

# Supplementary written evidence for Northern Ireland Affairs Committee

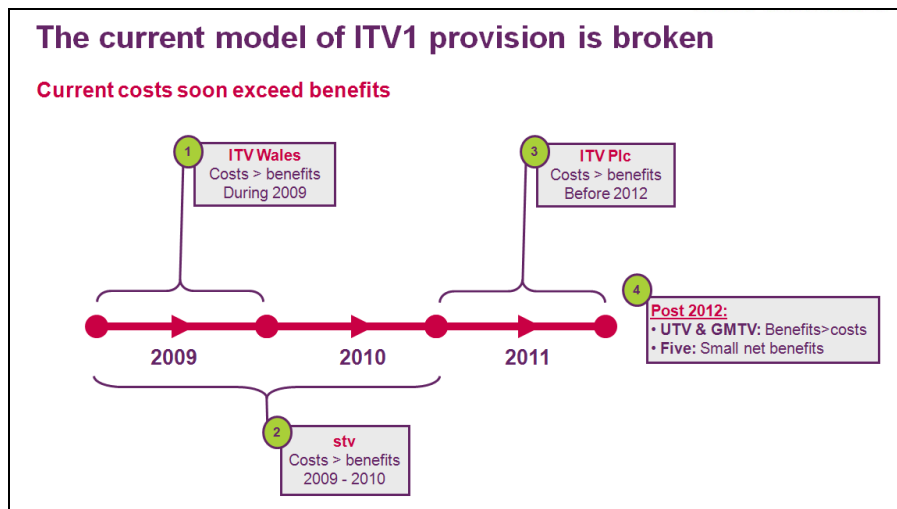
## Public Service Broadcasting on Channel 3 – background

Evening regional news on Channel 3 attracts an average audience of over 3 million during the week, representing 19% of the available audience. This service delivers significant reach and impact and choice beyond the BBC's regional news output, which itself reaches over 5 million viewers.

In the case of Northern Ireland the appetite for regional news is even greater and the audience for UTV's regional news at 6pm is the highest across the whole of the Channel 3 network with a share of 36%, whilst that for BBC NI is also high – in line with the national average at 28%.

Despite the popularity of Channel 3 regional news, there is substantial commercial pressure on the Channel 3 network's ability to continue current levels of provision.

Ofcom's PSB Review found that while there is currently a net benefit from public service broadcaster status across the portfolio of regional licences owned by ITV plc, this will become a net deficit before 2012, and before the digital switchover process completes. In Scotland and Northern Ireland, STV and UTV are also facing deficits on their respective licences.



The Final Statement of the PSB Review confirmed a number of changes to the regulatory obligations on the Channel 3 licensees from the start of 2009 (and Five and Teletext). These were designed to deliver a sustainable level of public service content in the transition to digital switchover.

However, we said that these decisions did not represent a permanent solution to the mounting pressures on commercial PSBs. Since the publication of the PSB Review Final Statement in

January, these pressures have intensified with a steeper than expected downturn in advertising revenues.

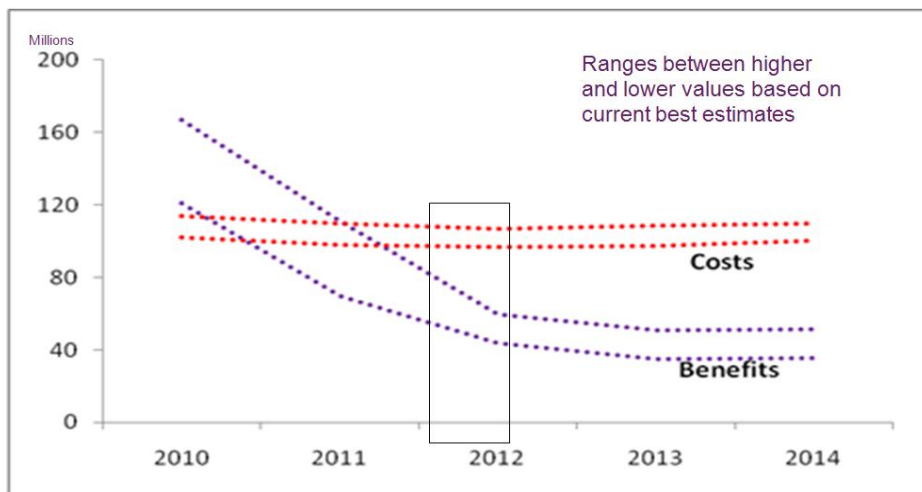
Since then we have updated the Cost Benefit Analysis (CBA) for the Channel 3 network to reflect the impact of the reduction in regulatory obligations made as a result of the PSB Review. The methodology behind a CBA is based on best estimates of the benefits and costs of PSB status – which are difficult to calculate as they are, in part, opportunity costs as well as direct costs. There are also a number of intangible benefits that are much harder to quantify, and can vary depending on who holds a particular licence.

