



Department for Culture, Media and Sport



A public service for all: the BBC in the digital age

Presented to Parliament by the
Secretary of State for Culture, Media and Sport
By Command of Her Majesty,
March 2006

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1. Foreword by the Secretary of State

No other country in the world has anything quite like the BBC. It is unique – in its quality, its scope, its reach and in the public trust it engenders. Perhaps only the NHS comes close in our affections. Its values are the nation's values – fairness and tolerance, dynamism, creativity and independence from authority. And it has strengthened those values at home just as it has promoted them abroad.

But this didn't happen by accident. The notion of broadcasting as a public service and not just an industry like any other was born in Britain, as was the notion of health provision for all. Both the NHS and the BBC have carried the torch for these principles for decades. But both institutions have had to do so while adapting to a changing world. And nothing is changing faster than the media.

At its inception, first as a company, in 1922, the BBC broadcast only on radio. Twenty years later, a television channel was added. Today, it provides 8 distinct TV services, 10 national and dozens of local radio stations and operates in a world of hundreds of channels with thousands of content providers. It runs one of the most visited websites in the world; the BBC's international news websites now record over 230 million page impressions a month. The BBC World Service continues to maintain its position as the world's leading broadcaster, transmitting programmes in English and 42 other languages to 146 million listeners per week. Digital TV has reached more than two-thirds of homes, and by 2012 the whole country will be receiving television in this way. And for millions, the convergence of media is already a reality.

So in drawing up the plans for the future of the BBC, we have had two objectives: to make sure the Corporation can keep pace with technology and harness its potential to serve licence fee payers even better, and to reconnect the BBC with the citizens it serves, and who pay for it through the licence fee.

But we also need to ensure that, in the interests of the public and the rest of the broadcasting world, commercial public service broadcasters such as ITV, Channel 4 and Five, commercial services like Sky and commercial radio stations, and the wider industry all flourish too. The relationship between the BBC and those others has been the subject of intense debate for fifty years. And at the heart of that debate has been a conundrum – how can the BBC be a strong broadcaster with universal reach while not stifling innovation elsewhere, or using its unique advantages unfairly to compete with others?

Over the last two years, the public have had the chance to put their views online, on paper, in town hall meetings across the country and in person to Ministers. We have also consulted consumer representatives, trade unions, parliamentarians, academics, the industry and media experts. All in all, it has been the most thorough, most transparent Charter review process in the Corporation's history.

Throughout the Government has been open-minded about the means, but not the ends. We made clear in the Green Paper which was published in March 2005 that we want the BBC to remain at the heart of public service broadcasting. To do that it must remain strong and independent of Government. And it must be able to operate alongside other providers, not overshadow them.

This White Paper "A public service for all: the BBC in the digital age" sets out how we intend to achieve that.

It puts in place a step-change in the Corporation's **governance**. Since 1927, the Board of Governors, appointed by Government, have been the cheerleaders for the BBC's management, as well as guardians

of the Corporation's independence and the court of appeal for complaints against it. In an age where transparency and separation of powers have transformed the structures of almost every public institution, it is anomalous that the BBC should continue with a system whereby the Governors are both judge and jury. There is widespread consensus on this point. So we will go ahead with our plans to replace the Governors with a new BBC Trust and an Executive Board. The Board will be responsible for delivering the BBC's services, and the Trust for holding it to account, and consulting widely and regularly with licence fee payers and industry.

It sets out a system to ensure a **clear focus** on what the BBC should achieve. In a world where there is more choice than ever in TV and radio, it is vital that the BBC is able to justify the privilege of the licence fee. So it must be completely transparent about its objectives and about how it will be measured in meeting them. So the new Royal Charter will set out six new purposes for the BBC. They are:

- Sustaining citizenship and civil society;
- Promoting education and learning;
- Stimulating creativity and cultural excellence by using the licence fee as venture capital for creativity;
- Representing the UK, its nations and regions;
- Bringing the UK to the world and the world to the UK;
- Building digital Britain.

Every activity the BBC undertakes must be with the aim of meeting one or more of these purposes. These objectives will help to focus its work and the public will be consulted by the new Trust on how each will be achieved.

