War*. In addition, the BBC says it aims to maintain a broad agenda across international affairs with one-offs and shorter series, 'such as *World Wedding*, which will view social, religious and health issues around the world through the prism of young couples living in different cultural environments', and BBC 4's *New Kids on the Bloc*, which explores the politics and culture of the ten new Member States of the European Union. In addition, BBC News 24 will continue its commitment to its international coverage.

The BBC also promises to continue to connect the UK and the international community via its website. It says that 'bbc.co.uk coverage of the Iraq war brought people from across the UK into dialogue with individuals and opinions from as far afield as Fiji, Ghana, Russia, Saudi Arabia, Spain and the USA'.

Public and Industry opinion

Responses to our public consultation recognised the high value of the BBC's international role abroad through all three of its media – the World Service, BBC World and the international pages of the BBC website. Many respondents, however, wanted an improved domestic coverage of international issues including genres other than news and current affairs. There was a high level of support for the World Service – most people want it to continue with an appropriate level of public funding.

Both UK and international contributors to the Independent Panel's seminar reflected these views. In Europe, contributors felt it was important that the BBC continued to provide independent, reliable and unbiased news and a choice of quality programmes (on BBC Prime). Domestically, some commentators felt that the BBC's coverage of international affairs for the UK market could be enhanced.

Future role

The BBC should continue to explain international issues to UK audiences – not only through news and current affairs but also through other forms of output, including drama, documentaries, schools programmes and sports coverage. To this end, it should develop a coherent, published strategy for its coverage of international affairs in both the developed world and the developing world.

The BBC's commercial services should support its international role in two ways:

- Added value returned to licence fee payers; and
- Better promotion of UK culture, talent and intellectual property overseas.

The BBC should not restrict itself to the sale of BBC programmes. It should look to work closely in partnership with other UK broadcasters in developing its programme sales strategy. It should use the scale and power of BBC Worldwide to showcase the widest possible array of UK talent and secure the best possible deal for UK plc. However, nothing it does in promoting its commercial services should run counter to any other of its public purposes.

The BBC should continue to provide international news to the rest of the world, through its outward-facing internet sites, the commercial television news service BBC World and the World Service. To this end, the World Service should adapt to meet the complex challenges posed by the major shift in the listening and viewing habits of its audiences in recent years as a result of the revolution in global satellite and cable communications.

The World Service

The World Service should be maintained as a Government-funded arm of the BBC, providing high quality, impartial international news to audiences who might otherwise not receive it. However, there are two key questions to consider about the future of the World Service:

- Should the World Service reduce the number of vernacular languages it currently broadcasts in?
- Given that TV ownership is now widespread even in parts of the developing world, should the World Service run some TV as well as radio services?

These issues are discussed below. They will be examined in more detail by the independent review of public diplomacy currently being led by Lord Carter, due to report in Summer 2005. (Public diplomacy is defined by the FCO as ‘work which aims at influencing in a positive way the perceptions of individuals and organisations overseas about the UK, and their engagement with the UK.’) The government will take account of Lord Carter’s conclusions before publication of the Charter Review White Paper.

Reducing the range of vernacular languages

The World Service’s linguistic expertise and output distinguishes it from other parts of the BBC, giving it an enhanced capacity to interpret events in the light of specialised local and regional knowledge. However there are difficult challenges to face, and decisions to be taken, with respect to the viability and justification for the range of languages in which the World Service currently broadcasts.

The 42 language services currently offered are more a product of the World Service’s historical development than of a realistic assessment of the United Kingdom’s role in the 21st century. Likewise, the World Service’s offering of broadcasts in 16 vernacular languages spoken in countries which formed part either of the Former Soviet Union or the Eastern Bloc of countries formerly under the Soviet Union’s domination is beginning to look anachronistic. Eight of those countries are now members of the European Union, while three more are expected to become members in the near future. In planning for the future the World Service needs to look seriously at the political justification for continuing to broadcast to some of these countries in any language other than English, which is rapidly becoming the accepted international language. The aspiration towards democracy, respect for human rights, freedom of speech and association, which had been the BBC’s rationale for developing Eastern European vernacular services, has now shifted eastwards and southwards, and in particular to the Middle East, the Far East and parts of Africa and the sub-continent.

The World Service, in consultation with the FCO, needs to consider a radical and creative reprioritisation of its vernacular output to take account of these shifts in global political and economic priorities. It must also look at the changes in audience size and preferences both in terms of content, and the delivery of content, across media. The vernacular language choices made by the World Service for its online service provide useful guidance for reprioritisation. There will undoubtedly be a case to be made for a number of other

vernacular services to be offered by the World Service. However, the BBC's limited list of eight online language services (Arabic, Chinese, Hindi, Persian (Farsi), Portuguese, Russian, Spanish and Urdu) should be the starting point for this discussion.

The possibility of expanding into television services

The BBC's view is that to fulfil its international remit it must continue to provide a tri-media service: in other words to maintain a global presence across radio, television and internet services. The Government is sympathetic to this ambition. It cannot, however, be taken as given. The BBC must plan against the reasonable expectation that the pressure on all streams of public funding – whether from the tax payer or the licence fee payer – will increase, not decrease with time. The BBC's global television outlet – BBC World – has so far failed to generate sufficient revenue from advertising to cover its costs and continues to experience some difficulty in competing against other providers – local, regional and international.

The outcome of recent public spending rounds – an extra £48 million in SR2002 and an extra £19 million in SR2004 – has enabled the World Service to continue its development of new services, including its successful expansion into online services and its presence on FM in 139 capital cities. Its continued success will depend in part on its willingness and ability to adapt, or shed, outdated services in order to create the financial and creative space necessary to develop new products, and new ways to deliver those products, to existing and new audiences.

There may, in the future, be a case for the World Service to consider providing niche foreign language TV services to specific audiences, in countries where the switch in consumption from radio to television is very marked. One example currently under consideration is the possibility of an Arabic language TV service broadcasting to parts of the Middle East. The challenges are enormous, however – any new grant-in-aid funded operation will find it hard to compete for audiences against local competitors, and other established global broadcast operators.

Against this background, and notwithstanding the strong case for diversifying broadcast options to those parts of the world where access to impartial news reporting may be restricted, a case for new and additional funds will always be difficult to make. In its initial consideration of the desirability and practicality of developing niche vernacular TV services from within the World Service the Government came to the conclusion that, for the present at least, it could not justify any additional resources. Any move to a tri-media offering would need to be financed by a strategic reprioritisation by the World Service from within its existing funding. Initial work suggests that resources could be freed up in either of two ways: efficiencies from better use of resources and a reduction in the number of vernacular radio services on offer (see above). It will be for the World Service, in discussion with the Foreign Office to decide whether and how expenditure could be reprioritised to allow for the development of vernacular television.

2. A changing landscape – building digital Britain

What people think¹³

- The public think the BBC should remain the cornerstone of public service broadcasting. They think it should ‘keep up with’ developments in technology
- Organisations representing a broad range of interests believe that the BBC should use new technologies to bring benefits to society
- Some recognise the BBC as a ‘trusted guide’, and believe it should introduce people to new technological experiences

Our policy

Digital technologies are revolutionising the way programmes are delivered and the way audiences watch and listen to them. We want to extend the benefits of this digital revolution to all UK households.

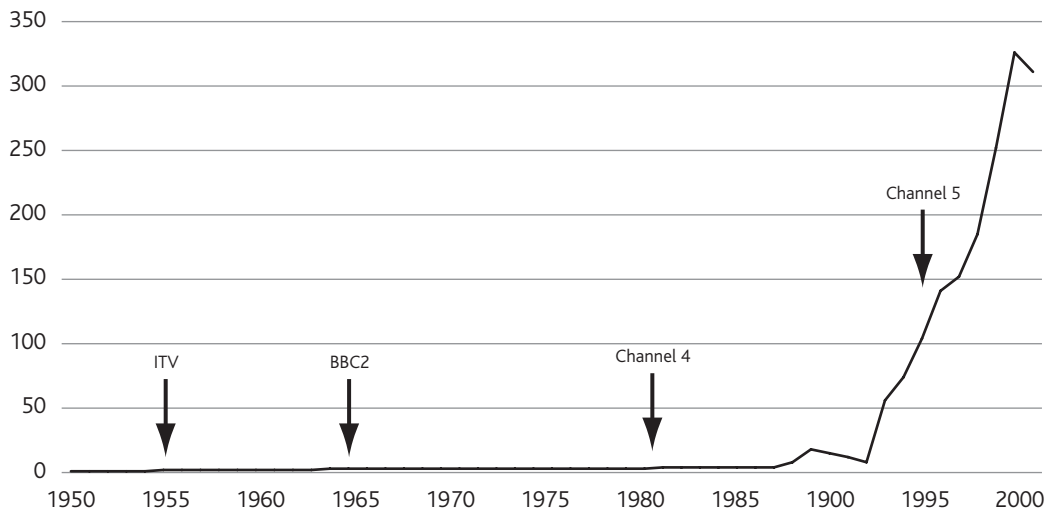
The BBC’s five core public purposes will remain constant in a digital world. But if it is to remain a public service of universal relevance to all citizens, the BBC will have to be fully involved in leading the digital revolution. Over the next decade, the BBC should have an additional public purpose – building digital Britain. That means helping to bring the benefits of digital services to all households and providing high quality content to drive take-up of those services. In particular, it means the BBC taking a leading role in the process of digital switchover in television.

Changes in broadcasting markets and audience behaviour

- 2.1 Over the course of the twentieth century, broadcasting came to be a trusted and stable part of our public realm. It evolved slowly, step by step – from the creation of the BBC to the introduction of ITV, then of colour television, commercial radio, Channel 4 and Five. Much of this development took place within a system of public service broadcasting – where each channel was expected to provide programming that had social value as well as commercial value.
- 2.2 But in the last fifteen years, the world of broadcasting has changed more than it did in the previous thirty. In television, the number of channels has grown from 4 to over 400 since 1988. In radio, the number of stations has grown from 218 to 325 in the last decade.

¹³ At the start of each chapter we have summarised some key findings from our public consultation exercise. More detail can be found in the document *What you said about the BBC*, at www.bbccharterreview.org.uk

The growth in television channels in the UK, 1950-2002



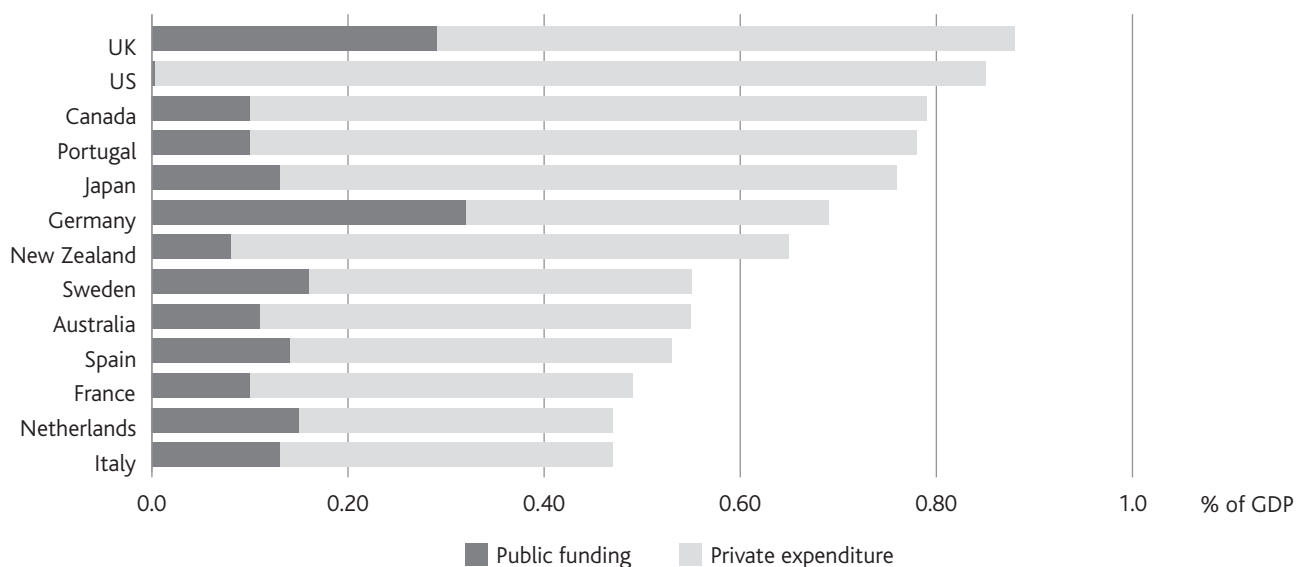
Source: DGA; Ofcom

2.3 These trends began in the 1990s with the development of satellite and cable television and the growth of commercial radio. But the key change in the past seven years has been driven by the emergence and growth of digital broadcasting. Nearly 60% of households now have digital television. That represents one of the highest rates of digital take-up in the world. Over seven million homes have digital satellite and 200,000 new terrestrial set-top boxes are sold, on average, every month. Digital radio has also grown rapidly since affordable portable receivers became available – over 800,000 sets were sold last year.

2.4 The growth of digital television is changing the relationship between viewers and broadcasters. Following digital expansion, in 2003-4 annual TV subscription revenues (for pay to view channels) were £3.3 billion, exceeding advertising revenues (£3.2 billion) and income from the TV licence fee (£2.3 billion). A market has developed that stretches much wider than the traditional public service broadcasters. In fact, the UK spends more on its television market than any other country, as a share of GDP: nearly 1 per cent.

Public and private funding of broadcasting services

Expenditure as a share of GDP



Source: McKinsey

- 2.5 The increase in channels means more choice for viewers. A bigger market means more competition for the main broadcasters. As a result, people now spend less time watching the main public service channels: BBC1's average audience share fell from 29.5% in 1998 to 25.6% in 2003; ITV1's average share fell from 31.7% to 23.7% over the same period.¹⁴
- 2.6 In the next decade, the pace of change is expected to increase. There will be even fiercer competition between television channels. Digital technology is likely to provide exciting new opportunities for audiences, who need no longer be so passive in their receipt of entertainment. Interactive services are increasingly used to support programmes and create new ways for commercial broadcasters to make money. Personal video recorders (PVRs) allow viewers to create their own schedules and may encourage them to skip through the adverts. New broadband television services have started in parts of London, Stevenage and Hull, giving audiences access to a huge range of on-demand programming. Digital radio already allows listeners to stop, rewind and record songs. Some digital radio broadcasts now have bigger audiences on the internet than they do through conventional sets. This convergence of technologies, and the development of on-demand broadband networks, may signal the end of broadcasting as we know it, allowing people to watch and listen to whatever they want whenever they want to.
- 2.7 It is difficult to make predictions about which technologies will succeed with any degree of certainty. But as more go digital, it seems certain that audiences for the major channels will be further reduced. People will search more actively for content they can schedule in their own way and on their own terms, rather than accepting the schedule they are given.

The Government's response

- 2.8 The market is delivering a vast array of choice to consumers. As we explained in Chapter 1, however, commercial providers will not deliver everything that we want from broadcasting as a society. We will therefore act in pursuit of two objectives:
- to extend the benefits of the digital revolution to all UK households; and
 - to strengthen and maintain public service broadcasting in the new digital environment.
- 2.9 Nearly 60% of households have access to digital television services. This proves the popularity of digital TV and the demand for it. But the market alone will never deliver a fully digital Britain – Ofcom figures suggest that take-up is likely to plateau at around 80% without Government intervention. That is because for many people the most convenient and affordable way to get digital television will be from terrestrial signals, and 27% of households will be unable to get digital terrestrial services until the analogue terrestrial signal is switched off. We will therefore pursue digital switchover as the only way to ensure that the benefits of high quality, free-to-view digital television are available to all.

¹⁴ Ofcom review of public service television broadcasting, *Phase I – Is television special?*, www.ofcom.org.uk

Giving choice to everyone

At present, many people are concerned that they cannot easily receive the BBC's new digital channels on a free-to-view basis. Some of those who contributed to our public consultation process were angry at what they perceived to be an unjust arrangement:

"I am annoyed that I am paying for things that I can't get but other people can. I am paying for them to get services that I can't." (C2DE, 61-75, heavy TV watcher, Scotland)¹⁵

The BBC's role in building digital Britain

- 2.10 The BBC must not become a relic of the analogue age. It must help to shape the digital future. Already, new BBC services have helped to drive the take-up of digital TV and radio. But a new burst of activity will be needed if the country is to become fully digital.
- 2.11 Our qualitative research suggests that people value the changes the BBC has made to introduce new channels and interactive services. There is a widespread belief that the BBC should be at the forefront of developments in digital broadcasting.¹⁶
- 2.12 To this end, we will make 'building digital Britain' an additional purpose of the BBC for the next decade.
- 2.13 That means the BBC will be expected to meet its current target to extend digital audio broadcasting (DAB) radio coverage to 90% of the UK population. The BBC and the commercial radio industry have together played a key role in promoting digital radio and jointly set up the Digital Radio Development Bureau (DRDB) with the specific purpose of promoting the take up of DAB. The BBC invested £20 million in its new digital stations in 2003-04 and, in 2003, embarked on extensive marketing activity. By Q3 2004 these stations had between them a reach of 1.72 million listeners. The BBC should continue in its promotional role in this area.
- 2.14 'Building digital Britain' may also involve developing new interactive and web-based services, as demand grows for new media, such as broadband. It also means the BBC should make sure there is adequate access provided, across all media platforms, for viewers and listeners with sensory impairments.
- 2.15 In television, the BBC has already volunteered to play a leadership role in the process of digital switchover¹⁷. The BBC's role in switchover is described in more detail in box 2.1. It means that the public will help to pay for the process of digital switchover through the licence fee. In summary, we will ask the BBC to:
- Help to establish and manage the organisation that will co-ordinate the technical process of switchover – currently known as 'Switchco';
 - Play a leading role in the public information campaign that will tell consumers when and how the switch will happen, what choices of equipment they have and how they can install it;
 - Help to establish and fund schemes to help the most vulnerable consumers make the switch.

¹⁵ Cragg Ross Dawson, *Qualitative Research to Inform BBC Review*, 2004

¹⁶ Cragg Ross Dawson, *Qualitative research on key issues*, 2005

¹⁷ BBC, *Building Public Value*, p. 61

Box 2.1 Completing digital switchover and the BBC's role

We expect the switchover from analogue terrestrial television to digital television to happen during the lifetime of the next Charter, and we believe the BBC should play a key role in planning, preparing and implementing the switchover process.

We want the BBC to continue to promote the benefits of digital television and to drive take-up. The BBC's investments in digital channels, interactive services and its role in Freeview have already significantly helped the success of digital television in the UK.

The BBC's participation in switchover will ensure that its digital channels are made available to every licence fee payer. But it will also result in significant savings, with the termination of the analogue transmission of BBC1 and BBC2. It should therefore be seen as a long-term investment.

We will include in the next Charter appropriate obligations to complete digital switchover. The timetable for this will be confirmed later, although we note Ofcom's view, shared by the BBC, that switchover could begin in 2008 and be fully completed by 31 December 2012.