For these reasons, it is important to note that the results of this analysis need to be treated as indicative only. They are shown below in the form of a higher and lower set of ranges for both the costs and benefits of PSB status.

However, the calculated timing of when the licences will fall into deficit and the scale of the deficit are considered a reasonable estimate based on the analysis we have undertaken. Our approach and analysis have also been discussed with the Channel 3 regional licensees, although they believe that in some cases the costs of PSB status are higher than we have estimated.

### Regional news represents the single biggest cost to the Channel 3 network

As we set out in figure 2 below, we estimate that the Channel 3 network is likely to be in deficit by 2011, and the deficit will reach £38-64 million in 2012.



Deficit will affect different Channel 3 licensees at different times

The single biggest PSB cost attributable to the Channel 3 network is the production cost of regional news which is estimated at £68 million in 2010, and projected to be £72 million in 2012, based on current production costs. These costs are after the regulatory changes made in the PSB Review.

It is notable that the production cost of regional news is very similar to the scale of the opportunity cost deficit across the Channel 3 network.

### **ITV's licence fee payments contribute towards the deficit although they are forecast to decline as switchover approaches**

The Channel 3 network as a whole is currently expected to pay £13million in licence fee payments in 2010, falling to around £5million in 2013 and 2014 as digital penetration levels increase and the analogue signal is switched off. The imposition of 'Must Offer' obligations by Government on all the public service broadcasters means that the Channel 3 licensees have the opportunity to approach Ofcom for a revaluation of their licences. If licensees seek a revaluation then any revised terms could apply from 2010 onwards.

However, even if a revaluation of the licences led to a reduction in the Channel 3 licence payments, this would still, on our current analysis, leave an overall deficit, owing to the remaining costs of PSB status for the Channel 3 licensees.

### **A new intervention is required to sustain plurality in regional news**

The commercial PSBs are obliged to continue to broadcast their services until the end of their licences. However, if in practice they ceased to broadcast their services on a public service basis, or at all, their licences would be revoked and they would avoid their public service obligations.

ITV plc has the scale and 'must have' content to become a purely commercial broadcaster. If it considers that the costs of PSB status outweigh the benefits it could choose to surrender its PSB status and end its participation in the network.

Any possible surrender of PSB status by ITV plc could also put the independent licensees at serious risk in Northern Ireland, Scotland and the Channel Islands and end the provision of regional news across the UK. We believe it is desirable to take steps to avoid licence hand back where there are undesirable public policy consequences. Rebalancing regional news costs is more than an accounting exercise. It meets citizens' and consumers' needs for regional news and supports wider PSB provision.

The PSB Review identified that the Channel 3 network would continue to be the most effective carrier for nations and regions news owing to its existing reach and impact. However the Channel 3 licensees are only one option for broadcasting a regional television news service. Other means include Channel 4 or a replacement Channel 3 licensee following any licence retendering process.

The Government's Digital Britain Final Report has proposed that the Channel 3 licensees' regional news be replaced with provision by independently funded news consortia (IFNCs).

These news consortia could include, but not be limited to, existing television news providers (including the Channel 3 licensees which provide the existing services), newspaper groups or other newsgathering agencies. They could be chosen against a range of public criteria, including the ability to achieve reach and impact, high production and editorial standards and the financial strength to deliver a quality service. News consortia would also need to be accompanied by

suitable governance arrangements to ensure they deliver value for money and are properly accountable for their use of public funds - as recognised in the Digital Britain Final Report.

*October 2009*