There will also be a new "triple lock" system to ensure **the highest standards** in everything the BBC produces – through its TV, radio and new media services. Firstly, every service will be run according to a new, detailed service licence. It will set out what the key characteristics of the service should be, how it helps meet the BBC's purposes and what the public can expect from it.

Second, the content produced for each of these channels will have to be demonstrably right for the BBC. To ensure this, there will be new criteria of quality, originality, innovation, challenge and engagement to help meet the concerns about ratings chasing by the Corporation.

And lastly, there needs to be a mechanism to allow scrutiny of BBC proposals to vary service licences to accommodate changes in technology or public taste. So, in future, any significantly changed or new BBC service will have to undergo detailed scrutiny via a Public Value Test to determine how it will serve the public interest, and to weigh that against any impact on the market. This will include a rigorous market impact assessment provided by Ofcom. The test is intended to help balance the benefits of public service broadcasting with the health of the wider media market.

A balanced ecology in this form is also a uniquely British solution. Public funding of broadcasters sits alongside commercial funding and has done since 1955. Britain has one of the liveliest and most competitive media industries in the world. This benefits the economy and the public who enjoy a range of quality and choice in the media rarely seen elsewhere, and which poll after poll tell us they value.

The BBC needs to be strong within that system, with the power to reach every part of the community. But following the Green Paper consultation, we received many submissions from the public and

industry arguing that the BBC cannot be over-mighty, to the detriment of the whole market. We have listened to these representations, so alongside Ofcom's role in evaluating the market impact of new service activities, the new Trust will have a binding general duty to consider the BBC's impact on the wider market. There will also be:

- A new type of *ex ante* regulation in specific areas of activity, which have the potential to give rise to competition concerns, with a significant role for Ofcom;
- An overhauled fair trading regime to make clear the difference between the Corporation's legal obligations and its own internal rules;
- A new tough complaints system that gives the Trust teeth to act when necessary to rein in the BBC Executive;
- And, alongside this, a strengthened role for the NAO, within the existing arrangements.

These proposals aim to achieve the right balance between external regulation and a strong Trust. There have been concerns that the Trust will be too close to the Executive. But that would be against the long term interests of the BBC. The guarantor of the independence and robustness of the Trust is the next Charter Review process. This will happen in 2016, in an all-digital market. By then, the BBC will need to have demonstrated the effectiveness of these new arrangements and built a consensus for them.

The White Paper gives the Corporation a new purpose, unique among all broadcasters. This is **building Digital Britain**. This will enshrine its role in opening up the benefits of new technologies for audiences. In particular, by 2012, and starting in 2008, the whole country will have switched its TV reception to digital. The advantages are, for the first time, universal access to the clearer digital signal and to the wider range of channels and services only digital brings. Britain already has the highest rate of take up of digital TV in the world, at over two-thirds of households, and the BBC's new services have been a significant part of this success. But total conversion to digital is a project of scale and complexity, and millions of people will need practical help and advice to make the switch.

The BBC is best placed among all broadcasters to act as a "trusted guide" for the public through this process. It has already helped millions understand and use the internet. It has the reach to offer practical assistance in every part of the country. The BBC has performed this role throughout its history, helping the spread of radio, then television and now the Internet and digital TV. But there will also be BBC-specific advantages to switchover, not only will it not have the expense of maintaining two terrestrial transmission networks, but it will ensure that all licence fee payers will be able to receive the digital TV channels which they currently fund but which a significant minority cannot access through their aerial.

The BBC will also have a role to promote media literacy. It can help ensure that viewers and listeners understand how the media works, how it influences our lives and how it can best be used. In this age, these are not peripheral skills. They are starting to match the importance of other forms of literacy to work and leisure, and to the functioning of democracy.

The White Paper makes clear that the licence fee will continue to be the fairest and most cost efficient way of funding the BBC through the next ten years. But, as part of its overriding duty to ensure the BBC delivers value for money on behalf of the licence fee payer, the Trust will often need to choose between competing priorities. And any organisation of this scale must expect to bear down on its cost through efficiency savings. The BBC is no exception.