Replicating the analogue terrestrial coverage in digital

We are committed to ensuring that people have, where possible, a choice of means to enjoy their television services, including those funded by the licence fee – on different platforms. This is why we believe that the BBC services should continue to be available as widely terrestrially as the analogue service is today, as well as being available on cable, satellite and the developing DSL services.

We will therefore include in the new Charter obligations to replicate in digital form "substantially the same coverage" as in analogue (around 98.5% of households). In doing so, we are requiring the BBC to comply with similar obligations to those contained in the licences granted to the commercial public service broadcasters by Ofcom on 17 December 2004.

Developing alternative reception options

We welcome the decision taken by the BBC to ensure all its services are available free to view on satellite. We would also like to see the BBC continue to promote the development of a free digital satellite service. We are also keen to see the BBC extend the availability of its services on alternative platforms and 'on-demand'.

The days of receiving television services only through an aerial are long gone. Digital television services are already available by means of satellite, cable and broadband (DSL over telephone lines or ADSL through a computer) transmission systems, as well as terrestrially through an aerial. Each platform offers different features, and consumers will attach different values to those features. We believe that not only should all households be able to enjoy the full range of services for which they are paying through

the licence fee, but also, so far as practicable, they should be able to choose between the different offerings.

Coordinating role

As the BBC recognises in its report *Building Public Value*, achieving digital switchover by 2012 requires the cooperation of all the terrestrial broadcasters and close working with other stakeholders – manufacturers, retailers, consumer groups and the wider broadcasting industry. We expect the BBC, in agreement with other public service broadcasters, to take the lead in this coordination, and we welcome the steps it is already taking on this.

In particular, we welcome the BBC's willingness to play a leading role in the establishment and management of the organisation created to implement switchover, currently referred to as 'Switchco'. Subject to any necessary approvals for the BBC's detailed proposals, we expect this organisation to be in place as soon as possible.

One of the main tasks of this organisation will be to increase people's awareness of switchover, and ensure consumers know what they need to do and by when. Switchover will need to be supported by a significant communications campaign, both at national and regional levels.

Information on switchover

While we expect all the broadcasters to explain to their viewers how to receive their services in digital form, and to play their part in wider communications, the BBC will need to be a major contributor to the awareness and information campaign that will ensure viewers across the UK are fully aware of switchover before it happens.

Commercial public service broadcasters are required through their digital licences to tell their viewers what they need to do to continue to be able to view their services once analogue transmissions stop. We will place a similar obligation on the BBC for its services. Viewers will also require generic information on digital television. This will include the options for getting digital services in their area, guidance on equipment, and help for people with particular needs, such as those with impaired sight. We envisage that the BBC, working with the other broadcasters, manufacturers and retailers, will play a leading role, both directly and through Switchco, in the delivery of a programme of reliable and impartial information about switchover, telling viewers:

- when switchover will happen in each region;
- what consumers have to do;
- how to receive the major channels (the public service broadcasters);
- how to plug in a set-top box and/or retune existing equipment;
- what choices of equipment they have;
- what facilities digital television offers to the disabled.

Helping the most vulnerable to cope with switchover

The vast majority of citizens will need only a source of good information to help them through switchover. However, we are fully aware that some people will need more than information. They may need help to understand what they have to do, to install their boxes or check their aerials, or to use their new equipment. A few might also need financial assistance. We are considering, with the BBC, the recommendations made by the Consumer Panel, the Consumer Expert Group and leading charities. We believe it is an essential part of the BBC's role to ensure that everybody can receive digital television services, and we will ask the BBC to help implement and pay for schemes that will ensure no-one is left behind.

An accurate assessment of how the needs of the vulnerable are to be met is essential before a switchover strategy can be finalised. We will continue to work with the BBC and others on the scope and delivery mechanism for these schemes before confirming the switchover timetable.

3 The BBC's constitution

What people think

- There is support for a new Royal Charter but there are calls for it to be written in a language that people can understand.

Our policy

The public want the BBC to remain the cornerstone of public service broadcasting. They also want it to be kept separate from Government and Parliament. We think the best way to achieve both these aims will be through a new ten-year Royal Charter.

A new Charter would give the BBC: independence from Government; the necessary certainty to plan for the longer term; and the necessary flexibility to adapt to rapid change.

In ten years' time, but not before, there will need to be a further thorough review of the BBC's role and purpose. A Royal Charter will allow such a review to take place. In addition, given the pace of technological change and the potential threat that it poses to commercially funded public service broadcasting, there should be some scope for review in the interim – not of the constitution of the BBC itself, but of the funding arrangements for the BBC and other broadcasters.

A ten-year constitutional settlement for the BBC

- 3.1 If the BBC is to remain the cornerstone of public service broadcasting, it needs a constitution that will give it three things:

Independence. The BBC needs to be protected from any editorial interference from Government, Parliament, or any commercial influence. Its constitution should provide that protection.

Certainty. The BBC needs to be given sufficient stability and security to plan for the mid to long-term. It must not be held back by a constant threat of review and reform from Government. Its commercial rivals also need some degree of certainty about the likely scope of the BBC's activities in the medium term so that they can plan accordingly.

Flexibility. Given the pace of change, the BBC must be given scope to react to new technologies and audience demands. It may be appropriate for the BBC to take a leading role in the development of some new technologies, just as it has in digital television and radio. That may mean allowing services and activities to evolve from their 2004 position into new areas – but only where such evolution is clearly shown to be in the public interest and will not have an excessively adverse market impact.

A cornerstone – the public’s view

“The BBC has acquired a reputation for excellence in public service broadcasting throughout the world. In the United Kingdom it has been described as the ‘cornerstone’ of public service broadcasting; the standard by which other broadcasters are assessed.”

“The radio, especially BBC Radio 4, is the backdrop to my life, my constant companion and my connection to the world beyond my immediate community.”¹⁸

- 3.2 We think the best way to satisfy these criteria will be to institute a new Royal Charter lasting from 2007 to 2016. The current Charter and Agreement will need to be rewritten, and we will try to set them out in clearer language so that every licence fee payer can understand their significance.

Box 3.1 The BBC’s current constitutional status

The BBC’s Royal Charter is granted by the Queen under the Royal Prerogative. It is the basis for the Corporation’s existence, sets out its constitution and objectives and addresses some organisational and financial issues. New BBC commercial and non-broadcasting public services are approved by the Secretary of State under the Charter.

The accompanying Agreement is effectively a contract between the Secretary of State and the BBC, setting out the respective obligations of each party. The Agreement supplements the Charter in various ways. For instance, it:

- establishes the BBC’s independence;
- defines its right to the licence fee;
- addresses the number of Home Services (and gives the Secretary of State a role in approving changes);
- sets out in more detail the remit of those services; and
- imposes various regulatory requirements (giving Ofcom a regulatory role in relation to some of them).

The existing Agreement stipulates that any changes to it are subject to approval by the House of Commons. In practice, both Charter and Agreement are put before both Houses for debate as part of the Charter renewal process.

Alternatives to a Charter

- 3.3 The Culture, Media and Sport Select Committee, in its recent report on the future of the BBC, has suggested that the BBC should be established as a statutory body by an Act of Parliament¹⁹. The Committee argues that this would give the BBC greater independence from Government and greater security from the threat of abolition at the end of its Charter period. Having given this argument careful consideration, we disagree.

¹⁸ Responses to DCMS consultation, published on our website at www.bbccharterreview.org.uk

¹⁹ House of Commons Culture, Media and Sport Committee, *A public BBC*, pp. 55-60

3.4 Box 3.2 sets out some of the pros and cons of statutory status as opposed to Chartered status. We are concerned that if the BBC was a statutory body it might be more open to detailed Government intervention. If an interim five-year Charter was granted, as the Select Committee suggests, the whole process of Charter Review, with additional Parliamentary stages, would need to begin again in only two or three years time. We feel a ten-year Charter is necessary to provide the certainty and independence that the BBC needs. It would also have a clear end-date – given the pace of change in broadcasting technology, a ten-year Charter would provide a necessary opportunity for a further thorough review of the BBC's role and purpose in ten years time. Qualitative research suggests that the public agree that a Royal Charter is preferable to an Act of Parliament – mainly because they feel a Charter would better protect the BBC's independence²⁰.

Interim reviews

3.5 In the course of the next decade, increasing digital take-up will bring a radical change to the broadcasting landscape and the structure of the PSB system. It may alter the way many people watch and pay for television. Towards the end of the process of digital switchover, therefore, there should be scope for interim reviews of two specific aspects of the funding system for the BBC and PSB:

- the future method of funding the BBC beyond 2016 (discussed in Chapter 4); and
- the level of the licence fee, and the possible wider distribution of public funding (including licence fee income), to broadcasters other than the BBC (discussed in Chapter 10).

²⁰ Cragg Ross Dawson, *Qualitative research on key issues*, 2005

Box 3.2 Pros and cons for the BBC of Chartered vs statutory status

	Arguments for	Arguments against
Chartered status	<p>Helps to preserve the BBC's independence – a Charter cannot normally be revoked during its lifetime. By placing the BBC within a tradition of independent bodies, Chartered status may help to preserve it from inappropriate legislative interference.</p> <p>Certainty of time limit on a Charter allows the BBC and, to some extent, its commercial rivals to plan accordingly, while allowing fundamental review at expiry.</p> <p>Charter and Agreement provides the flexibility for the Government and BBC to agree detailed changes as issues arise – without full Parliamentary process.</p>	<p>Less of a direct relationship between Parliament and the BBC, (although Select Committee scrutiny of Annual Report is possible.)</p> <p>The expiry of a Charter periodically exposes the BBC in its entirety to intervention from the Government of the day.</p>
Statutory status	<p>Would give the BBC the same legal status as most other public bodies.</p> <p>Would allow more direct accountability to Parliament. Any periodic review would be subject to full Parliamentary procedure.</p>	<p>No guarantee of long-term existence or independence – legislation would be subject to repeal and/or repeated amendment. Lack of stability may compromise the BBC's independence.</p> <p>The Parliamentary process involved would create uncertainty, particularly since a shortened interim Charter would be required for the duration.</p> <p>The next Charter might be written in plainer English, but legislation is unlikely to be as comprehensible to the general reader.</p>

4 Funding

What people think

- The licence fee is widely considered to be the best – or the “least worst” – way to pay for the BBC for the next Charter, although there is some support for other options, particularly in combination with the licence fee.
- The public’s view of the value for money delivered by the BBC is equivocal – with 46% saying it delivered fairly good or very good value for money, compared to 33% taking the opposite view.
- There is strong support for the BBC’s independence from Government and from commercial pressures.
- The way the licence fee is set and collected raised issues about fairness (particularly for those on low incomes) and efficiency (using significant public money to chase evaders).
- Some proposals were put forward for different ways to distribute the licence fee to other broadcasters and production companies.

Our policy

The licence fee remains the best way to fund the BBC. All other funding models have more significant drawbacks while the principle of collective payment through the licence fee retains general public support. The licence fee should continue to fund the BBC throughout the next ten years.

In the next phase of Charter Review, we want to look further at the operation of the licence fee including its level and the way it is collected and enforced. To set the level of the licence fee we will have to consider the costs of any new obligations or proposals, many of which are still uncertain, against their potential benefits. We will take independent advice on a range of issues including the value for money of the BBC’s existing services and will take account of the public’s views.

Changes in technology will in future allow audiences to watch television programmes in a variety of different ways without needing a television set – for example over the internet or via mobile phones. The collection of a fixed charge based on television ownership may therefore become difficult to sustain in the longer term. Planning should start ahead of time to establish whether any alternative funding models, particularly subscription, may need to be reconsidered after 2016. This should be an issue for further review as the process of digital switchover nears completion.

The licence fee and the arguments made against it

- 4.1 At present, the BBC receives most of its funding from the TV licence fee (currently £121.00 per household per year). Licence fee income in 2003/4 was around £2.8 billion (£408 million of which came from the Department for Work and Pensions to compensate the BBC for free TV licences given to over-75s). It supplements that income with the contribution made to its

public services by its commercial services (which contributed profits of around £38.5 million in 2003/4)²¹ and some direct Government funding – around £220 million from the Foreign and Commonwealth Office – that pays for the World Service.

4.2 A significant minority of respondents to our public consultation argued for the abolition of the licence fee, and there are a number of arguments made against the principle of the licence fee as it exists today:

- It is a regressive form of taxation – everyone pays the same flat charge, regardless of their income, the number of televisions they own or the extent to which they watch television in general and BBC services in particular.
- The unfairness of the flat rate charge is intensifying as the number of TV channels increases and the BBC's overall audience share decreases.
- The BBC uses the income it receives from TV viewers to pay for its other services, in radio and new media, and its non-programming activities.
- The costs of collection and evasion are high (£300 million annually – £150 million for collection, £150 million for evasion) and enforcement is often perceived to be draconian especially where evaders are criminalised and those who fail to pay their fines are occasionally imprisoned.

4.3 It is also argued in some quarters that the licence fee will become more difficult to sustain in future as technology develops, for three main reasons:

- As digital take-up increases, audiences for BBC services may fall significantly, reducing public support for a universal charge.
- Subscription and on-demand payment systems will be developed for use across all forms of television, making it possible for viewers to be charged only for those programmes or services they want to watch.
- TV viewing may no longer be confined to TV sets, but could take place via computer terminals or mobile phones. A licence fee based on TV ownership could therefore become redundant.

Alternatives to the licence fee

4.4 The Independent Panel discussed three main alternatives to the licence fee, all of which merit consideration:

- direct funding from Government.
- commercial funding for a free-to-air service – through advertising and sponsorship.
- commercial funding for a pay-TV service – through subscription (although this would not be possible for radio services).

However each of these options carries significant drawbacks.

²¹ See Chapter 6 for a detailed breakdown of the BBC's commercial services.

Government funding

- 4.5 Government funding could be considered fairer than the licence fee in that it would be progressive – each individual would in effect only contribute according to his or her income. This would make the BBC an area of Government spending like any other public service. The objections to this arrangement are made on the grounds that the BBC is a public service like no other, and it is feared that direct Government funding might threaten both:
- the BBC's independence – if the Government held the purse strings; and
 - its stability and security – were the BBC to be subject to reviews of its funding through the biennial Government Spending Review process.
- 4.6 These objections appear to be supported by public opinion. The public told us they wanted less scope for Government interference in the running of the BBC and nearly two thirds of them support the licence fee in its current form as the best method of funding. Ofcom's audience research found there was significant opposition to Government funding – partly because people wanted the Government kept out of television and partly because they saw a distinct difference between the 'luxury' of public service television and the 'right' to other forms of universal public service such as the NHS.²²

“I think they would lose their impartiality, and you might see, as a change in government came along, a change in slant. I don't want to see that.”
*(C1, 46-60, light TV watcher, Scotland)*²³

Advertising and sponsorship

- 4.7 The case for allowing advertising on the BBC is a difficult one to make. There was quite vehement opposition expressed to the idea of advertising on the BBC in the course of our public consultation and research. 60% say it interferes with their enjoyment of programmes (31% disagree). The lack of advertising is therefore felt to be a key distinguishing characteristic of the BBC – it was the third most frequent value spontaneously attributed to the BBC by contributors to our quantitative research.²⁴
- 4.8 The BBC would certainly attract advertisers if it were allowed to, particularly to its mainstream services. However, modelling of the advertising market suggests that the effect of such a move would be to push down prices (since the total amount of money spent on advertising would not rise significantly but many more ad 'spots' would become available)²⁵. This would almost certainly reduce the income of both the BBC and the existing ad-funded broadcasters (including other public service broadcasters, such as ITV and Channel 4).
- 4.9 Advertising would also create conflicting incentives for the BBC – the requirement to fulfil public purposes would have to be weighed against the need to generate revenue. The character of programming might drift towards the middle ground of taste as a result. Ofcom has

²² MORI/Ofcom, *Valuing PSB: the view from the audience*, pp. 27-30

²³ Cragg Ross Dawson, *Qualitative research to Inform the BBC Review*, 2004

²⁴ MORI, *Quantitative research to inform the preparation of the BBC Charter Review*, 2004

²⁵ Ofcom review of public service television broadcasting, *Phase 2 – Meeting the digital challenge*, p. 69

pointed out that such a conflict of incentives already exists for ITV1, Channel 4 and Five, and that it will be increasingly difficult to regulate in future as commercial competition intensifies. 52% of those we surveyed said they thought the BBC would lose its independence if it relied on advertising or sponsorship.

- 4.10 The long-term trends in the TV advertising market are anyway uncertain. New digital technology – particularly PVRs – increasingly allows audiences to skip through advertising breaks. It may be unwise to increase the dependency of public service broadcasting on advertising revenue at a time of such uncertainty.
- 4.11 There are probably fewer concerns about allowing the BBC to take sponsorship for some programmes. There would still be some questions to answer, however, about a potential conflict of incentives and the commercial impact of such a move. Viewers and listeners may feel it detracted from their experience of the BBC if commercial messages were attached to their favourite programmes – although our research suggests they would prefer it to advertising. And sponsorship alone would never deliver sufficient income to sustain the BBC without some additional source of funding.

Subscription

- 4.12 The BBC's own 'willingness to pay' research suggests that some people are willing to pay significant amounts for access to BBC services – 42% say £20 per month and 19% say £30 per month²⁶. If services were put together in differently priced packages, with premium programmes available at different prices depending, for example, on their newness or exclusivity, audiences would have more freedom of choice and some argue that the BBC might retain a sustainable level of funding.
- 4.13 This sort of model would raise significant issues of principle. The chief argument against subscription as a funding method is that it would undermine the principle of universal access – BBC content would no longer be free at the point of use. It can be argued in response that the existing licence fee is anyway a form of 'compulsory subscription'. Services are only 'free' once a bulk licence fee has been paid. But if people could choose not to subscribe then prices might have to rise for those who carried on paying, and some low-income viewers and listeners who did want to subscribe might well be priced out of the market for BBC content. If that content were not universally available, its potential benefit to society would be reduced.
- 4.14 In the short term, there are also significant practical problems. In mainstream radio, no subscription facility exists, nor does one look likely to be widely available for some time. While a TV subscription service could function in satellite and cable homes, for most terrestrial viewers (including most digital terrestrial or Freeview homes) there is presently no way of controlling access to individual channels. New subscription technology (code-protected cards for 'conditional access') of the sort used in satellite and cable homes would need to be included in most, if not all, digital terrestrial equipment before any subscription system could function for the BBC.