With a new Royal Charter and a renewed licence fee, the Corporation can expect to remain at the heart of public life for the next ten years. But broadcasting in 2016 will bear little relation to today's media world, and that place cannot be taken for granted. We are ambitious for the future of public service broadcasting. Ten years ago, commentators were predicting that technology would remove the need for public investment in content. Today public service broadcasting remains the bedrock of our media. This Charter gives the BBC the means and opportunity to maintain and develop that central role. If the BBC can continue to serve all licence fee payers, in particular by recruiting new generations of viewers and listeners, and if it can build consensus around its privileged place in the market, it will continue to be central to British life and broadcasting.

This White Paper puts the public at the centre of that debate about the BBC. The new arrangements will empower them by giving them a real say in the BBC's affairs over the next ten years. As Lord Burns and the independent panel on Charter review concluded:

“The more publicly accountable the BBC appears to be, the greater will be the public's preparedness to allow it discretion in its purpose and remit as well as to accept the licence fee as an appropriate form of funding”.

It is the public who the BBC must engage, convince and satisfy if it is to keep its position as an institution and its place in the nation's affections, as we believe it can.

A handwritten signature in black ink that reads "Tessa Jowell". The signature is written in a cursive, slightly slanted style.

TESSA JOWELL

Secretary of State for Culture, Media and Sport

2. What's in this White Paper

This White Paper sets out the Government's policy on the BBC for the next Charter period. The policy will be implemented through the new Charter and BBC agreement.

The White Paper is divided into a number of sections, each covering a different aspect of the Government's policy. This section sets out some of the key points of that policy to help the reader navigate the White Paper.

The BBC's purposes

- We confirm six new **public purposes** for the BBC: sustaining citizenship and civil society; promoting education and learning; stimulating creativity and cultural excellence – including film; reflecting the UK's Nations, regions and communities; bringing the world to the UK and the UK to the world and Building Digital Britain.
- Within that framework, we make clear the importance of **entertainment** to the BBC's mission, whilst ensuring that its content should offer something distinct from other broadcasters.
- We confirm a set of five **characteristics** that will distinguish the BBC's content: high quality; challenging; original; innovative; and engaging. All BBC content should display at least one of the characteristics.
- The Trust will consult on new "**purpose remits**", setting out its strategic priorities within each purpose.

Preparing for the future: Building Digital Britain

- As part of its purpose of "Building Digital Britain", the BBC should continue to play a leading role in technological development. At the same time the Government supports an equally vibrant, competitive and innovative commercial sector – and the BBC will need a very different relationship with the outside world to reflect that.
- We confirm the BBC's role in **digital switchover**. A key outcome of digital switchover will be to ensure that all licence fee payers can receive the BBC's digital services. It is therefore right that the BBC should take a leading role in making digital switchover happen.
- Under the new Charter and Agreement, the BBC's contribution will fall into three key areas: extending the digital network, informing the public and help for the most vulnerable TV viewers.
- We also welcome the BBC's investment in and promotion of **digital radio**, and believe that the BBC should continue its role in this area.

Clarity and certainty: service licences and the Public Value Test

- BBC services will be run according to a "**service licence**", issued by the Trust to the Executive. Service licences will contain all the most important characteristics of an individual service. They will set out how the service contributes to achieving the Trust's priorities and will include indicators the Trust will use to judge the service's performance. There will be public consultation on each service licence, and the Trust will review them periodically.

- All proposals for significant change to existing services or for new services should be subject to a **Public Value Test**. Whether a proposal is significant or not will be determined by the Trust with reference to clear criteria.
- Whenever the Trust carries out a Public Value Test, Ofcom will be responsible for providing a market impact assessment, which will be published. Ofcom's work will be overseen by a steering group drawn jointly from the Trust and Ofcom.

Regulating competition

The BBC will be required to deliver its responsibilities to the licence fee payer within a new market framework:

- A duty, to be set out in the new BBC Charter, for the Trust to have regard to competition issues in ensuring the delivery of the BBC's public purposes
- An overhauled **fair trading regime**
- A new system of *ex ante* codes, operated by the Trust and drawn up by them in consultation with Ofcom, in specific areas which raise potential competition concerns
- A new complaints regime

Commercial Services

- The BBC should continue to relieve pressure on the licence fee by generating commercial income. However, its commercial services should be run according to four principles: fit with the BBC's public purposes; commercial efficiency; BBC brand protection and avoiding market distortion. The BBC Trust will be responsible for holding the Executive to account for complying with the criteria.
- It is important that licence fee payers should have access to information on how money moves between the different parts of the BBC. Appropriate safeguards will be put in place, including fully separate accounts, and clear terms on which transactions are conducted between the public services and commercial activities

Production and organisation

- We believe that encouraging competition in television production through the introduction of a "**window of creative competition**", combined with a strong and sustained BBC in-house capacity, is the best way of ensuring that the best programmes reach the screen
- We will place on the Trust an overall duty of ensuring that **independent radio producers** have the opportunity to contribute fully to the BBC's provision of the best possible programmes for listeners. We will ensure that similar principles are adopted for **online content** as for radio.
- We confirm the BBC's leading role in **training** – including its contribution to industry-wide initiatives – and to **technological research and development**.
- We welcome in principle the BBC's proposals to move a significant amount of production to cities outside London, in particular to the North West of England. We will consider more closely the potential value for money of such a move in the context of the BBC's licence fee bid.

The BBC Trust and Executive Board

- We confirm that the BBC Governors will be abolished and replaced by two new, formally constituted bodies: the BBC Trust and Executive Board. The Trust will be the sovereign body within the BBC
- We will create a new line of accountability – from the new Trust directly to the licence fee payer, reinforced by clear separation between the Trust and the Executive Board and an unprecedented obligation to openness and transparency.
- The Trust will need people with the right **expertise**. It will include members dedicated to the interests of England, Scotland, Wales and Northern Ireland.
- The **Executive Board** will include mainly senior Executives with a significant minority – at least one-third and no fewer than four – of non-Executives to act as “critical friends”. It will be chaired by the Director General or, at the discretion of the Trust, a non-executive.
- The relationship between the Trust and the **National Audit Office** will be strengthened within the existing arrangements.

Funding

- The Government proposes no changes to the existing range of **licence fee concessions**. On **collection and enforcement** of the licence fee, we will make the Trust more directly accountable for the activities of TV Licensing. We will encourage the take-up of easy payment schemes. And we will consider further proposals to divert offenders from the Criminal Justice system.

Setting the level of the licence fee

- The television licence fee remains the best way to fund the BBC and will remain its main funding mechanism throughout the next ten years.
- We will review the scope for alternative funding mechanisms after the end of the next Charter in 2016. We expect this review to take place around the end of digital switchover, in order to allow for the necessary planning before any changes are implemented.
- The Government is currently considering the level of the new licence fee settlement, due to come into force in April 2007. We will announce the details of the settlement in due course. As was the case with the current licence fee settlement, we will expect the BBC to achieve a large part of the funding it needs through “self-help”: efficiency, improvements in licence fee collection and enforcement and commercial revenue.

The future of Public Service Broadcasting beyond the BBC

- We will conduct a review, as the impact of the move to digital becomes clearer during the course of the next Charter Period, of the case for public funding – including licence fee money – to be distributed more widely beyond the BBC. We expect this to mean conducting the review towards the completion of switchover, but will retain the option of conducting an earlier review before the end of this decade.

3. The BBC's purposes

What the British public wants from its BBC

- 3.1.1 The BBC has played a major role in British life since its creation. This role is recognised and admired by the British public and extensive consultation on the future of the BBC has shown that the public want that role to continue. Successive Governments have recognised the importance of the BBC and have chosen to keep a strong and independent publicly-funded broadcaster because of the enormous benefits it provides to individual licence fee payers, to wider society and to the industry of which it is a part. It is a widely trusted, widely appreciated, part of our national culture. It is a big part of the reason why we have the best broadcasting in the world.
- 3.1.2 People are also clear about what they want from the BBC. They recognise that there is a great deal of choice in the wider marketplace, but, if anything, they believe that the pace of change and the rapid expansion of choice makes the BBC more important now than it has ever been. Far from withering away, the BBC is seen by most people as a secure foundation for the rest of the UK's broadcast media. People see it as a secure and trusted environment, delivering high quality programmes and internet content that they and their families can rely on.
- 3.1.3 So people see the BBC as having clear purposes, serving the public in a unique way. They agree, as does the Government, with the original objectives set by the BBC's first Director General, Lord Reith, that the BBC should inform, educate and entertain. But, in today's more complex media world, people agreed that a more complete and detailed set of purposes, as outlined in the Green Paper were needed for the BBC.