²⁶ BBC/Human Capital, *Measuring the value of the BBC*, October 2004

Why the licence fee should continue for the time being

- 4.15 When compared to the alternatives, we feel the licence fee continues to be the best funding mechanism for the foreseeable future. That is a conclusion endorsed by Ofcom and the Culture, Media and Sport Select Committee, as well as by licence fee payers. While some people show interest in the alternatives, in all strands of our research work there was more support for the licence fee than for any other mechanism. 63% of those who mentioned funding in responding to our consultation accepted the principle of the licence fee. Many respondents argued that the licence fee provided unparalleled value for money, and one of the most common arguments made in its support was that it binds all households together as equal stakeholders in the BBC.
- 4.16 Audiences want the BBC to remain a universal service. They also see that the value of the licence fee is that it should keep the BBC at arm's length from Government but should bring it closer to the public who are footing the bill. Systems of accountability need to be devised to reflect this, and these are discussed in Chapter 5.
- 4.17 Two significant issues remain about the future operation of the licence fee, however:
- The licence fee remains a regressive tax. There is some evidence that audiences accept and even value this, since they consider the BBC to be a different sort of public service to that provided by the NHS or the education system. Nevertheless, we need to consider whether or not there are anomalies that need addressing in the existing concessions policy that applies to the licence fee, as well as whether collection could be made more efficient or enforcement less draconian.
 - Technological change may in future open up the possibility of new electronic means of payment, and digital take-up may affect the level of public support for the licence fee. This should be one issue for review during the course of the next Charter period, as we go through digital switchover.

These issues are discussed in more detail in the sections that follow.

The operation of the licence fee

- 4.18 The next phase of the Charter Review process will involve a review of the BBC's funding needs – to allow the Government to calculate the necessary level of the licence fee, to apply from April 2007. Since 2000, the BBC has benefited from an annual increase of 1.5% above inflation, to pay for its expansion into new digital services. At the same time, it has continued to benefit from the increasing number of UK households, which is adding 0.75% a year to the value of licence fee income.²⁷ If the number of UK households continues to rise at the projected rate, after ten years the BBC could expect to receive an extra £230m every year. To decide what future settlement is appropriate, in the next phase of Charter Review the Government will conduct a funding review – to weigh up very carefully the overall costs to licence fee payers of the BBC's existing services and any proposals for new obligations or services. Decisions will need to balance these costs against the benefits to be gained. The funding review will be run by Government. It will take independent advice on a range of issues including the value for money of the BBC's existing services and will take account of the public's views.

²⁷ Ofcom review of public service television broadcasting, *Phase 2 – Meeting the digital challenge*, p. 79

- 4.19 We believe the current scope of licence fee concessions is about right. However, we will re-examine any anomalies in the existing licence fee concessions policy, particularly in the accommodation for residential care (ARC) scheme that applies to residents of sheltered housing.
- 4.20 We will review the existing licence fee collection policy. Collection currently costs around £150 million each year and the Independent Panel noted the ‘clumsiness’ of the current arrangements. We will consider whether new technology allows collection to be conducted in a more cost-effective way, and whether, for example, increased use could be made of direct debit and internet payment schemes.

Providing flexibility for the future

- 4.21 At present, to achieve universal availability the BBC needs to operate as a publicly-funded, free-to-air service. To this end, the licence fee is the best funding method available. But the combined costs of evasion and collecting and enforcing the licence fee are roughly 11% of licence fee income, or £300 million per year, before any money is spent on programmes²⁸.
- 4.22 In future, if a large number of people are downloading audio-visual content from the internet, and watching it on their computers or mobile phones, rather than using traditional TV and radio services, it may be difficult to collect and enforce a licence fee based on television ownership.
- 4.23 In that world, different funding models may have to be considered. If the licence fee was to be retained, the means of collecting it might have to be changed – so that it became, for example, either a compulsory levy on all households or even on ownership of PCs as well as TVs.
- 4.24 Some argue that if the BBC’s audience share continues to drop, public support for the licence fee will drop with it. We are not by any means certain that this will happen. However, if it turns out to be true, subscription alternatives may need to be considered – either charging a one-off payment for access to the whole range of BBC (or PSB) services or, more likely, creating different BBC packages, with different prices, available across a range of different digital platforms.
- 4.25 There are potential problems with all these options. A compulsory levy might be unsustainable if the BBC’s audience share continues to fall. Subscription options would compromise universal access and might pose technological complications if they were applied to BBC radio programmes and new media services, even if all televisions were fitted with conditional access technology. Our quantitative research suggested that only 10% of people currently think that subscription would be the best way to fund the BBC.
- 4.26 The Independent Panel has suggested that a ‘mixed funding’ model, combining elements of licence fee, advertising, sponsorship and subscription, may be workable beyond the next ten years. There may be some serious questions about the efficiency of such an arrangement. But we agree there should be a further review of the practical implications of the different options during the course of the next Charter, before the end of digital switchover, so that the necessary planning could be carried out for any change after 2016. One issue for that review to consider would be the feasibility of rolling-out conditional access systems to the point where subscription options were viable in some form.

²⁸ BBC Annual Report and Accounts, 2003-2004, p. 97

5. Governance, regulation and accountability

What people think

- There are calls from both the public and broadcasters for reform of the arrangements for governance and regulation. Particular concerns are raised over: the appointment, make-up, skills and experience of the Governors; the precise remits of the BBC's services; and the regulation of the commercial services
- The public would like the BBC to become more accountable to licence fee payers
- A variety of proposals for greater public accountability were put forward – including some developing the concept of the licence fee payer as “shareholder”
- People think that the BBC should be more independent of the Government and Parliament for what it delivers
- There are calls for greater financial accountability and transparency

Our policy

The public interest must be represented at the heart of the BBC. But it has proved difficult for the existing Board of Governors to represent both the public interest and the BBC executive at the same time. Reform is needed.

The BBC has taken steps to increase the independence of the Governors and to provide a new framework for more rigorous and transparent scrutiny of BBC performance. These measures are welcome but do not go far enough. A clearer separation of functions is needed between the part of the BBC that devises and delivers strategy and whatever body is given the task of holding it to account for performance.

The answer is not to establish a separate new regulator for the BBC, nor to give full responsibility for its regulation to Ofcom, although Ofcom should retain its current powers to regulate the BBC on competition issues and to apply industry standards on harm and offence, privacy and fair treatment. A new system is required which provides direct accountability to licence fee payers and upholds the public interest in spending their money.

We propose to replace the Board of Governors with a new BBC Trust (a working title), with ultimate responsibility for the licence fee and for upholding the public interest in the BBC. The Trust would assess the performance of the BBC's services, and approve high-level strategy and budgets. It would devolve issues of day-to-day management and delivery to a separately-constituted Executive Board.

The BBC's Trust needs to be an effective representative for licence fee payers. It needs to face outwards towards the public and the rest of the media market. It will need to adopt new standards of openness and transparency. It should ground all key decisions in a careful assessment of viewer and listener opinion and needs. It should offer commercial interests a formal route of consultation and should engage Ofcom in making assessments of market impact.

It will also need to use more rigorous tools of performance management, of the sort the BBC are now starting to develop, in dealing with the executive.

Overview of this chapter

5.1 Governance is the central issue for this Charter Review. To maintain public support and to avoid Government intervention, the BBC must be held to its public purposes through a powerful governing body. It also needs rigorous systems of performance management and accountability. This chapter consists of three sections:

Context

- the existing governance arrangements;
- the case for reform;
- the principles that we think should guide reform;
- a range of options.

Our proposal for a new BBC Trust

- the proposal in outline;
- the operational changes that go with it.

Upholding the public interest

- the public interest remit for a BBC Trust;
- options for increasing the accountability of the BBC to its licence fee-payers.

Context

The existing arrangements

- 5.2 The BBC Governors have a large number of specific duties, which are set out in more detail in Annex B. In summary:
- the Governors constitute the Corporation itself and are responsible for the provision of programmes, the determination of strategy and key management appointments, including that of the Director General. They publish the BBC Annual Report and Accounts.
 - The Governors are also required to set objectives and promises for BBC services, and to review the BBC's performance against these.
- 5.3 The Governors set, and monitor BBC compliance with, guidelines on taste and decency, and accuracy and impartiality, as well as quotas on news, regional programming, regional production and original production. But the BBC also has to comply with Ofcom's fairness code and much of its cross-industry programme standards code (including matters of taste and decency but notably not accuracy and impartiality). Ofcom are able to monitor the BBC's compliance and to deal with complaints in these areas. In cases of breach, Ofcom can fine the BBC or direct the BBC to broadcast a correction or statement of findings. Ofcom also has power to enforce the BBC's obligations relating to independent production quotas, and it monitors compliance against other production quotas.
- 5.4 The Governors have an Audit Committee that is responsible for ensuring the BBC is properly audited and for appointing an external auditor. The Governors are also responsible for ensuring the BBC honours its Fair Trading Commitment – a mix of external competition law requirements and internal governance commitments – although under competition law the BBC is also regulated externally by Ofcom, the OFT and the European Commission.

5.5 The Government also has a role in BBC governance – it conducts Charter Review every ten years or so, signs the Agreement and can propose occasional amendments to it. Any launch of a new publicly-funded service requires the approval of the Secretary of State for Culture, Media and Sport, following public consultation and formal advice from Ofcom on the likely market impact. The Secretary of State can impose conditions on such approvals.

The need for reform

5.6 The system needs reform. It is complicated and difficult to understand. It is not widely trusted by the BBC's commercial rivals. Nor is it widely understood by licence fee payers. 55% of people we surveyed did not know who was responsible for the day-to-day running of the BBC. But our deliberative research suggested that the public would like to know more – particularly about how Governors are chosen and what their responsibilities are.

5.7 It is inherently difficult for one group of people to be convincing both as cheerleaders for the BBC and as objective assessors of its performance. Different groups of Governors will strike a different balance between these two objectives but rarely will they be able to pursue them both with the same vigour. Doing so would be likely to place severe pressures on the relationship between the Chair of the Governors and the BBC Director General.

5.8 The Governors themselves recognise that the system lacks transparency, accountability and openness. They have also accepted that there is some tension between the two broad roles that they are being asked to fulfil:

- devising strategy and delivering services; and
- scrutinising strategy and measuring the performance of services.

5.9 As the section above makes clear, the Governors are also being asked to perform different sorts of regulatory roles. In some areas they have a parallel responsibility with Ofcom for ensuring compliance with codes and quotas. In other areas they have sole responsibility for ensuring compliance.

5.10 The expectations placed on Governors have also increased significantly in the last decade. The BBC needs a governing body with sufficient resources and expertise to oversee the operation of the country's largest media organisation in the 21st century. That suggests that the criteria for appointments may need to be redefined, in order to put that expertise on the board.

5.11 The Independent Panel, in considering the question of governance, pointed to the major changes in private sector corporate governance structures in the last decade, which have resulted from pressure for:

- increased accountability and external scrutiny;
- greater openness and more consultation in handling major decisions;
- a move away from self-regulation where regulation is required;
- processes and structures that minimise conflicts of interest.

The BBC needs to address concerns in all of these areas, as well as questions about the impact of publicly-funded services on private sector businesses.

Principles for reform

5.12 The central principle behind any new governance structure should be increased differentiation and separation of two different sets of functions – those relating to oversight and those relating to delivery. These could be divided up in a number of different ways. Box 5.1 illustrates the sort of separation of functions that we think is necessary. Any governance system needs to have structures in place to support both roles.

Box 5.1 Different functions of delivery and oversight in the BBC system	
Delivery	Oversight
Day-to-day operational management	Setting overall objectives for the BBC
Ensuring delivery of remit	Scrutinising, challenging the executive’s strategies and spending proposals
Detailed allocation of resources	Reviewing performance against remit Monitoring compliance with quotas and standards
Appointing/dismissing top executives	Setting budgetary framework
Handling complaints in the first instance	Appointing/dismissing Director-General
Preparing and auditing accounts	Establishing an independent system for considering significant complaints and appeals
Ensuring efficiency	Commissioning independent reviews of value for money and efficiency
Determining pay for executives	Ensuring accountability to and engagement with licence fee payers
	Analysing the market impact of changes to BBC services

- 5.13 Two further principles should underpin any proposal for reform:
- First, that the BBC is unique. It is a public service and therefore not directly comparable to the private sector. But its direct link to licence fee payers, and its role in supporting our democracy, make it an independent entity unlike other public bodies.
 - Secondly, that the BBC’s system of governance and regulation needs to recognise and celebrate that unique position. The system needs to be directed towards the BBC’s constituency – the public – and the reason for its existence: the creation of public value.

5.14 All proposals also need to be tested against the other points in the checklist drawn up by the Independent Panel that has advised us on Charter Review. We have refined that checklist into a list of 11 principles for the reform of governance structures, summarised in box 5.2.

<p>Box 5.2 Principles of good governance</p> <p>The aim should be to find a system that:</p> <ol style="list-style-type: none"> 1. Is founded unequivocally in the public interest 2. Is appropriate for an organisation built on creativity 3. Strengthens and protects the independence of the BBC

4. Is genuinely open, transparent and objective
5. Ensures appropriate accountability for the public's money
6. Commands public confidence, and involves the public adequately in decision-making
7. Provides adequate protection for those outside the corporation who may be affected by the BBC's activities (principally, although not confined to, its private sector competitors)
8. When conducting assessments of impact, uses criteria that allow direct comparisons with the rest of the broadcasting market
9. Is clear about the distinction between governance and regulation and has structures which support both
10. Is clear about the respective roles of executives and non-executives and embodies this in ways of working
11. Incorporates adequate mechanisms for audit, complaints etc

Broad options for reform

5.15 To fulfil the central aim of increased separation between leadership and regulatory functions, the Independent Panel has suggested that reform could be undertaken in two ways:

- **Structural reform.** Placing the responsibility for different functions with different bodies. These might both be inside a BBC structure. Or one of them could be an external body – Ofcom or another regulator.
- **Behavioural reform.** Increasing the distinction between the different powers and responsibilities of the Board of Governors and the BBC Executive. The BBC have already put forward proposals of this sort in *Building Public Value*.

Box 5.3 BBC proposals for reform

Building Public Value proposed that the Governors should remain as trustees of the public interest, but that the following key changes should be implemented in order to:

Underline their independence from Management:

- establish a separate Governance Unit
- independently commission external research
- tap into specialist broadcasting knowledge from the Governance Unit rather than the Executive

Improve transparency:

- publish Service Licences and Statements of Programme Policy for every channel and service
- apply public value tests to new services and any major changes to existing ones

Increase accountability and responsiveness:

- publish results of public value tests and external research

- establish communication via the internet between the Governors and licence fee payers
- strengthen the Advisory Councils
- appoint a new Head of Complaints reporting directly to the Governors

The BBC have since proposed the development of ‘protocols’ that would specify the processes through which the Governors would conduct their business, to help cement their independence.

5.16 We welcome the moves that the BBC Governors have made towards increasing their independence from management, and the transparency and openness of their decision-making. However, we agree with the views of both the Select Committee and our Independent Panel that the version of behavioural reform set out in *Building Public Value* does not go far enough towards clear separation between the functions of delivery on the one hand and oversight on the other. It also relies to too great an extent on behavioural change to ensure that Governors act independently from management. Given the low degree of confidence in the existing system, and the failure of previous attempts at piecemeal reform, this is not sufficient. The new system must provide clarity and certainty about exactly where the division between delivery and oversight functions is drawn. Even with the BBC’s proposed addition of ‘protocols’ to specify how the Governors would handle their business, the *Building Public Value* model does not provide sufficient clarity – it gives the Governors too much flexibility to involve themselves in almost any area of management. A new structure is needed that makes formal the division of responsibilities and excludes the oversight body from engagement in some of the detailed matters of delivery. As far as possible, such a structure should be immune to any future changes in personnel.

5.17 We also want to rule out both models of external regulation, either:

- regulation through Ofcom; or
- the creation of a new regulator specific to the BBC (‘OfBeeb’).

Ofcom

5.18 It could be argued that Ofcom regulation might better insulate the BBC from Government intervention – by providing an intermediary, ‘buffering’ layer between the two. But others argue that an external Government-appointed regulator such as Ofcom may in fact be more inclined than the Governors to act in a way that it imagines Government would wish.

We do not think Ofcom should be given a role of oversight or scrutiny in relation to the BBC as a whole, for a number of reasons. Given its range of responsibilities across the commercial sector, it may be difficult for Ofcom to devote itself fully to upholding the public interest in BBC services and programmes, in defending the independence of the BBC itself or in satisfying the need for direct accountability to licence fee payers. It might not be obvious to the licence fee payer how Ofcom was going to resolve any conflict between what was good for the BBC and what was good for the commercial sector. Significant organisational change would be needed were it to be entrusted with the guardianship of the

BBC – Ofcom is not at present responsible for the direct oversight of public spending on the scale represented by the licence fee. Such a change would be likely to lead to greater confusion of responsibilities rather than clarity. We note that Ofcom agrees with this view in its PSB Phase 3 report.

'OfBeeb'

5.19 We are convinced that the function of maintaining the BBC's unique position and focus on public purposes needs to be given to an organisation dedicated to the purpose. But there might also be problems if that organisation was a newly created 'Ofbeeb' – a wholly separate regulator. If the BBC governing body has responsibility for spending the licence fee, and through that a direct link to the public who pay the licence fee, it also needs to be given the responsibility for upholding the public interest. The creation of a separate OfBeeb to represent the public interest, with no control over the distribution of the licence fee, might blur lines of accountability and loosen the direct link between the public and the BBC. In addition, the effective oversight of the BBC at the highest level – beyond the particular obligations regulated by Ofcom and others – requires an understanding of, and ability to influence, the culture of the organisation. It is difficult to see how an entirely separate external regulator (either OfBeeb or Ofcom), with no budgetary controls, could fulfil this sort of role. An OfBeeb in this position might risk being 'captured' by the BBC – it would have no other client.

The Independent Panel's proposal

5.20 The Independent Panel has proposed the creation of a Public Service Broadcasting Commission to oversee the BBC. Their proposal includes a suggestion that the Commission might at some future point be given the power to allocate licence fee funding to broadcasters other than the BBC, as a means of encouraging the BBC to perform better. The proposal is summarised in box 5.4.

Box 5.4 The Independent Panel proposal for a Public Service Broadcasting Commission

BBC Board plus Public Service Broadcasting Commission:

- through the Charter, the Government and Parliament would determine the overall objectives and purposes of public service broadcasting and have responsibility for setting the level of licence fee, the BBC's borrowing limits and any other public funds financing public service broadcasting, following advice from the Public Service Broadcasting Commission (PSBC).
- the BBC would be governed by a unitary board of executive and non-executive directors in line with the recommendations of the combined code on corporate governance. This board would have a non-executive Chair, appointed by Government. It would be responsible for deciding and delivering the BBC's programming output, subject to the oversight of the PSBC, within the allocation of the licence fee and the BBC's borrowing powers. It would have to maintain adequate systems to define and maintain editorial standards, ensure value for money for its funding and to deal with complaints.

- a new Public Service Broadcasting Commission, independent of Government, would be responsible for oversight of public money invested in broadcasting and for recommending to Government the level of the licence fee.
- The Government would give up its powers of prior approval for BBC services TV, radio, ancillary and commercial services and for commissioning reviews of services. However, together with Parliament, Government would be responsible for holding the PSBC to account.
- Ofcom would continue to be responsible for the regulation of competition, economic, spectrum and pan-broadcasting industry issues.

In addition, although the panel makes clear it is not a necessary part of the structure, the PSBC would be empowered to award part of the licence fee to other public service broadcasters, at some point in the foreseeable future, depending on the level and quality of PSB on the BBC and other channels. Full details of the panel's preferred model can be found at www.bbcharterreview.org.uk.

- 5.21 No governance system should close off the possibility of contestable funding, or a wider distribution of funding, in future – flexibility is essential. We recognise that, within the next ten years, we may need to consider whether other broadcasters will need public funding if we are to maintain a degree of healthy competition in public service broadcasting. We have decided that, towards the end of the switchover process, there should be a review to consider whether there is a case for the wider distribution of public funding (including licence fee income) to recipients beyond the BBC. The key decisions about the future of public service broadcasting will need further, detailed consideration over the coming years as the implications of digital change become more apparent. Chapter 10 considers the range of options in more detail.
- 5.22 Given the need to see how public service broadcasting develops and what wider funding options might then be appropriate, we will not adopt the recommendation to establish a Public Service Broadcasting Commission. Instead we will establish a BBC-specific solution that addresses the weaknesses of the present governance structure.
- 5.23 Other aspects of the Independent Panel's proposal are attractive, and consistent with the principles for reform. It would provide for a very clear separation of functions between two different bodies. Our concern, however, is that this degree of separation might actually put too much distance between the licence fee payer (as represented by some form of Commission) and the delivery of BBC services, which would be overseen by a strengthened unitary Board. In this sense, we consider the proposal veers too close to becoming a version of 'OfBeeb'. Lacking a direct relationship with the BBC executive, the Commission might be too weak to effect real change. And giving the Government, rather than the Commission, power to appoint the Chair of the executive risks compromising the BBC's independence.

Our proposal

- 5.24 We will create a new 'BBC Trust'²⁹ which embodies the public interest, reflects the views of licence fee payers and safeguards the independence of the BBC. Members of the Trust would be appointed by the Crown (as the Governors are now) and subject to the full Nolan procedures for public appointments.
- 5.25 The new Charter will also establish a formally constituted Executive Board responsible for the delivery of all of the BBC's activities and accountable to the Trust for its performance.
- 5.26 The Trust will act as the sovereign body in relation to the BBC and have ultimate responsibility for the licence fee. It will be responsible for setting the BBC's performance framework and assessing performance against it; approving strategies and high level budgets; and holding the Executive Board to account for delivery. The Trust will have access to all the information it requires in order to carry out its functions.
- 5.27 The Executive Board will contain a significant minority of non-executives, reflecting its level of autonomy on strategic matters. The role of the non-executives on the Executive Board is to support the executive members as "critical friends", by bringing wider perspectives and expertise to their decision-making.
- 5.28 The Executive Board will be chaired by the Director General or, at the discretion of the Trust, a non-executive.
- 5.29 There will be a clear structural separation between the functions of the two bodies, which are summarised below in box 5.5. In particular, the boundaries of the Trust's involvement in strategic and financial decisions will be clearly set out.
- 5.30 The two boards will be required to work to explicit protocols, detailing the processes for interaction between them, with a view to ensuring clarity, openness and transparency. The Trust will subject decisions to public engagement and objective evidence-based assessment and the presumption will be that its decisions are made public, together with the evidence and other inputs which have informed them.

Box 5.5 Principal functions of a BBC Trust and Executive Board

Functions of the Trust

The key responsibilities of the BBC Trust will be to:

- Establish and implement a published framework for ensuring that the public interest is brought to bear on all of its considerations. This will be expected to include specific commitments to communication and consultation with licence fee payers.
- Set the overall objectives for the BBC, within the framework set by the Charter.
- Define the performance criteria and measures against which the delivery of those objectives will be judged.
- Hold the Executive Board to account for its performance in delivering the BBC's services and other activities.

²⁹ We have given the new governing body a working title of 'BBC Trust' to signify its responsibility for spending the licence fee and its close relationship to licence fee payers, but its legal nature would be somewhat different to that of a conventional Trust

- Investigate where it has concerns that the Executive Board is in danger of breaching its requirements and require problems to be addressed.
- Issue service licences for BBC services.
- Approve multi-year strategies and annual plans, including high-level budgetary allocations. The Trustees' role would be to accept, reject or require further development of proposals developed by the Executive Board.
- Approve specific financial and strategic proposals from the Executive Board where they stand to have significant implications for the fulfillment of the BBC's overall objectives.
- Regulate programme standards and quotas (without altering Ofcom's current responsibilities in this area).
- Appoint a Chair to the Executive Board – the Director General or, at the discretion of the Trust, a non-executive – and approve that board's nominations for its non-executive members.
- Set the framework for handling complaints and act as final arbiter.
- Commission value for money investigations into specific areas of BBC activity.
- Comment on the Executive Board's report and accounts and lay them, together with its own commentary, before Parliament.
- Determine the remuneration of the Chair of the Executive Board and play a role in setting the remuneration of the other members (for example by setting overall parameters or approving individual decisions).
- Assess proposals from the Executive Board for new services, with the involvement of Ofcom on market impact issues, and public consultation, and submit recommendations to Government for final sign-off. Undertake subsequent reviews of new services once approved.

Functions of the Executive Board

The key functions of the Executive Board will be to:

- Deliver the BBC's services within the framework set by the trustees and account to the Trust for its performance.
- Develop, cost and (once they have been approved) implement strategies for the delivery of the overall purposes and objectives set by the Trust.
- Take all financial and strategic decisions in relation to the BBC's activities, except where there are significant implications for the overall objectives set by the Trust (in which case decisions will be referred to the Trust for approval).
- Develop and put forward service licence applications.
- Prepare and sign off the annual report and accounts for the BBC and present them to the Trust.
- Nominate its own non-executive and executive members (via a nominations committee). Non-executive appointments will be made in accordance with Nolan procedures for public appointments and will be subject to the Trust's approval.
- Determine the remuneration of executive members (via a remuneration committee), and with the appropriate involvement of the Trust.

- 5.31 Our proposal is the best model for the BBC. It accepts the Burns panel's key recommendation that there should be clear separation of different responsibilities, to avoid confusion or capture. As Burns recommended, the Trust will have only high-level powers of approval over BBC budgets and strategy. Day-to-day management will be carried out by the Executive Board, which will be strengthened by a significant number of non-executive members. Dealings between the two boards will be open and transparent – it will be clearer to everyone how and why decisions are taken.
- 5.32 But the Trust model is also consistent with the best elements of the BBC's own proposals to reform the Board of Governors – it makes sure there is only one, clear sovereign body and only one Government-appointed Chair. That will make the Trust a powerful advocate for the public interest, able to safeguard the BBC's independence, with ultimate power over the licence fee.
- 5.33 The reforms we are proposing will take a number of very important steps forward from the existing system:
- There will be clear structural separation between two different, formally constituted bodies – the Executive concerned with delivery, the Trust with oversight.
 - The Executive Board will have greater freedom, at a detailed level, to develop strategy and make programmes without any interference from the Trust. Executive Board members will also benefit from the experience and advice of a significant number of new non-executive members.
 - Since the Trust will approve only high level budgets and strategies – and will not be involved in their development – it will be able to make objective judgements about the BBC's day-to-day performance.
 - It will be clear to everyone outside the BBC how the two boards relate to one another – formal protocols will ensure there is a presumption that what passes between them should do so publicly where possible.
 - BBC services will be held to specific, detailed service licences.
 - The Trust will be a powerful body at the head of the BBC, with expert support staff. And it will gain its real power from the open face it presents to commercial competitors and its proximity to its shareholders – the licence fee payers. (The ways in which it might guarantee this proximity are discussed in more detail in the sections below.)

Relationship with Ofcom

- 5.34 There are two areas in which the current relationship between Ofcom and the BBC might be re-examined. The first is the regulation of basic production quotas and programme standards – characteristics by Ofcom as 'cross-industry regulation'. At present, some standards and quotas are regulated by Ofcom, some are regulated by the BBC Governors and some responsibilities are shared between the two (see Annex B for full details). Some people argue that these responsibilities should all be handed to Ofcom to regulate rather than being shared with the BBC's governing body, since they are basic public service broadcasting requirements that Ofcom also apply to commercial channels. Others consider that such a move would threaten the BBC's editorial and strategic independence and its direct accountability for the way that licence fee income is spent – they argue instead that the BBC's own governing body is best placed to regulate

it in all these areas. We want to give both Ofcom and the new BBC governance structure time to bed in before considering again the distribution of responsibilities for this sort of ‘negative regulation’ of standards and quotas. We will review the position five years into the new Charter.

- 5.35 The second issue relates to competition regulation. Ofcom is the sectoral competition regulator for broadcasting and has the same Competition Act powers over the BBC as it does over any other broadcaster. The OFT, similarly, is involved in competition issues relating to non-broadcasting activities (eg. online activity, rights issues). We fully support this position – it makes no sense to duplicate expertise in this area. We also think Ofcom’s expertise should be used to help assess the market impact of BBC activities and services – by conducting impact tests themselves for new services and agreeing the method by which tests will be carried out in other areas (such as changes to existing services).
- 5.36 We do not think Ofcom should be given an additional, open-ended ‘ex ante’ power to ensure the BBC acts fairly – we believe that, as proposed, this would cut across the BBC Trust’s overriding duty to uphold the public interest in this area. But if evidence is put forward of a need for more tightly-defined powers, in specific areas, we would be prepared to consider it. Ofcom will retain its ex post Competition Act powers to intervene if it considers the BBC has abused its position.
- 5.37 There is an outstanding question relating to the Fair Trading Commitment that the BBC Governors apply to BBC commercial services and we return to that point in Chapter 9.

Operational arrangements

- 5.38 The BBC Trust will need to be given additional space and resources to do its job. It should be separated completely from the Executive and given its own staff. In response to our public consultation, numerous calls were made for the Governors themselves to have greater expertise in broadcasting, new media, competition and corporate regulation. We think a new appointments policy needs to be drawn up to make sure the Trust contains people who have, or have the opportunity to acquire, the appropriate skills and experience in these areas. It will also need to be given a clear framework against which to measure the performance and proposals of the Executive, and some levers to ensure the Executive respect their judgements.

Performance measurement – service licences and cross-cutting strategies

- 5.39 We support the view put forward by the BBC, in *Building Public Value*, that new tools are required for setting the BBC’s detailed remit and measuring the Corporation’s performance. We agree in particular that every BBC service should have a detailed service licence. This would be set by the Trust in negotiation with the Executive, against which performance would be measured. Alongside individual service licences, the Trust should also publish detailed strategies for the fulfilment of each of the BBC’s public purposes – incorporating activity within and beyond broadcasting services.
- 5.40 For such service licences and strategies to be effective tools, they need to be accompanied by a comprehensive system of performance measurement. That system needs to be able to judge the performance of each service against each of the BBC’s public purposes. It needs to consider:
- The output of each service – its content and how it is scheduled
 - The impact of all BBC activity – how many different people it has reached and how often

- The value given to it by audiences and participants – whether people found it enjoyable or worthwhile
- The value given to it by outside experts (eg through peer review and benchmarking)

5.41 In making judgements based on these criteria, the Trust will need to track and consider the thoughts and opinions of audiences as well as the hard facts of audience share or reach. The value that viewers attach to programmes can be as important as the number of people who watch. Our qualitative research suggests people agree that ratings are not sufficient to judge performance and that some more subjective forms of measurement are required³⁰. We expect the BBC to work closely with Ofcom and with other public service broadcasters in putting together its measurement system.

Public value tests and market impact assessment

5.42 We also support the BBC proposal for the development of a public value test. Whenever a proposal is put together for a new service, or the extension of an existing one, it should be submitted to the Trust for a rigorous test of its public value. Part of the test should be a market impact assessment, to be conducted according to a standard formula agreed between Ofcom and the BBC Trust, and to be conducted by Ofcom itself in the case of a new service. Only if the public value added by the service outweighs any negative market impact should the proposal be given further consideration.

5.43 We welcome and endorse the idea of a public value test but would like to see it developed further. We would particularly welcome a wider debate on the ways in which it will be possible to measure public value (beyond the simple popularity of a proposal, which may be a crude and misleading indicator). We would also want to consider whether the test should set a threshold beyond which the market impact of a service might be deemed completely unacceptable – for instance if it risked foreclosing a new market or significantly lessening competition.

Handling proposals for new services

5.44 The Trust should have the most substantial role in the process of approving or rejecting BBC proposals for new services. At present, the Government is responsible for this process. In future, the Trust should be able to carry out the detailed, public work of analysing proposals on the basis of Ofcom's market impact assessments, audience opinion and other evidence. The Trust would then make a recommendation to the Government if it wanted to approve a new service, and the Secretary of State would only be able to veto such a recommendation on the grounds that due process had not been observed.

5.45 The Trust will also need to be given some other levers over the Executive, to use if things go wrong with an existing service. Its easiest and most direct weapon will be simply to name and shame – to publish an assessment of what has gone wrong and to demand proposals from the Executive to rectify the problem. Beyond that, it will also hold the ultimate power to dismiss the Director General or Chair at the top of the Executive Board. It would also be able, through the budgeting process, to insist on money being moved away from some services towards others, depending on its judgement of performance.

³⁰ Cragg Ross Dawson, *Qualitative research on key issues*, 2005

Upholding the public interest

- 5.46 We are proposing to separate delivery functions, which relate mainly to the management and delivery of BBC services, from an oversight function that we think should aim to uphold the ‘public interest’. To do its job properly, the BBC Trust will need to have clarity about what constitutes the public interest in this case. That requires a definition of:
- its fundamental aims and aspirations – its remit
 - the regulatory tools it is given, its powers and the processes it needs to have in place
- 5.47 A public interest remit needs to reflect the three ways in which the new body would be responsible to the public:
- its direct responsibility to the licence fee payers who pay for it;
 - its responsibility to fulfil the purposes set for it by Government on behalf of the public as a whole; and
 - its responsibility to UK consumers to ensure that BBC services do not unduly inhibit choice and competition in the wider market.
- 5.48 However, such a remit should not be defined by outside interests alone. Ultimately, the Trust will still be responsible for upholding the strength and independence of the BBC itself. It must not be driven by any other commercial or political agenda. It will therefore need to have sufficient space to consider these components of the public interest objectively, and to use them as a prism through which to judge the BBC’s activities.
- 5.49 The public interest might be defined through a set of general aims or duties for the BBC Trust, to make sure that the BBC:
- fulfils its public purposes;
 - sets benchmarks for other broadcasters;
 - is editorially independent of Government and commercial interests;
 - doesn’t unfairly or unduly damage commercial media businesses;
 - is efficient and provides value for money to licence fee-payers;
 - communicates with licence fee-payers and takes account of their opinions.
- 5.50 To fulfil each of these duties, however, the Trust will need to operate in a certain way. It will be able to use a system of service licences and performance measurement to ensure that public purposes are met and that the BBC sets a benchmark for competitors. Its structure should establish it as the guardian of the BBC’s strength and independence – a buffer between the Executive and any external Government or commercial pressure. Public value tests will enable it to measure and mitigate market impact, with Ofcom’s assistance. An audit function and a programme of value for money reviews should sustain efficiency.
- 5.51 Finally, if the Trust is truly to embody the public interest, it will need to be more accountable to the public. We agree with the Select Committee’s suggestion that this is a central issue.

Public involvement and engagement with how the BBC is run

- 5.52 The BBC's governing body needs to be re-oriented. Rather than sitting in the BBC facing inwards towards its management, as the Governors have tended to, the Trust needs to sit at the top of the Corporation facing out towards the public and the rest of the broadcasting industry. It should display some of the characteristics of the 'Ourbeeb' model put forward recently in a paper commissioned by the Commercial Radio Companies Association (CRCA)³¹.
- 5.53 All public services need to be accountable. The BBC is no exception. Licence fee payers want to know more about how the BBC is run and feel that it needs to be more responsive to the people who pay for it. 34% of respondents to our quantitative survey thought the BBC paid no attention, or not very much, to the views of viewers and listeners.³² The BBC Trust must demonstrate through its actions that its principal obligation is to the public, not to the Government or to the BBC itself. At present, the public sees the Governors as too remote and bureaucratic, not genuinely listening or responsive.
- 5.54 Licence fee payers are effectively the shareholders in the BBC. In a limited company, shareholders play a powerful role and the entire board's primary purpose is to safeguard their interests (non-executive directors play a particularly important role in this). In theory, the BBC Governors should represent licence fee payers in the same way. Historically, it has not been clear from the outside that they have done this. The new BBC Trust needs better, clearer structures of accountability and engagement – to give licence fee payers some rights of ownership.
- 5.55 The protocols that govern the behaviour of Trust members should include a requirement to maintain a 'contract' with licence fee payers, setting out the ways in which the Trust promises to measure and respond to public opinion. The sections below set out some options for inclusion in such a contract, and we would welcome views on how effective they might be.

Responsiveness – reviewing performance and revising strategies

- 5.56 The BBC's performance measurement system should take account of the thoughts and opinions of those who pay for the BBC – in every household:
- There should be a rolling programme of quantitative and qualitative research designed to track audience opinions about the BBC's performance, and to measure the impact of its programming.
 - Such research should be accompanied by open consultation of viewers and listeners through a number of different forums. One way of doing this would be to enlarge or reconstitute the existing national Broadcasting Councils and the English National Forum, which might be elected by local licence fee payers and given a role in formally advising the Trust. New e-forums and open meetings or AGMs could also be set up.
 - When key decisions have to be taken by the governing body, they should be informed by deliberative research among representative groups of viewers and listeners.

Transparency – explaining decisions

- 5.57 To promote trust in this system, the governing body must be open and transparent in everything that it does. Some options would be:
- For the Trust to meet in public

³¹ Stilpon Nestor, *An owner for the BBC: An outsider's look at BBC governance*

³² MORI, Quantitative research to inform the preparation of the BBC Charter Review, 2004

- To webcast its meetings and any open meetings or AGMs that it holds
- To publish the minutes of every meeting and the results of every piece of research
- To publish the voting records of each Trust member

Appraisal

5.58 If a combination of these options can de-mystify the processes and decisions of the BBC's governing body, then its members might also be made subject to greater public influence. One additional option would be for Trust members to be put through an external, independent appraisal process. Licence fee payers might also be given the opportunity to offer views on Trust members' performance as part of this process. Any member with a particularly poor appraisal might be replaced.

Complaints – getting redress

5.59 Finally, an important part of the accountability framework for the BBC is its complaints handling process. The BBC Governors have themselves stated that this process could be improved, and we agree. In future, complainants need to have fair and equal access to a transparent, objective process, with the BBC Trust acting as final arbiters (except in those areas where Ofcom is already the final arbiter – harm and offence, privacy and fair treatment).

Financial accountability

5.60 The Trust should also demand the highest standards of financial transparency from the BBC in its annual reporting to ensure that the BBC complies with best practice in other public and commercial bodies.

5.61 Following the Communications Act 2003, the BBC Governors began to conduct an annual series of published value for money studies that are agreed with (and in some cases conducted by) the National Audit Office (NAO). Ultimately, increased powers of access could be passed to the NAO. We will consider such options further in the course of Charter Review, once it is clearer how well the current arrangement is working. However we are mindful that the public do not want to see Parliament given any increased power over the BBC.

Parliamentary accountability – a 'legislative function'

5.62 At present, the BBC is ultimately accountable to Government and Parliament through the Charter, and Charter Review provides an opportunity for Government reform. In addition the Government sets the level of the licence fee, the Queen appoints the Chair and Governors on the advice of the Prime Minister, and the BBC's Annual Report is laid before Parliament for scrutiny by the Culture, Media and Sport Select Committee. These 'legislative' elements of the BBC's governance structure are important, given the amount of public money involved, and they should remain in place. However, the public say they do not want any increased Parliamentary involvement – only 9% say that Government should hold the BBC to account when things go wrong and only 4% say the same about Parliament³³. We therefore do not propose to add to these arrangements.

³³ DCMS Review of the BBC's Royal Charter, What you said about the BBC, p. 45

Section II: Issues of Scale and Scope

6. Principles

The BBC should remain a cultural institution of real scale and ambition

- 6.1 Public service broadcasting in the UK is a broad concept with a bold ambition – to bring benefits to every viewer and listener. The BBC should not be a broadcaster confined only to minority interests. It is a cultural powerhouse – one of the largest commissioners of new music and new writing in the world. To fulfil its public purposes the BBC will need to maintain significant audiences. To satisfy every licence fee payer it must provide a wide range of content for a wide range of different audiences.
- 6.2 There is broad public support for the existing range of BBC services – across television, radio and the internet. There are no plans to require the BBC to shut down or privatise any of these services. New governance and accountability arrangements should ensure that they are focused on public purposes and on the public interest.
- 6.3 In future, the BBC may have to change and adapt its range of services to respond to changes in the ways that people want to receive content (for instance downloading television programmes from the internet). The BBC should not be forced to stand still for ten years – it should be allowed to consider developing its technologies as audience demands evolve. But any proposals for new services need to be subject to a public value test, including an assessment of potential market impact.
- 6.4 Beyond the services it provides, the BBC plays an important role in technological innovation and research, and it offers a wide range of training opportunities to those wishing to pursue a career in broadcasting. We want the BBC to continue to carry out these functions, and to do so it needs to have significant scale as an organisation – in terms of numbers and production capacity.

The principle of efficiency

- 6.5 However, the BBC should also be as small in terms of numbers and infrastructure as it needs to be to carry out those functions and to fulfil its public purposes. The BBC currently has around 28,000 staff. That represents a significant increase over the current Charter period.

The BBC's nine-point manifesto (published alongside *Building Public Value* in June 2004) said that it 'should be big enough to deliver the services audiences demand, but as small as its mission allows.'

- 6.6 The BBC has recently conducted its own internal value for money review, summarised in box 6.1, which has concluded that savings can be found in a number of areas in the next three years. We support the principles of efficiency and value for money and expect them to be sustained over the course of the next Charter. Licence fee payers need to feel confident that waste is kept to a minimum.

- 6.7 In setting the level of the licence fee we will want to ensure that the BBC is as efficient as possible over the Charter period. An assessment of value for money will form part of the work of the funding review that will set the level of the licence fee for the next decade.

Box 6.1 Recommendations of the BBC's internal value for money review

Costs in professional services (including finance, procurement, HR, strategy, policy, marketing) to be reduced by 25%.

15% efficiency savings in output areas (radio and music, television, new media, news, Nations and regions).

15% savings in cost-per-hour prices for commissions from all suppliers.

Total savings target of £320 million per year – to be achieved by the third year. Incorporates current Charter target for savings of £155 million per year.

Issues for further consideration

- 6.8 There are a number of detailed issues for Charter Review to consider about the way the BBC organises itself and its services. Many of these issues have already been the subject of internal BBC reviews and independent Government reviews in the course of the current Charter. They relate to:
- Organisation and infrastructure: where programmes are produced, whether in London or out of London; who produces them (in-house BBC producers or independent companies) and how they are commissioned; the BBC's contribution to broadcasting research and training.
 - The scope of the BBC's publicly-funded services, particularly whether they are distinctive enough from commercial channels.
 - The BBC's commercial activities (selling programmes, videos, books, magazines and services) and the way they are regulated.
- 6.9 These issues are considered in more detail in the chapters that follow.

7. Organisation and infrastructure

What people think

- People find it hard to answer detailed questions about the way the BBC is structured – 85% know nothing or little about the way the Corporation is run.
- The BBC's contribution to research and development of broadcasting technology is valued highly – particularly by industry respondents – as is its role in training the broadcasting and film industries.
- Many respondents to our public consultation feel the BBC is too focused on London. At broadcasting industry seminars we were told that BBC in-house production capacity should be used strategically to increase the proportion of UK programming made outside the M25.
- The BBC's failure to meet quotas for independent television production is the subject of much criticism from broadcasting industry respondents. There are strong calls from independent television producers for the BBC's quota to be raised from 25% to 50%.

Our policy

Every region of the UK pays for the BBC. It therefore has a responsibility to spread itself outside London. It is important to bring different regional flavours to programming. BBC production can also bring jobs and investment to an area, and a stimulus to the creative industries that support broadcasting. To reflect fully the different Nations and regions of the UK, the BBC needs to support a greater range of its UK production in centres outside London. We welcome the recent moves it has made in this direction and encourage it to go as far and as fast as it can.

The BBC should also use the licence fee to support the UK broadcasting industry more widely. It plays a crucial role in training the industry and developing new technology, and those functions should be sustained. It should also do more to use the licence fee as venture capital for the flourishing independent production sector – to make sure the best ideas always make it to the screen, by giving a full range of independent and external producers a fair chance to get programmes commissioned.

In television, Ofcom is due to carry out a review of the programme supply market in the coming year. We are interested in the BBC's proposal to introduce more competition in the way programmes are commissioned in a new 'window' that would account for 25% of production. But we would like there to be a wider debate about how this might work in detail, and we will also consider the case for increasing the existing 25% guaranteed quota for independent producers. For radio, we welcome the BBC's proposal to extend the 10% voluntary quota for independent production to new areas of programming but would like to hear views on whether this is sufficient.

Research and training

- 7.1 The BBC needs to have sufficient scale to maintain and develop two functions of key value to the broadcasting industry as a whole. The BBC makes a central contribution to technological research and to training, which are both vital to the UK's ability to function at the forefront of the increasingly complex and fast-moving world of digital broadcasting. Box 7.1 summarises the BBC's current commitments in these areas.
- 7.2 The BBC provides opportunities and experience to thousands of workers in the creative sector. It cites Radio 3 as the largest commissioner of new music in the world³⁴ and Radio 4 is one of the largest commissioners of new writing. But as box 7.1 shows, it also provides a significant programme of formal training. There is no formal commercial alternative on anything like the same scale, although research carried out for PACT (the independent producers' trade association) suggests that the independent sector invests over £30 million each year, mostly in 'on the job' training.³⁵
- 7.3 The BBC should continue to provide training on a significant scale. Its training function should not be seen only as a by-product of its role as a large employer. In preparing and maintaining a highly-skilled media workforce, the BBC's training programmes make a significant contribution to its public purpose of stimulating creativity. We also welcome the contribution the BBC makes to the development of training across the industry more widely – in particular through Skillset, the sector skills council for the audiovisual industries.
- 7.4 The BBC has already played a crucial role in the development of digital broadcasting in Europe. It now needs to retain sufficient research capacity to play a full role in the development of new digital platforms and a leading role in the highly technical process of digital switchover. It needs enough freedom and enough resources to function as a centre of excellence for the whole broadcasting industry. It should be able to influence the standards-making process at international level, and to support and inform policy and infrastructure development at national level, including delivery of the World Service. Additional funding could also be generated by more deliberately exploiting the commercial value of any new technology it develops. The BBC should consider the Select Committee's recommendation that it examines further the work done by the not-for-profit Media Lab Europe, in Dublin, before its closure earlier this year.
- 7.5 We would welcome views on the direction that the BBC's research and development function should take.

Box 7.1 The BBC's involvement with research and training

The BBC put the following points to us as part of our consultation exercise.

Training the industry

The BBC is the UK's biggest investor in broadcast training: last year BBC Training & Development delivered 37,858 training days for 22,000 people both within and outside the BBC, in a total of 3,814 separate courses.

³⁴ BBC, *Building Public Value*, p. 33

³⁵ See www.pact.co.uk, press releases, November 2004

The BBC supports 400 trainees in over 70 schemes across its range of operations. Over 2,000 people apply for each production traineeship.

Some 25,000 people used the BBC's online learning modules during 2003 and they consumed over 55,000 hours' worth of learning materials. The BBC offers free online learning for freelancers as the first stage of the development of a learning portal for the broadcast industry.

The BBC gives a core grant to the National Film and Television School of £450,000 a year, and a further £425,000 to Skillset, the sector Skills Council for the audiovisual industries. Eight smaller organisations ranging from the Actors' Centre to Yorkshire Media Training also receive vital cash support from the BBC.

In addition, BBC staff work on attachment with 35 other media organisations, giving over 500 young people training and mentoring in general media skills.

Pioneering technological innovation

The BBC has pioneered many of the innovations in British broadcasting ranging from the transmission of pictures by satellite (used to send colour pictures from the 1968 Mexico Olympic Games), to the invention of Nicam stereo. It employs 200 research and development staff, of whom 175 are professional engineers.

The BBC has played a leading role in developing the technology and standards for different digital platforms, particularly in pioneering interactive digital terrestrial television services. It currently has 30 collaborations with industry partners, and has 319 patent filings in its portfolio, adding 10 in the last year,

Recent examples of innovation include:

- the 2001 development of the single-chip digital terrestrial television demodulator that enabled production of set-top boxes at greatly reduced cost, thereby improving access to digital TV;
- a revolutionary cable-free camera for live outside broadcasts, first used at the 2002 Commonwealth Games in Manchester;
- new 'multicasting' techniques that allowed live internet streaming of coverage from the 2004 Olympics.

Production and commissioning

- 7.6 The licence fee represents venture capital for the creative economy, and needs to contribute to a properly-functioning programme supply market – within and outside London.
- 7.7 The BBC has recently conducted two internal reviews in this area – one examining its approach to commissioning and production in general, one looking at the specific issue of regional production and the BBC's presence outside London. Those reviews are welcome in the context of the current Charter. However, Charter Review provides an opportunity to consider the issues further, in a wider context. We would therefore welcome responses to the ideas set out below.

Out of London production

- 7.8 One of the BBC's core public purposes is to reflect the different cultures of the UK, its nations, regions and communities. In the main, it should fulfil that purpose through its programmes and the subjects and issues they address. In this context, we agree with both Ofcom and the Select Committee that the BBC should do more to find new and interesting ways of engaging regional audiences. Beyond programming, the BBC should also make sure its contribution to UK production furthers the economic development of the UK beyond London. Thriving production centres bring jobs and revenue to their region, and where there is a critical mass of activity they promote the growth of other creative industries, too. For these reasons, the BBC has already set quotas for television that require 25% of its UK-produced network hours to be produced outside London, and 30% of total UK production funding to be spent there.
- 7.9 Quotas are important, but they can be something of a blunt instrument to rely upon in ensuring that the BBC is playing its proper role in reflecting different UK regions and Nations. It is alleged, for example, that some broadcasters stretch definitions to allow 'out of London' production to include production teams from London working on location. More sophisticated measures of success need to be developed to work alongside quotas in helping the BBC to judge its success in reflecting the UK's different communities. They include sustaining a range of production centres around the country. We therefore welcome the BBC's recent announcement that it will consider moving a significant amount of production to cities outside London, particularly to a new hub in Manchester. We will want to consider more closely the potential costs and benefits of any proposal as we conduct work to set the future level of the licence fee. The BBC's initial proposals are summarised in box 7.2.
- 7.10 This move may well benefit viewers and listeners in regions where production takes place – it might mean that drama or comedy programming, for instance, better reflects those communities and their stories. Although there may be start-up costs (for example if new facilities need to be built), there should also be some financial benefit to the BBC in the longer term, since it costs less to run offices and employ people outside London. This seems to be an important point for the public. In our qualitative testing of some Green Paper proposals, most people outside London say they feel it makes sense to spread resources more evenly around the UK. But there is an equally strong belief that the guiding principle in any decisions in this area should be efficiency and value for money in programme-making.³⁶ To this end, the BBC should try to limit the costs of any move. Where appropriate, it should co-ordinate its approach with ITV to focus activity in the same areas of the country.

³⁶ Cragg Ross Dawson, *Qualitative Research on key issues*, 2005. pp. 32-33

Box 7.2 Recommendations of the BBC's Out of London review

Investment in a new broadcast centre in Manchester to be built over the next five years, incorporating 1,800 new staff, £275m worth of commissioning and £225m of production in:

- children's TV and radio;
- sport;
- Five Live and Five Live Extra;
- new media;
- research and development;
- formal learning, including the digital curriculum.

Network commissions from the regions to increase by 50% to 17% overall.

Drama made outside London to increase from 30% to 50%

New commissioners to be based outside London:

Commissioner for daytime in Birmingham

Commissioner for comedy and entertainment in Glasgow

Part of factual commissioning to be based in Bristol

Plans for ultra-local TV and radio to be pursued further

Independent production

7.11 The BBC needs to sustain a significant base of in-house production:

- to sustain its contribution to research and training;
- to maintain out of London production centres;
- to make sure it delivers value for money to licence fee payers, by exploiting synergies and economies of scale where they exist, and by keeping talent and commissioning costs under control;
- to retain its capacity to make high quality programmes in areas, particularly where there is less of a commercial market or where there is a shortage of specialist skills.

7.12 However, if it wants to broadcast the best possible programme in every slot, and to pursue efficiency, the BBC also has a responsibility to adopt the most meritocratic commissioning policy possible, and to give the independent sector the chance to compete. Competition in the supply of programmes will tend to provide a better product for audiences.

Television

7.13 During the passage of the Communications Act through Parliament, we commissioned the then-regulator the Independent Television Commission (ITC) to conduct a thorough review of the programme supply market in television. As a consequence, new codes of practice and terms of trade were drawn up between independent producers and terrestrial broadcasters. Ofcom, the ITC's successor, proposes to undertake a further review of the market in the course of 2005, once

those changes have been given time to bed in. In the meantime, it is sensible to consider whether the recent changes are sufficient for the BBC, and what further options might be adopted.

7.14 Changes of two sorts could be made:

- **Structural remedies.** The BBC, along with other terrestrial broadcasters, is currently required to source 25% of qualifying programmes from independent producers. This quota has done much to create a thriving and competitive production industry across the UK. However, the BBC has failed to meet the quota in two out of the last three years. One option, favoured by the Culture, Media and Sport Select Committee, would be to raise this quota for the BBC, or amend the way it is defined and applied – for instance so that 25% of spend is allocated to independent producers, as well as airtime.
- **Behavioural remedies.** The BBC's own internal review of content supply (see box 7.3) has proposed the creation of a new 'window of creative competition' for a further 25% of commissions beyond the existing independent quota. The aim of this proposal is to ensure full competition in production and full meritocracy in commissioning for this 25%, while retaining a critical mass of BBC in-house production at 50%.

7.15 We welcome the BBC's commitment to increasing competition in programme supply, and we support the principles behind the idea of a window of creative competition. We agree that the BBC needs to have a critical mass of in-house production.

7.16 However, the BBC also needs to explain in more detail exactly:

- how it has calculated the 50% figure for in-house production;
- how the window of creative competition will work in practice;
- how it will achieve an effective separation of commissioners and producers within the BBC; and
- how it will be regulated – with sufficient transparency to satisfy all parties that there is fair and robust competition.

7.17 There needs to be a full and public debate around these points before we can be satisfied that the window of creative competition will be certain to produce a fair and transparent system. In particular we would need to be satisfied that there was an effective system in place to rule on complaints about the operation of the system. We look forward to seeing this detail. In the meantime, we will give further consideration to both structural and behavioural options.

Box 7.3 Recommendations of the BBC internal review of content supply

Television

- 25% independent quota to be maintained
- 50% in-house production guarantee to be introduced
- 25% 'Window of Creative Competition' to be established for bids from in-house, external (eg Granada) and independent producers
- In-house maximum capacity to be reduced to 60% – 10% above its minimum output
- Simplified commissioning process to offer direct and equal access for all producers

Radio

Existing 10% voluntary quota for independent production to be extended to cover:

- sport;
- radio in the Nations;
- digital radio.

New media

New 25% quota for external production of online content, in line with the conclusions of Philip Graf's independent review of BBC Online.

Radio

- 7.18 In 1994 the BBC introduced a voluntary 10% target for independent radio production, which has always been met or exceeded. In 2003/04 about 12% of eligible hours came from independents, with a value of £12.9m. The BBC's stated goal was to stimulate the development of a healthy radio production economy outside the BBC across a range of genres in which a number of broadcasters would invest. However, the commercial sector mainly produces continuous 'programming' rather than individual programmes, and the former does not lend itself so readily to the segmenting needed to enable independent production. Where it considers it appropriate, the commercial sector does use independent production, for example the network chart show and much travel and entertainment news. The result nevertheless is that, in many areas of radio programming, unlike TV, the BBC remains a monopoly purchaser.
- 7.19 The BBC's recent content supply review concluded that the existing 10% voluntary quota should be extended to cover sport, radio in the Nations and the new digital radio stations. We welcome these proposals, which the BBC estimates will result in it commissioning about an additional 3,000 hours of independent production. The BBC has also recently consulted on new terms of trade, and is proposing a Programme Development Fund to support the development of creative ideas from independent producers.
- 7.20 We think the same principle should apply to radio production as in TV – where possible, we want to encourage competition, because it is likely to bring the best programmes to listeners. Given the BBC's current position as the only significant purchaser of independently produced material, it may not be possible to create a thriving and competitive production market through Government intervention in this area. Nevertheless, as in television, there remains a question as to whether the BBC's recent moves are sufficient, or whether the quota might instead be increased or made binding. We would welcome any views on this point.

8. The scope of the BBC's publicly-funded services

Our policy

The current range of BBC services has broad public acceptance and should be maintained. However, each service needs to be defined by a licence that gives it a clear, distinctive form and remit.

The BBC has said it has no plans to launch new linear TV or radio channels. In future, however the BBC may need to develop its digital services further and it may want to enter some new markets. There should be scope for it to do so, but any proposals must pass tests of their public value and market impact.

Overview

- 8.1 In our public consultation exercise, we found that the existing range of different BBC services, across radio, TV and the internet, has broad public support. There were few calls for any particular channel to be shut down or sold off and we have no plans to require this. The full range of existing services is summarised in box 8.1.
- 8.2 Although the existing set of BBC services may look to be roughly the right ones in 2005, the pace of change in media markets is such that further change may well be justified at some point in the next Charter period. There may be public value in the BBC taking advantage of completely new platforms or means of delivering programmes. It may also want to consider withdrawing from some activities if it becomes clear they are no longer adding any value to what the commercial market would provide.
- 8.3 There should be some flexibility for the BBC to add and remove services. The new system we propose for governance and regulation could give the new BBC Trust more of a role in this process – testing the Executive's proposals through a rigorous and open public value test, including testing of viewer and listener opinion. Part of that test should be a market impact assessment, conducted by Ofcom. Only where the public value of a proposed service clearly outweighs any adverse market impact should the Trust recommend that the Government grants it final approval.
- 8.4 The BBC said in *Building Public Value* that it had no plans to expand its channels or networks.³⁷ Yet it also outlined proposals for the development of new 'ultra-local' television news services and for a 'Creative archive' that would make existing BBC content more widely available on the internet. Both these proposals are likely to be popular with the public, but they also raise potential concerns about market impact – either for local commercial TV services or for those who may want to buy or sell the rights to internet content. We would like to see further detail on how these proposals would fit into a system of service licences. We agree with the Select Committee that the BBC should balance the interests of rights holders with those of the wider public in developing new proposals for the distribution of archived material. Any proposal should be subjected to a full public value test, including a market impact assessment, to assess whether it is the best use of the BBC's archive before any decision is taken to approve it.

³⁷ BBC, *Building Public Value*, p. 16

8.5 The sections below consider some of the current questions about the format of existing services. We consider the role and distinctiveness of specific services – particularly in radio – in more detail. We also respond to some of the recommendations made in the independent reviews of new BBC digital services – television, radio and online.³⁸

Box 8.1 The BBC's publicly-funded services

Television	Radio	Other
BBC 1	Radio 1	BBC Online
BBC 2	Radio 2	World Service
BBC 3	Radio 3	BBC Scotland
BBC 4	Radio 4	BBC Northern Ireland
Cbeebies	Radio Five Live	BBC Wales
CBBC	Five Live Extra	BBC English Regions
BBC News 24	1Xtra	
BBC Parliament	6 Music	
	BBC 7	
	Asian Network	
	6 Nations services	
	40 local and regional services	

Note: BBC Scotland, BBC Northern Ireland, BBC Wales and BBC English Regions provide a range of services to local audiences across TV, radio and new media

Access for people with sensory impairments

8.6 The BBC should continue to promote the development of practical ways of increasing the enjoyment of all its publicly-funded services by people with sensory impairments. We expect it to maintain its role in leading the rest of the industry, by setting its own targets for subtitling, audio description and signing as well as continuing to work closely with the relevant organisations to best understand how its services can continue to improve. It should use its research and development resources to help the whole industry deliver better services to disabled people. The Culture, Media and Sport Select Committee recommended that the BBC be given a specific duty in this area. We will consider this recommendation further in the next phase of Charter Review.

Analogue radio³⁹

Context

8.7 In the BBC's own audience research, BBC radio services overall score an average approval rating of 8 out of 10, compared with an overall average for all BBC services of 6.7.⁴⁰ This would seem to be consistent with the MORI research conducted for DCMS which showed

³⁸ Independent review of the BBC's digital television services; Independent review of the BBC's digital radio services; Independent review of BBC Online – all at www.culture.gov.uk/broadcasting

³⁹ Unless otherwise stated, all data and statistics provided in Sections 8.7 to 8.30 are from the BBC network radio papers submitted to Charter Review, which are available at www.bbccharterreview.org.uk

⁴⁰ BBC, *Public Service Radio in a digital world*, p. 28

that hardly any people thought the quality of BBC radio had worsened over time (8%, compared to 30% for TV).⁴¹

- 8.8 Commercial radio companies have four main concerns about the scope of the BBC's current analogue radio services. They argue that:
- some BBC services overlap to too great an extent with commercial radio services;
 - the mix between popular programming and public service broadcasting is sometimes too weighted towards populist/commercial programming;
 - BBC Radio services can change their character without clear regulatory intervention whereas all commercial radio stations have formats with which they must comply and which cannot be varied without Ofcom's agreement;
 - The BBC is too dominant in the radio market and can too easily overpower commercial rivals. It spent £587 million on radio in 2003, exceeding the net revenue of all commercial stations⁴². It has 5 of the available 8 national analogue services and 4 of the 5 available national FM frequencies. It is also able to cross-promote its radio services through its TV services.

Ofcom's radio review

- 8.9 Ofcom's recently published consultation document, *Radio – preparing for the future*, outlines the economic arguments for intervening in the radio market. In summary, it suggests that, because of spectrum scarcity and the needs of advertisers, an unregulated radio market is unlikely to provide all the programmes that consumers want. Regulation (through formats) and wider public intervention (for example, through the BBC) can provide a wider range and balance of programmes. There may also be good arguments for intervening on citizen grounds; for example, to ensure adequate provision of news or educational programmes, and to make people better informed and thus better able to participate in a democratic society. Commercial radio will provide a lot of these benefits.⁴³ But it is not clear whether it can do so to the extent desired. One aim of Ofcom's radio consultation is to examine whether it would be useful to develop a set of public purposes specifically for radio, and how they may best be delivered. The second phase of Ofcom's report will be published in Spring/Summer 2005 and we will want to consider its conclusions before we finalise our proposals for radio.

Distinctiveness

- 8.10 The process of Charter Review has focused so far on whether BBC services are sufficiently distinct from those of commercial competitors.
- 8.11 It was widely agreed at the Independent Panel's seminar on radio that Radio 3 and Radio 4 would not be financially viable as commercial services if the BBC did not provide them. Classic FM has some superficial similarities to Radio 3 but, while both play predominantly classical music, their approaches are very different, with Radio 3 playing much more live music and generally playing whole compositions rather than popular extracts. Classic FM has proved to

⁴¹ MORI, Quantative Research to inform preparation of the BBC Charter Review 2004, available at www.bbccharterreview.org.uk

⁴² Ofcom, *Communications Market Review 2004*, p. 39

⁴³ For example, commercial stations broadcast on average 157 news bulletins a week, and 66% of these contain local news items (*Commercial Radio: in the public service*, CRCA, September 2004)

be very successful with listeners and now has an audience of 6.2 million (13% reach).⁴⁴ Despite this, Radio 3's audience has remained broadly unchanged at over 2 million, suggesting that the two stations complement one another rather than compete for the same audience. In addition, Radio 3 commissions more new music – in fact it is the largest commissioner of new music in the world; with Radio 4 being one of the largest commissioners of new writing.

- 8.12 Similarly, there are few who argue that BBC local radio is not distinctive – it has a much higher proportion of speech (at least 60%) than local commercial radio and its programming appeals to an older audience. Unlike national networks, however, the BBC can launch new local services without first securing the agreement of the DCMS. Some concerns have been raised that there should be some mechanism to ensure that new stations are not launched without first taking into account the possible impact on existing commercial stations. We return to this issue below.
- 8.13 Commercial competitors' concerns about the market impact of BBC analogue radio therefore relate mainly to three stations: Five Live, Radio 1 and Radio 2. These are discussed in more detail below.

Five Live

- 8.14 Radio Five Live provides two complementary services – news and sport. It has 6.48 million listeners (13.4% reach) and an audience share of 5.1%. While it covers more than 30 sports, 75% of its output is news and current affairs, and more people listen to news and current affairs than sport. 70% of its sports listeners also listen to its news output.
- 8.15 Five Live competes directly with TalkSport in the market for sports rights, and it has been alleged that the BBC bids too aggressively for these rights. In his review of Five Live's digital sister station, Five Live Extra, Tim Gardam recommended that the Government commission a review of the BBC's approach to sports rights negotiations.⁴⁵ We will consider this recommendation further once Ofcom has dealt with the official complaint that TalkSport have made.

Radio 1

- 8.16 Radio 1 reaches just under 10 million listeners aged 15 and over every week (a reach of over 20%), and its share of all radio listening is 7.6%. Its reach among the 15-24 age group is nearly 50%. In the BBC's view, Radio 1 plays an important role in 'uniquely connecting BBC Radio and the BBC to young people. Without it, BBC Radio would appear to have little appeal or reach to young audiences.'⁴⁶
- 8.17 71% of Radio 1's output is music, which is split broadly 55/45 between mainstream and specialist music. The aim is that 40% of the mainstream music is UK in origin and 81% of its specialist and 40% of its daytime music is "new" (no more than 1 month old).
- 8.18 Radio 1 has been accused of marginalising its specialist music and playing more mainstream music during the day – 'ratings by day, reputation by night'. It is true that specialist music

⁴⁴ Rajar, Quarter 4, December 2005

⁴⁵ Tim Gardam, Independent review of the BBC's digital radio services

⁴⁶ BBC, *Public service radio in a digital world*, p. 29

shows are predominantly broadcast in the evenings. However, the analysis conducted by the BBC at our request suggests that Radio 1's musical output is quite distinctive from comparable commercial stations. On average, other monitored stations played only 15% of the tracks featured on Radio 1. Even in daytime, the average was just a little over a fifth (21%). Of the new songs played by Radio 1, half were not played on any of the other monitored stations. Radio 1 also played more live music and more new UK music than any of the monitored stations. In addition, output from specialist music shows feeds into the more mainstream music shows over time; 75% of Radio 1's playlist originates from specialist programmes.

- 8.19 Radio 1 runs news services throughout the day. Newsbeat, a 15 minute news and current affairs programme specifically aimed at younger people, runs twice daily. After peak time programmes, Radio 1's largest audience (in terms of reach) is for news. The commercial sector also provides news but it is difficult to argue that it does so in a way so extensively or specifically geared to a youth audience. Nor does the commercial sector run any equivalent to Radio 1's online music workshop for young people interested in working in the industry.

Radio 2

- 8.20 Radio 2 has 12.9 million listeners each week (representing a reach 26.7%) and a share of 15.3%. It has been criticized for allegedly abandoning its 'traditional' listeners and using its considerable resources to target a younger audience already well served by the commercial sector. It is further argued that the commercial radio formats would have prevented the commercial radio sector from having the same freedom to change its output, and that it is difficult for it to compete due to the lack of a national FM network and the BBC's opportunities for cross promotion. The result, it is argued, is that Radio 2 has been largely responsible for a 3% drop in commercial radio's share of the market.⁴⁷
- 8.21 The BBC has argued that tastes will vary over time, and that Radio 2 has to adapt in order to continue to serve its core audience. Although popularity amongst younger listeners is increasing, the average age of its listeners is still 50, compared with 53 five years ago.
- 8.22 The analysis conducted by the BBC suggests that the similarities between Radio 2's output and similar commercial stations is not as great as is sometimes suggested. For example, almost 1 in 6 tracks comes from a new album; 52% of tracks played have not entered the Top 20 singles chart and 49% have not been drawn from a Top 20 album. It has a much greater proportion of speech (42%) than the stations it was compared to, and 66% of the tracks played were not played by any of the other monitored stations. Even in daytime, the overlap between Radio 2 and the other monitored stations was on average only around 10%. It played more live music than the other stations and its programming covers 20 different genres (though the more specialist programmes are scheduled outside peak time).

Conclusion

- 8.23 When examined on a service-by-service basis, the BBC's own analysis suggests that its existing analogue radio services are distinctive when compared to commercial competitors.

⁴⁷ *BBC Charter Review: A Paper by the Commercial Radio Companies Association*, p. 8

Taken together, they also achieve significant reach across the UK population, and we agree with the public that the existing range of services is broadly 'right' in analogue radio. However, it is not sufficient for the BBC to provide evidence, at the point of Charter Review, that each service is distinctive. In future, the BBC Trust will need to conduct regular assessments of whether services are fulfilling the full range of public purposes, for example by stimulating creativity in music, or providing training for young and talented people.

- 8.24 There are three important questions that relate to the governance and regulation of radio services:
- While Radio 1 and Radio 2 may be distinctive when the whole of their output is surveyed, a question may remain over the nature of some peak-time output. In our formulation of the BBC's public purposes, we have said that every programme should strive to make a contribution to these purposes or should at least display some characteristics of excellence or distinctiveness. The BBC Trust will have to consider how applicable this principle is to peak-time radio programming, and we would welcome submissions on the subject as Charter Review continues.
 - The BBC should not be able to make significant changes to the character of any of its radio services without regulatory supervision. Under the next Charter, all BBC radio services would be held to the detail of their service licences, and any significant change would need to be subjected to tests of public value and market impact overseen by the BBC Trust, as described above in Chapter 5.
 - Finally, the BBC should not launch any new radio service, national or local, without again subjecting proposals to public value and market impact tests overseen by the BBC Trust.

Digital radio

Context

- 8.25 Sales of digital radios are growing rapidly, with 1.2 million sets sold by 2004.⁴⁸ The BBC and the commercial radio industry have together played a key role in promoting the medium.
- 8.26 In 2001, the BBC gained approval for five new digital radio stations: 1Xtra; BBC Asian Network; BBC7; 6 Music; and Five Live Sports Extra, which were all launched in 2002. The rationale behind 1Xtra and the Asian Network was to provide for underserved audiences (1Xtra for the young Black community; and the Asian Network broadcasting 3-5 hours of language programming alongside content in English). 6 Music and BBC 7 make use of BBC archive material and Five Live Sports Extra aims to get greater value from the sports rights packages negotiated by the BBC, especially in giving coverage to minority sports.

Gardam Review

- 8.27 Following the Secretary of State's commitment to conduct an independent review of these services two years after their launch, Tim Gardam, Principal of St Anne's College, Oxford, assessed the services against the conditions of their approvals between April and September 2004.

⁴⁸ Digital Radio Development Bureau (DRDB), January 2005

- 8.28 His recommendations included revising all the service remits (except that of Five Live Sports Extra) to reflect better the character and nature of the stations and improving the detail and clarity of their different targets and objectives. He also suggested that there should be a closer relationship between Ofcom and the BBC so as to make commercial and BBC station formats more directly comparable and to devise an agreed formula for assessing market impact so as to lessen the likelihood of the BBC having, or being accused of having, a detrimental effect on individual services.
- 8.29 Gardam recognised that the BBC is a significantly larger and better-resourced operator in the radio market than it is in the TV market. He concluded that this makes the need for a clear, workable market impact measurement tool agreed between the regulator and the BBC all the more important, and the BBC has accepted this.
- 8.30 The BBC's initial response to the Report is encouraging, and we will continue to seek clarification on the details as Charter Review progresses. We have asked the BBC to provide a further update by the end of March. In particular, we are keen to hear how the BBC intends to address Tim Gardam's recommendation that the BBC's radio archive should be available to commercial purchasers.

Television

Context

- 8.31 There is little debate over the continued existence of either BBC 1 or BBC 2. Our audience research showed that BBC 1 and BBC 2 are the two services that most people think of when they think of the BBC⁴⁹, and they retain broad support as channels that provide 'something for everyone' across a wide range of different types of programme for different audiences. However, some have argued that these services need to increase their focus on public purposes. The BBC's recent programme strategy makes welcome moves in that direction, and with a better defined set of public service purposes and characteristics and a more rigorous system of governance and regulation that focus should be maintained in the longer term.
- 8.32 The Secretary of State gave her approval for the launch of the digital television channels BBC4, CBBC and CBeebies in 2001, with approval for a revised proposal on BBC3 granted the following year. These were not the first BBC digital TV ventures – they subsumed two prior channels BBC Choice and BBC Knowledge launched in 1998 and 1999 respectively, and the rolling news channel BBC News 24 went live in 1997.
- 8.33 These channels were launched into a highly competitive market, and had clearly-defined remits to distinguish them from commercial channels. These new digital services were designed to 'help drive digital take-up, create public value and extend the reach of public service broadcasting'.

⁴⁹ DCMS, Review of the BBC's Royal Charter, *What you said about the BBC*, p. 26

Barwise Report

- 8.34 As with the digital radio services, the Secretary of State committed to an independent review of these services. Professor Patrick Barwise, Professor of Management and Marketing at London Business School, assessed the services against the conditions of their approvals between April and September 2004.
- 8.35 Professor Barwise argued that the top priority for BBC3 and BBC4 should be to increase their audience impact, value for money, and appeal to potential digital adopters by evolving to become more mainstream, mixed-genre channels. In particular, he argued that BBC3 should be less narrowly focused on its target audience of 25-34 year olds. He concluded that CBBC and CBeebies were successful, distinctive and valuable children's channels.

BBC Response to Barwise Report

- 8.36 The BBC's initial response supports Barwise's idea that BBC3 and BBC4 should increase their reach and share but argues that this should not be at the expense of their distinctiveness. The BBC has reservations about making the channels more mainstream, and notes that, while one of the key aims of the whole package of BBC digital channels is to drive digital take-up, this should not be the overriding aim of individual channels.
- 8.37 We support the BBC's attempt to broaden the appeal of both BBC3 and BBC4, while agreeing that they should remain distinctive within the terms of their original approvals. We will look to the BBC Trust to define the remit for these services more precisely in service licences, and to monitor their performance closely.

New media

History of bbc.co.uk

- 8.38 Since the mid-1990s, the BBC's new media venture has expanded exponentially into what is now a third arm of the Corporation's public service broadcasting. When BBC Online (bbc.co.uk) was given approval as a permanent service in 1998, its remit was broadly drawn, reflecting the uncertainty about how the fledgling medium would develop.
- 8.39 Its public service objectives were 'to act as an essential resource offering wide-ranging, unique content; to use the internet to forge a new relationship with licence fee payers and strengthen accountability; and to provide a home for licence fee payers on the internet and act as a trusted guide to the new media environment.' The site now has over 2 million pages of content, and at March 2003 41% of licence fee payers were viewing BBC online services.⁵⁰ The site provides a wide range of services, from national and international news, to learning tools for teachers and schoolchildren and localised discussion forums. The service also aims to bring new users online, providing them with simple and safe navigation tools and content.

⁵⁰ BBC 'Public Service in an Online World' (submission to Graf review), p. 16

Graf Report

- 8.40 Philip Graf, former Chief Executive of Trinity Mirror, was commissioned in August 2003 to conduct an independent review of bbc.co.uk. He was charged with assessing whether the service was meeting the terms of its approval, whether it was having an adverse impact on the market, and to consider the role of bbc.co.uk in the wider context of the BBC's portfolio of services.
- 8.41 As the internet has developed into a sophisticated tool for communicating, retrieving information, creating personalised content and listening to and watching broadcasts, the scale, scope and ambition of bbc.co.uk grew accordingly. The number of sites under the bbc.co.uk umbrella has doubled, and the content expenditure jumped from just £11m in 1998/99 to £58.6m in 2003/04. Graf noted that this 'may seem, at least in part, to be an inevitable consequence of a strategy that has taken a broad interpretation of the terms of the original approval.'⁵¹

The BBC's response to the Graf Report

- 8.42 The BBC has made alterations to the service in the light of Graf's subsequent conclusions and recommendations. These included a revised remit more closely aligned to public purposes and/or programme-related content; changed commissioning processes to increase the amount of content commissioned outside the BBC; tighter, more transparent governance; and a deliberate precautionary approach to the impact of BBC investment on the wider UK market. They have made good progress in developing a more detailed remit, which is clearly linked to the aims outlined in *Building Public Value*. The new remit that they propose has four elements: serving the Corporation's public purposes as articulated in *Building Public Value*; creating a deeper relationship with the licence fee payer and greater accountability; continuing to act as a trusted guide for users; balancing public value against market impact.
- 8.43 While committing to focus resources on content that has educational and democratic value, the service must continue to cater for the tastes of all licence fee payers. It should play a key role as a benchmark of innovation and quality, developing original and engaging content to attract new users and give those with more experience the opportunity to engage creatively with the site. The BBC will also have to continue to monitor the balance of content and services on the site to ensure that they remain in keeping with the principles and purposes of the Corporation eventually enshrined in the new Charter next year. We expect the service licence developed for bbc.co.uk to provide a high level of clarity, for all interested parties, about the boundaries of the site.

Future Development

- 8.44 The BBC's new media arm stretches further, however, than just the pages of bbc.co.uk. In recent years the BBC has been exploring ways of opening up its programme archive to licence fee payers, primarily via the internet. In 2002 the BBC launched Radio Player, which allows anyone with access to bbc.co.uk to stream content (either live or from the previous week's radio schedule) through their computers. The BBC is also working on an Interactive Media Player (IMP), which would give people access to visual as well as audio content, and is

⁵¹ Graf Report, p. 33

experimenting with making content available to download, not just to stream. As convergence progresses, the distinction between the broadcaster, the content originator and the platform provider blurs.

- 8.45 We agree that over time it may make sense for the BBC – as it has suggested – to ensure that its content is accessible from an increasing array of devices. However, we would want to make sure any such moves were subject to full tests of their potential market impact, to weigh their potential value to users against any risk that the BBC might prevent other companies from exploiting the new opportunities that technology offers, and against the opportunity cost of providing free access to archive material. In fledgling technologies, the BBC should work to enhance and open up new markets, not close them down. There should be further consideration of how the BBC can ensure it makes the best possible use of its archive material.

Market impact

- 8.46 The fact that the BBC exists is a public policy choice with a direct effect on the broadcasting market. But while we want a strong BBC we also need to sustain a flourishing commercial sector. The BBC needs to be vigilant about its potential to have a negative effect on commercial competitors. To achieve this, the BBC will be subject to tough new internal and external processes:
- The BBC Trust will in future hold the BBC to its distinctive public purposes.
 - The Trust will also hold individual BBC services to specific service licences that prevent any significant change in their character.
 - Proposed new services will be tested for market impact by Ofcom. The BBC Trust will only approve proposals where it judges public value exceeds market impact.
- 8.47 We will also commission further research to assess the value to audiences of the BBC advertising its own services against the potential market impact of such cross-promotion. There is clear value in the BBC informing its audiences about the range of programmes and services available. On the other hand, the BBC's competitors have expressed some concerns in this area, particularly about the BBC advertising its radio stations on national television. Concern is focused around the adverse effect such activity may have on commercial services that have no such access to high profile cross-promotion. In addition, in our consultation and research work there have been complaints from people who feel there is too much BBC cross-promotion.

9. The scope and regulation of commercial services

What people think

- There is widespread support for the idea that the BBC should make money on behalf of the licence fee payer out of assets paid for by the licence fee payer – 90% of people surveyed agree that ‘the BBC should raise as much money as it can from selling its programmes and other products’.
- But concerns are raised in a number of areas, including:
 - Whether or not the BBC’s commercial activities should be more closely aligned to its publicly funded services
 - Fairness and transparency
 - How the money should be used – whether it should just be spent on better programmes (50% of participants), only used to reduce the licence fee (30%) or both (20%)
 - Whether or not the current arrangements deliver the best value for money

Our policy

The BBC should be encouraged, as it is now, to generate as much income as it can through commercial activity, including the sale of programme rights. Since licence fee money is not at stake, and in the light of the more transparent governance arrangements that we will introduce, the Secretary of State’s approval should no longer be required for the launch of new commercial businesses or the sale of existing ones.

However, each commercial activity must be tested to make sure it adds sufficient value and is in some way related to core purposes.

Commercial services should also be kept entirely separate from publicly-funded activity – there should be no cross-subsidy of the former by the latter, no on-air trailing of commercial services, and fair trading commitments must be rigorously and transparently regulated.

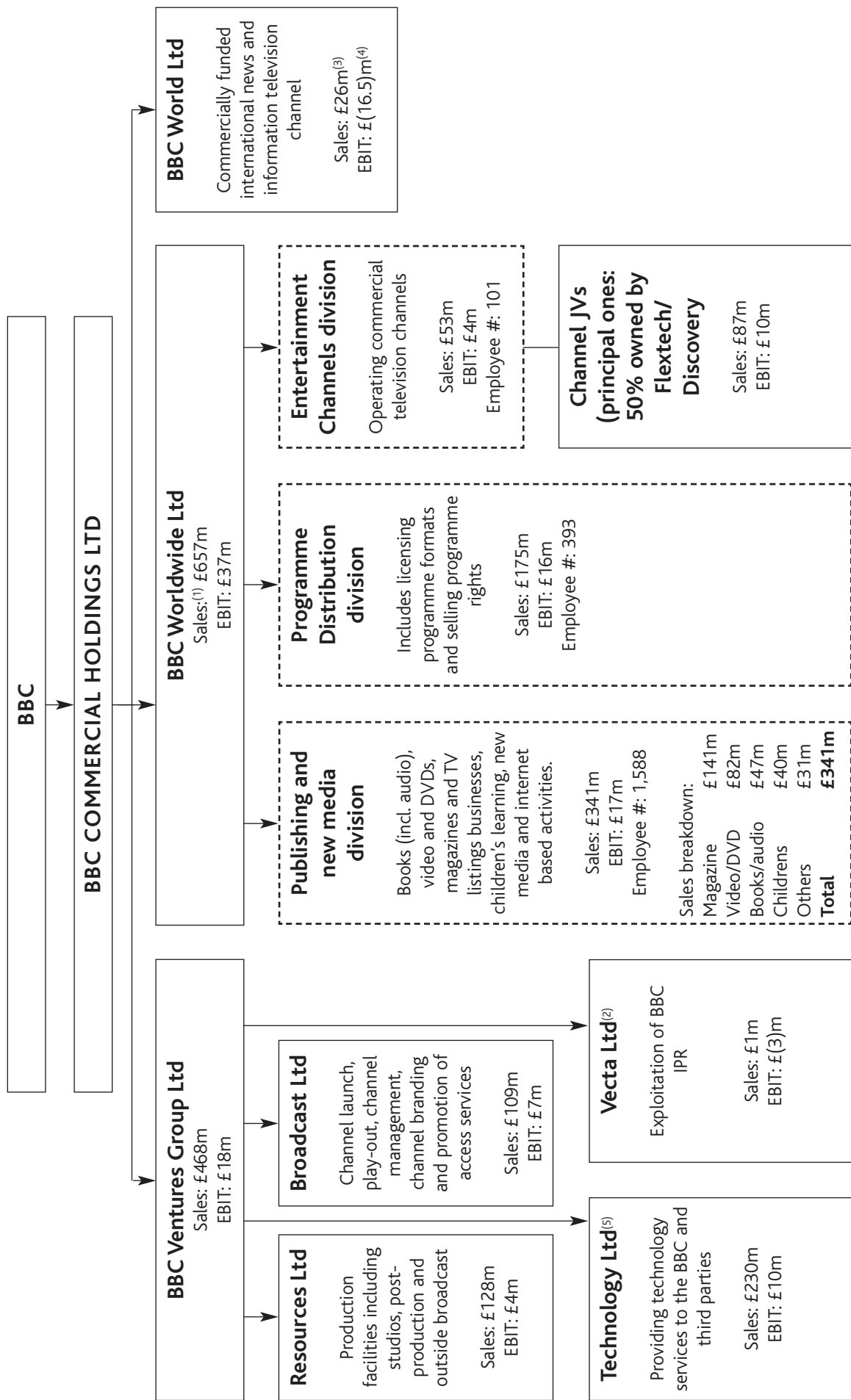
The BBC’s existing commercial services

- 9.1 The BBC is active in a number of commercial markets. The structure and range of principal activities, together with key financial data from 2003–4, is described in the organisation chart overleaf. The BBC estimates that a total of over £140 million flows back to its public services from commercial services, but the actual profits generated by these businesses amount to only £38.5 million.

What commercial services should the BBC run in future?

- 9.2 Each commercial service should be assessed against four criteria to establish whether or not the BBC should be engaged in that activity:

Fit with PSB purposes – does the activity either support or relate to PSB purposes?



Notes: EBIT = Earnings Before Income Tax. (1) Includes £87m of share of JVs; (2) The BBC announced the closure of Vecta in July 2004; (3) Sales figure estimated from 2003/04 BBC Annual Report – total commercial revenue of £1,151m less sales from BBC Ventures plus BBC Worldwide (£1,125m); (4) Source: Directly quoted in the 2003/04 BBC Annual Report; figures refer to year ending 31 March 2004 and all holdings are 100% except where stated. All boxes under BBC Commercial Holdings represent limited companies except the dotted boxes under BBC Worldwide, which are operating divisions of BBC Worldwide; (5) Technology was sold to Siemens Business Services in October 2004.

Commercial efficiency – is BBC ownership the most effective economic exploitation of the capital involved or might a sale or licensing of the asset create better value for money for the licence fee payer?

BBC brand protection – is there a positive or negative implication for the BBC's brand or values?

Market distortion – are BBC commercial services being sold or structured in a way that might give them an unfair advantage over the competition?

- 9.3 Asking these questions helps to address the most common criticisms currently levelled at the BBC's commercial operation. First, that it is not adequately aligned to the core public service remit. Second, that there is too much cross-promotion of commercial services by public services (for example through on-air trails). Third, that the BBC's commercial businesses are not particularly profitable or efficient by industry standards, and might make more money for the licence fee payer if they were sold or licensed to other operators.
- 9.4 Since licence fee money is not at stake, the Secretary of State's approval should no longer be required for the launch of new commercial businesses or the closure of existing ones.

The BBC's own review

- 9.5 The BBC has recently conducted an internal review of its commercial services. It concluded that the BBC should only have commercial services that exploit and/or export BBC content and the BBC brand. It also accepted that the principle behind BBC involvement with commercial activities was to maximise profits on behalf of the licence fee payer.
- 9.6 Following this review, the BBC has announced it will consider selling BBC Broadcast and BBC Resources, or transferring them into joint ventures or partnerships. It will consider the same options for some of BBC Worldwide's smaller operations, including its book publishing. Magazines will in future be focused more on brands and subjects that are connected to BBC programmes and on-air trailing of BBC magazines has been stopped. The BBC will look to grow its channel and programme sales business, and to pursue partnerships with other UK broadcasters. Its overall aim is to double the profits of BBC Worldwide over the next two years, which would mean it contributing earnings before tax of around £75 million annually to public services (although part of this growth will come from the cessation or sale of loss-making activities).

Government response to the BBC review

Support services

- 9.7 We recognise the arguments behind the BBC's suggestion that BBC Broadcast and BBC Resources are candidates for sale or joint venture. The BBC's support services – its production studios and broadcast services – are reasonably efficient but do not generate large profits. If they could be sold with sufficient contractual protection to sustain the BBC's ability to put together large-scale outside broadcasts then we think sale should be considered. We think there is no strong strategic or public service reason for the BBC to retain them.

Publishing

- 9.8 We also accept the argument that the BBC does not need to retain its small amount of business as a book publisher. However, we have some concerns about the strategy for its magazine business. Here the BBC has real scale – it is the fourth largest publisher of magazines in the UK. However, it is not clear that magazine publishing represents good value for money for licence fee payers. Certain of its magazines clearly do extend the enjoyment of core BBC content – BBC History is an example. But the BBC operation is not commercially successful by industry standards and we would want the BBC to explain how it plans to improve its performance.
- 9.9 If the magazine business is to be retained, we welcome the decision to end on-air trailing. But we want to be sure what the BBC means when it says ‘magazines should focus more on brands and subjects connected to the BBC’s core programmes and mission.’⁵² At present, many titles are clearly not linked to BBC programme titles (for instance *Your Hair* or *Cross Stitch Crazy*) and are thus unconnected to public purposes. One such magazine, *Eve*, has already been sold. There is scope for considering whether more sales should be undertaken, so that publishing activity is restricted to those magazines that include content with a direct link to BBC programming and not to more general titles such as BBC Good Food. If the consequent reduction in scale would be considered too harmful to the magazine operation as a whole, the BBC should consider whether a licensing arrangement with a third party might bring in more money than the £17 million of profits it currently records.

Programme sales

- 9.10 Programme sales provide significant revenue for the BBC. In overseas markets, they are directly tied to one of the BBC’s public purposes – to export UK content, culture and values. They represent real value for money and we fully support the BBC’s ambition to grow and improve their global services. However, the BBC should ensure that it is exploiting its assets in the most effective way. We would particularly like to see plans for the improvement of the loss-making BBC World (a commercial global news channel, not related to the radio World Service) and BBC America (a commercial channel in the US that mainly broadcasts lifestyle programming). We would support any move by the BBC to form new sales partnerships with other UK broadcasters, for example with Channel 4 or ITV, that might generate economies of scale.

Commercial channels

- 9.11 The BBC’s commercial channels, many of which sit within the BBC-Flextech joint venture UKTV (including UK Gold, UK Living and others), perform a valuable role in extending the consumption of the BBC’s rich archive of programming and leveraging the resources of the BBC to develop new channel offerings in the UK. The BBC’s review of commercial services envisages the retention of these channels and we agree with this conclusion. We would also support the strengthening of financial performance through further expansion, provided that any such move does not compromise any of the BBC’s broader core purposes.

⁵² BBC press release, ‘Thompson unveils plans to transform the BBC’, 7.12.2004

Profits from asset sales

- 9.12 If the BBC is going to profit from the sale of any asset, there is a question over where that profit should go. If it is returned directly to the BBC's programme budget, there may be a case for reducing the level of the licence fee accordingly. This issue should be considered further by the funding review that will help set the overall level of the licence fee.

Regulating commercial services

- 9.13 The BBC has taken steps to reform the management board of BBC commercial services, with the appointment of non-executive directors and the publication of much more detailed accounts. We welcome these developments, which should allow a clearer assessment of the performance of each business.
- 9.14 There are two further issues to consider, to ensure the BBC's commercial services operate in the public interest:
- fair trading; and
 - transparency
- 9.15 Transparency is the easier to deal with. Licence fee payers should be able to understand exactly how money moves between commercial services and publicly-funded services, and what they get for their money. That may involve the publication of more detailed accounts.
- 9.16 Regulation is more complex. The BBC's commercial services are regulated by Ofcom and the OFT under general competition law, like any other company. They are also subject to an additional fair trading regime, with aspirations that go beyond competition law, overseen by the Board of Governors. The BBC's Fair Trading Commitment is summarised in **Annex B**.
- 9.17 The Fair Trading Commitment has proved controversial – it is expressed in fairly general terms and some have argued that the Governors have not upheld it rigorously enough. Some of its clauses replicate aspects of competition law that are anyway regulated by Ofcom, the EU or the OFT. Those that are not tend to relate to the ways in which the BBC aims to operate commercial services – providing good value for money, keeping commercial and publicly-funded services separate or limiting any damage to the BBC brand, for instance. Competitors have in some cases found it difficult to know which regulator is responsible for pursuing complaints.
- 9.18 We would welcome views on whether the Fair Trading Commitment should continue in its current form, or whether it might be simpler to separate matters of internal BBC housekeeping from those of external regulation that could be left in their entirety to Ofcom. In that arrangement, one further option would be to require Ofcom to grant its approval to the terms of whatever internal rules remained – as a form of 'ex ante' regulation.

Further review

- 9.19 The performance of the BBC's commercial services should be kept under review by the BBC Trust. The Trust should conduct a further, formal internal review mid-way through the next Charter period, to consider the financial record of each business against the targets that are set now.

Section III: Beyond the BBC

10. The system of public service broadcasting

Our policy

The BBC is only one part of a wider system of public service broadcasting. The value of that system is enhanced by the fact that different broadcasters offer complementary and competing services.

This plurality in PSB is worth sustaining if possible. But Ofcom suggests that, in television, as take-up of digital TV increases, there is a risk that the BBC may be left as a near-monopoly provider of some services, if the other major broadcasters adopt a more commercial strategy.

A variety of proposals have been put forward for ways in which plurality could be sustained in the longer term, including Ofcom's potentially exciting suggestion that there should be a new Public Service Publisher (PSP).

We want to consider Ofcom's report in more detail, and we are not yet in a position to make any decisions in this area. But to allow flexibility in funding decisions, we think there ought to be scope for an interim review, towards the end of the process of digital switchover, to consider whether additional funding might be given to broadcasters other than the BBC and whether that should prompt any change in the level of the licence fee.

The future of Public Service Broadcasting (PSB) beyond the BBC

- 10.1 The BBC is the cornerstone of PSB. But at present, at least in television, it is only one part of a wider PSB system. Other channels – ITV1, Channel 4 and Five – all provide different contributions to that system, both complementing each others' output and competing for viewers and for quality.
- 10.2 However, according to Ofcom's review of public service broadcasting, the existing system is likely to break down as digital TV spreads. The spectrum needed to broadcast will no longer be scarce – there will be room for many more channels. Fully commercial broadcasters will therefore be able to find ways of broadcasting that don't require them to accept licences that include obligations for PSB programming (in news, current affairs or the arts, for example). Ofcom fear that, in addition, increasing competition for advertising revenue will prevent Channel 4 from broadcasting as much PSB programming as it does now, since many serious and challenging PSB programmes are less attractive to advertisers.
- 10.3 If nothing is done to strengthen the PSB system, therefore, Ofcom suggest that the BBC may be left as a near-monopoly provider of PSB television. In Ofcom's estimation, that will

effectively mean losing around £400 million of funding for PSB from the screen. We agree we should examine ways to ensure that the viewer does not lose out. Plurality – the existence of a range of different broadcasters – has proved valuable to the existing PSB system. Different broadcasters tend to offer different styles of programming to different types of audiences. They compete to be the best in particular fields of PSB. The result is a better service for audiences.

Options to consider

- 10.4 A variety of models for the future of PSB have been put forward in response to Ofcom's diagnosis. Ofcom itself has suggested that a new entrant may be needed, and that there should be a competition for new public funding to run a Public Service Publisher (PSP) that would place greater emphasis on new digital technologies in making programmes available beyond traditional broadcasting. Others would prefer to address the specific concern that Channel 4 might face significant financial threats in future, by finding a way to offer the channel a direct stream of public funding. And the Independent Panel put forward a proposal that a newly constituted Public Service Broadcasting Commission might be given power to take funding away from the BBC in poorly-performing areas and to allow other broadcasters to compete for it instead. On the other hand, it has also been argued that, as the digital environment develops, commercial broadcasters will of their own accord increasingly produce and broadcast content that we would traditionally classify as PSB.

Next steps

- 10.5 The scenario that Ofcom describes is expected to develop only once digital penetration is significantly higher than it is today. Digital switchover will happen between 2008 and 2012 at the earliest. It is therefore impossible to predict with absolute certainty at this stage what the broadcasting market will look like, or what the Government response should be.
- 10.6 We are clear, however, that Channel 4 has a particularly important role to play, alongside the BBC, in the provision of PSB for the foreseeable future. Channel 4 is commercially funded but publicly owned. Its core purpose is to deliver high quality, diverse public service programming; we are clear that this should remain at its heart and welcome the commitment that the channel itself makes to this principle. Ofcom's Phase 3 PSB report identifies a range of options for potential regulatory support which might help Channel 4 sustain its PSB contribution in the period up to digital switchover, including the possibility of help with the transitional costs of switchover. We agree with Ofcom that this is worth exploring although it raises legal issues that will need to be considered carefully.
- 10.7 We are also clear that, despite the uncertainties, the future development of the wider PSB system is relevant to BBC Charter Review. First, because the health of the BBC is linked to the competition it receives from other providers of public service content. Secondly, because if the Government decides public funding is needed to subsidise broadcasters other than the BBC, the licence fee would be one possible source of funding to consider.
- 10.8 We welcome the debate that Ofcom's review has prompted. We do not believe that decisions about the wider Government response can or should be made now. However, they will need to

be made at some point during the next ten years. We therefore propose a review, to take place towards the end of the switchover process, of whether there is a case for public funding, including licence fee income, to be distributed more widely to recipients beyond the BBC. In the period running up to the review, we would welcome more detailed work from Ofcom on the possible form of a Public Service Publisher.

- 10.9 The Secretary of State will retain the power to order an earlier review of the options for maintaining plurality in public service broadcasting, if he or she deems it to be necessary at any point.

Annex A: A short history of the BBC

The BBC came into existence in 1922 as the British Broadcasting Company. On 1 January 1927 it was reconstituted as the British Broadcasting Corporation with the grant of the first Royal Charter. Radio was initially the sole broadcasting medium but was augmented by a regular television service from 1936 until the outbreak of the Second World War. Not until the early-1950s, however, did television take firm hold of the public's imagination, the main catalyst being the present Queen's coronation, which was seen by an estimated 20 million viewers.

Later milestones in the Corporation's history have been: the ending of its broadcasting monopoly with the launch of ITV (1955); the launch of a second television service, BBC2 (1964); the first BBC local radio station (1968); the introduction of colour television (1969); the first Open University broadcasts (1971); the start of regular radio broadcasts of Parliamentary proceedings (1978); the creation of BBC Enterprises (subsequently BBC Worldwide) to bring together all BBC commercial activities (1986); the launch of the BBC's first digital television service (1998); and the development of a comprehensive online service (late 1990s).

Other key dates, and Charter periods

- 1922 British Broadcasting Company was founded and John Reith appointed as General Manager. Reith was not the first to define the aims of public service broadcasting as 'to inform, educate and entertain'; they appear to have been identified by broadcasting pioneers in the United States. But Reith espoused these aims for the BBC and 'information, education and entertainment' have remained central to the UK view of public service broadcasting.
- 1926 Year of the general strike. In the absence of newspapers, the BBC increased its news bulletins from one a day to five. The BBC faced its first serious challenge to its independence when Churchill wanted it to give the Government line. Reith, with support from No 10, established the principle that BBC is independent and will give impartial news, not government propaganda. This was not a foregone conclusion since the Government had legal authority, under the BBC's 1923 Wireless Broadcasting Licence, to require the BBC to broadcast what the Government wanted.

First Charter: 1 January 1927 – 31 December 1936

- 1927 Royal Charter establishes BBC as the British Broadcasting Corporation.

Second Charter: 1 January 1937 – 31 December 1946

- 1939 Television service closed down until 1946. Home Service radio replaced National and Regional Programmes.
- 1940 Churchill initially contemplated a Government takeover of the BBC. Under the Wartime Censorship regime, Ministry of Information 'guidance' on censorship took two forms. One covered Defence Forces security and the other the morale of the nation. Scripts had to have both stamps before being broadcast.

1944 Start of the Fourteen Day Rule, forbidding the BBC to broadcast material on subjects due to be debated in Parliament. This rule was suspended indefinitely in 1957.

Third Charter: 1 January 1947 – 31 December 1951

1951 The Beveridge Committee considered the future of broadcasting. Beveridge recommended that the BBC should remain 'the authority responsible for all broadcasting in the UK', but should become more accountable and give greater scope to the regions and minorities. A minority dissenting report by Selwyn Lloyd MP marked the start of pressure for an end to the BBC monopoly and the introduction of commercial television (see 1955 below).

Fourth Charter: 1 January 1952 – 30 June 1952

Fifth Charter: 1 July 1952 – 30 June 1962 (extended to 29 July 1964)

1953 Establishment of National Broadcasting Councils for Scotland and Wales, and an Advisory Council for Northern Ireland, in response to the Beveridge report.

1955 Following great controversy about the merits of commercial broadcasting Independent Television (ITV) began programmes in the London area. BBC's audience share dropped to 28%.

1960 Appointment of Hugh Carleton Greene as Director General (to 1969). His view that the BBC should provide something for everybody and should reflect changes in society was influential in shaping the course of the BBC. But it also attracted complaints about taste and decency, e.g. from Mary Whitehouse, founder of the National Viewers' and Listeners' Association (now Mediawatch-UK), who held Greene in large part responsible for the permissive society.

1962 The Pilkington Committee, established in 1960, published its report. It praised the BBC's public service values and was critical of commercial values in broadcasting. It also recommended the setting up of a second channel, BBC2, launched in 1964.

1963 TV Adult Education launched.

1964 Launch of BBC2.

Sixth Charter: 30 July 1964 – 31 July 1976 (extended to 31 July 1979 and again to 31 July 1981)

1967 Launch of Radio 1 and local radio. National radio services re-structured.

1970s BBC Complaints Commission established (1971) until superseded by the Broadcasting Complaints Commission in 1981. BBC's Community Programmes Unit helped groups to make their own productions with *Open Door* (1973).

New TV and radio news productions, from Radio 1's Newsbeat and Radio 4's *File on 4* to CEEFAX teletext (introduced in 1979) and radio coverage of the *House of Commons* (1978).

1971 Launch of *Open University* on radio and television.

1977 The Annan Report published (the Annan Committee had originally been established in 1970, but had been suspended during the Conservative Government). It reaffirmed the licence fee and

the BBC's editorial independence from Government, but criticised the BBC for 'loss of nerve' and 'organisational fog'. It recommended a three-tiered system of broadcasting at national, regional and local level, each with its own Authority, including a new Local Broadcasting Authority to take over existing services from both BBC and IBA; these recommendations were not accepted. But the Government did accept the report's proposals for the establishment of a fourth channel and an independent Broadcasting Complaints Commission.

- 1979 Publication of BBC Working Party Report, Violence on TV. New BBC guidelines were laid down for programme makers. The second report was published in 1986.

Seventh Charter: 1 August 1981 – 31 December 1996

- 1982 Launch of Channel 4, as recommended by the Annan Report.
- 1986 Peacock Committee report questioned the long term future of the BBC. It saw the Corporation's role as addressing market failure, but envisaged long-term development of multi-channel broadcasting with enough people able and willing to pay for access to create a 'perfect' market. The report argued that the TV licence fee would then be difficult to justify. Advertising on the BBC was rejected, but subscription was suggested, in line with the marketing of satellite and cable.
- 1986 All BBC commercial activities were brought under BBC Enterprises Ltd (first established in 1979).
- 1987 Both the BBC and the IBA accepted a Government proposal for a 25% independent programming quota, originally proposed by the Peacock report.
- 1988 The licence fee was pegged to inflation, measured by RPI, as recommended by Peacock. The White Paper, *Broadcasting in the 90s: Competition, Choice and Quality*, raised lengthy debate on quality and choice in broadcasting, and the level of control on future competition in broadcasting. It confirmed the BBC's position as the 'cornerstone of British broadcasting'.
- 1990 Broadcasting Act 1990 allowed the creation of Channel 5 and introduced a system of cash bids for ITV licences.

The BBC's report *Funding the Future* proposed efficiency measures to address the financial pressures faced by the Corporation. The BBC achieved £80 million in savings in 1991; BBC staff numbers fell by 4,000 as a result of *Funding the Future* initiatives and the effect of the independent production quotas.

- 1991 BBC announced *Producer Choice*, the creation of an internal market.
- 1992 BBC published *Extending Choice* looking forward towards '96 Charter Review. Proposals included withdrawing from programme areas in which it cannot make an original contribution, not chasing ratings, separate roles for Governors and Management boards, and furthering World Service Television.
- 1996 BBC laid foundations for a closer relationship with audiences in its first annual Statement of Promises to Viewers and Listeners.

Sale of BBC terrestrial transmission network.

Eighth Charter: 1 January 1997 – 31 December 2006

BBC's new Royal Charter permitted the Corporation to launch digital services, with the Secretary of State's approval.

- 1999 Gavyn Davies – later to become BBC Chair – was commissioned to examine options for additional funding for the BBC, assuming the licence fee remained the principal source of revenue until Charter Renewal in 2006. The Davies report said the BBC was essential to take coverage for digital above 50-60% of the population. The report emphasised the need for additional funds to enable the BBC to maintain and enhance its role in the digital age, and recommended that these come from a new digital supplement to the TV licence fee and from efficiency measures and increased commercial revenues.
- 2000 Government response to the Davies report rejected a digital supplement and announced that the licence fee would increase annually on a formula of RPI plus 1.5% for the remainder of the Charter period, linked to increased requirement on the BBC to raise additional funds through efficiency savings and commercial income. Other measures announced included reviews of BBC digital services, independent scrutiny of the Corporation's fair trading policies and free television licences for those aged 75 and over.
- 2002 BBC announced changes to its internal governance arrangements in the document *BBC Governance in the Ofcom Age*.
- 2002-3 Launch of major package of new digital television and radio services: BBC3, BBC4, 1xtra, 6 Music, the Asian network, BBC 7, Five Live Extra.
- 2003 Under the provisions of the **Communications Act 2003** and amendments to the Agreement, the BBC became subject to Ofcom regulation on programme standards and quotas.
- 2004 **Hutton report** criticism of BBC editorial standards and procedures prompted the resignation of the Chairman and Director-General.

Building Public Value made a case for reforming and recasting the BBC for the digital age.

Annex B: The existing arrangements for BBC governance and regulation

Ultimate power under the current arrangements rests with the Government, which conducts Charter Review every ten years or so, signs the Agreement and can propose occasional amendments to it. The Secretary of State for Culture, Media and Sport also has some direct roles to play in the governance and regulation of the BBC. Any launch of a new publicly-funded service requires the approval of the Secretary of State, following public consultation and formal advice from Ofcom on the likely market impact. The Secretary of State can impose conditions on such approvals. The Secretary of State's approval is also required under the BBC's Charter and Agreement for a range of other activities, including entry into joint ventures, extensions to the BBC's borrowing limit, the appointment of auditors and any variation in the geographical coverage of TV or radio services.

The Charter and Agreement is structured so as to ensure that the Government cannot directly affect editorial content. It does however provide that the Secretary of State can give directions to the BBC under certain circumstances (for example to put out public information during a national emergency) and that some matters relating to the World Service require the separate approval of the Secretary of State for Foreign and Commonwealth Affairs.

The BBC Board of Governors have specific duties to:

- Determine the strategy of the BBC in the public interest.
- Approve clear objectives and promises for the BBC's services and programmes, and assess performance against these.
- Appoint the Director-General, and (consulting the Director General) other members of the Board of Management and make other key appointments at their discretion.
- Appoint the Broadcasting Councils for Scotland, Wales and Northern Ireland; consult them about objectives and any significant change in Resources; and ensures that the BBC consults them about their relevant objectives and the size and allocation of relevant resources.
- Monitor compliance with:
 - requirements relating to such things as taste, decency, harm, offence, privacy and fairness (including relevant Ofcom codes)
 - the Governors' impartiality and accuracy codes
 - fair trading commitments
 - approvals (e.g. for new services or joint ventures) from the Secretary of State
 - other legal and contractual obligations
 - the highest standards of probity, propriety and value for money in the use of public money.
- Ensure proper complaints handling.

The Board of Governors also formally constitute the Corporation itself, and as such have duties to:

- Provide programmes and services of a high standard and across a wide range of subject areas which together meet the interests of audiences. The Agreement specifies more detailed requirements including providing 'wide-ranging coverage of sporting and other leisure interests' and 'a high standard of original programmes for children'.

- Provide for constant and effective external review of BBC programmes and services.
- Consult the public prior to making material changes in the Home Services.
- Publish an Annual Report and Accounts, the necessary contents of which are specified in detail in the Agreement.

However, the Governors share many of the duties of regulation with outside bodies. By virtue of the Agreement, the BBC have to comply with Ofcom's fairness code and much of its cross-industry programme standards code (notably not its accuracy and impartiality aspects). Ofcom is able to monitor the BBC's compliance and to consider complaints in these areas. In cases of breach, Ofcom can fine the BBC or direct the BBC to broadcast a correction or statement of findings. Ofcom also has power to enforce the BBC's obligations relating to independent productions quotas.

The Governors set all the quotas that apply to news and current affairs, regional programming, original productions and regional productions – after consulting Ofcom. But Ofcom's agreement is required for:

- The original productions and regional productions quotas.
- Any reduction in the news and current affairs or regional programming quotas below 2002 actual levels.

And Ofcom are responsible for:

- Monitoring compliance against these quotas and against the standard 25% independent production quota and 50% European-origin quota (the Governors are also required to monitor compliance in these areas, under the existing Charter).
- Applying appropriate sanctions, including fines, if the BBC fails to meet quotas.

The Governors approve the Statements of Programme Policy that are drawn up for every BBC service, and they are also responsible for measuring performance against the promises made in these statements. However, they have to take into account Ofcom's guidance on the way it expects commercial broadcasters to draw up such statements, and every five years Ofcom includes the BBC in its assessment of the effectiveness of public service broadcasters.

In terms of competition policy, the BBC is regulated by Ofcom (jointly with the OFT) and the European Commission, like any other broadcaster. However the Governors are responsible for ensuring that the BBC has its own Fair Trading Commitment, which consists of a mix of external competition law commitments and internal governance commitments, and they must ensure that this commitment is honoured.

Finally, the Governors Audit Committee is responsible for ensuring the BBC is properly audited, and for appointing an external auditor. It must also consult the Comptroller and Auditor General – the head of the National Audit Office (NAO) – in commissioning a series of individual value for money studies of different aspects of the BBC. The Audit Committee decides who should carry out such studies, including how many the NAO itself should do, and they must make them public.

Annex C: The BBC’s Fair Trading Commitment

The table below illustrates how the commitments in the BBC’s fair trading framework interact with regulatory requirements.

Abbreviations: CA98 = Competition Act 1998 (UK law)

EC = European Commission (EU law)

Commitment	Detailed guideline	Example	Regulated by the competition authorities? (Competition authorities = OFT, Ofcom and EC, as appropriate)	Governors involvement?	Executive Committee involvement
Commitment to fair competition	Relationship between commercial activities and the rest of the BBC must be conducted at arm’s length	BBC Worldwide Ltd, BBC Broadcast Ltd etc.	Yes – at EC level. EC Communication on State Aid requires “clear and appropriate separation between public service activities and non-public service activities” Also, Transparency Directive requires separation.	Yes – Fair Trading Compliance Committee	Yes
	There should be clear transparency in commercial dealings – transactions between the BBC and its key commercial ventures should be conducted via contracts or SLA’s	Studio space leased from BBC Resources Ltd to BBC production depts. via SLA’s	Yes – See above.	Yes	Yes
	Fair Pricing	The Commercial Policy Guidelines contain clear principles for making pricing decisions	Yes	Yes	Yes
	No unfair use of UK public service for promotion of commercial activities	Content of product information trails is linked to the preceding programme	Yes	Yes	Yes

Commitment	Detailed guideline	Example	Regulated by the competition authorities? (Competition authorities = OFT, Ofcom and EC, as appropriate)	Governors involvement?	Executive Committee involvement
Commitment to fair competition (continued)	Commercial Policy Guidelines are disseminated across the BBC and its commercial subsidiaries and partners	Seminars are regularly conducted instructing staff on application of Commercial Policy	No	Yes	Yes
No licence fee funds or grant-in-aid to be put at risk by commercial activity	Public funds must not be directly invested into commercial activities	BBC Worldwide Ltd etc	Yes – EC State Aid rules described above It is debatable whether such a requirement arises from UK competition law, although competitors always have the option of complaining to the competition authorities if they believe that competition has been damaged	Yes	Yes
	Rigorous scrutiny for new commercial proposals	BBC Broadcast Ltd approval	No – but DCMS approval by exception	Yes	Yes
	Performance reviews of all the BBC's commercial entities		No	Yes	Yes
	Annual review of fair trading informed by an independent fair trading audit separate from the financial audit		No Introduced as part of the licence fee settlement	Yes	Yes
Clear criteria for BBC commercial activities – ensuring commercial activity is commensurate with BBC public service broadcasting remit, and reflects BBC core values and purpose	Commercial activities should reflect the BBC's values of editorial quality and integrity	Certain proposals turned down on grounds of quality/fit	No	Yes	Yes

Commitment	Detailed guideline	Example	Regulated by the competition authorities? (Competition authorities = OFT, Ofcom and EC, as appropriate)	Governors involvement?	Executive Committee involvement
<p><i>Clear criteria for our commercial activities – ensuring commercial activity is commensurate with our public service broadcasting remit, and reflects our core values and purpose (continued)</i></p>	<p>Commercial activity should offer the prospect of generating significant funds</p>	<p>Certain proposals turned down on grounds of insufficient projected profit</p>	<p>No</p>	<p>Yes</p>	<p>Yes</p>
	<p>The consumer should be offered good value for money and genuine added value</p>		<p>No</p>	<p>Yes</p>	<p>Yes</p>
	<p>Commercial activities should not conflict with the BBC's position as a public service broadcaster</p>	<p>Certain proposals turned down on grounds of inappropriate partners</p>	<p>No</p>	<p>Yes</p>	<p>Yes</p>

Commitment	Detailed guideline	Example	Regulated by the competition authorities? (Competition authorities = OFT, Ofcom and EC, as appropriate)	Governors involvement?	Executive Committee involvement
<i>The association of BBC brands with any commercial activity, product, or service should support not diminish the reputation of the BBC</i>	Use of brands should not give rise to a risk that editorial decisions are influenced by commercial considerations	Links from BBCi to commercial sites are provided only when editorially relevant	No	Yes	Yes
	BBC brands should not be used to endorse any particular external organisation	Joint promotions are run with variety of partners	No	Yes	Yes
	Any commercial usage of BBC brands must be formally licensed and appropriately paid for		Yes – State Aid rules described above	Yes	Yes
	When BBC brands are used consumers should be clear when they are in a commercial not publicly funded environment	Differentiation between BBCi and commercial webpages	No	Yes	Yes



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