The purposes

- 3.1.4 The Green Paper set out six public purposes for the BBC:
- Sustaining citizenship and civil society;
 - Promoting education and learning;
 - Stimulating creativity and cultural excellence;
 - Reflecting the UK's Nations, regions and communities;
 - Bringing the world to the UK and the UK to the world;
 - Building Digital Britain.

Entertainment & distinctiveness

- 3.1.5 However, one of the clearest messages from public consultation on the Green Paper was about the importance of the BBC's role in providing entertainment. Some were concerned that we were in danger of losing sight of this. They felt that entertainment was not sufficiently reflected in the proposed new arrangements. And a point that was made powerfully by the industry was the need for BBC content to be distinctive.

- 3.1.6 Entertainment is a vital part of the BBC's mission. The Government sees no conflict between the new arrangements and entertainment. In line with the view of the special Lords Select Committee on Charter Review¹, we do not subscribe to the idea that public service broadcasting should be confined to the "worthy". Indeed, in most cases the BBC's output will achieve its maximum impact only by entertaining its viewers and listeners.
- 3.1.7 On the other hand, as we made clear in the Green Paper, the BBC should not chase ratings through derivative or copy-cat programming. It is wrong to see entertainment as being at odds with the six purposes described in the Green Paper. They are not alternatives; for the BBC, being entertaining should be of fundamental importance, but it should involve competing with other broadcasters on grounds of quality, not by simply copying or adapting successful formats from other broadcasters or making programmes solely to tried and tested formulae. Although it is wholly legitimate – and in view of the way it is funded, necessary – for the BBC to provide programmes aimed at a wide audience, it should achieve those audiences through the inherent qualities of its content, with entertainment being an important, but not the sole, quality to be achieved.
- 3.1.8 We also agree that the BBC's content should offer something distinct from other broadcasters. That does not mean that it should only provide types of programmes that others do not. Instead, where it does provide genres already available in the market, its content should stand out clearly as the BBC's. The BBC's approach to "acquisitions" – programmes and films bought in, often from abroad – should also generally seek to offer licence fee payers something different from what is available to them from other sources.
- 3.1.9 In the Green Paper, we proposed a set of five characteristics (see box) that will distinguish the BBC's content – its TV and radio programmes, web pages, etc – from anyone else's. Public consultation demonstrated strong support for the characteristics. We therefore confirm them as follows:
- High quality – the BBC's programming should be recognised by licence fee payers as standing out from the rest;
 - Challenging – it should make audiences think;
 - Original – it should strive to offer the right level of new or originated content;
 - Innovative – it should present new ideas or invent exciting approaches, rather than copying old ones;
 - Engaging – it should draw the audience in with fascinating and entertaining subject matter.
- 3.1.10 We confirm that all BBC content should display at least one of these characteristics.
- 3.1.11 The characteristics are broad enough to allow the BBC to provide a wide range of programming of appeal to its whole audience. However, in combination with the purposes and service licences, they will also provide the Trust with powerful mechanisms for holding the Executive to account – and, in turn, there will be clear standards against which the Trust's effectiveness can be judged.

¹ *The Review of the BBC's Royal Charter*, Volume 1: Report, House of Lords Select Committee on the BBC Charter Review.

Green Paper proposals

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.

Every programme should display at least one of the above characteristics of excellence and distinctiveness.

- 3.1.12 The system of purposes and characteristics we have set out will provide the Trust with the tools it needs to ensure the BBC delivers content that is both distinctive and entertaining. No other broadcaster will be required to focus all its efforts on achieving a similar framework of public purposes – that in itself is sufficient to set the BBC apart from the rest.
- 3.1.13 The BBC is first and foremost a broadcaster – its main job is to make top quality content across a wide range of genres available to a mass audience, primarily through television, radio and new media services. However, as the Green Paper stated, the BBC has a very valuable role to play through its wider activities: for example, its orchestras and choirs, its work to enrich the public realm with big screen events in city centres and the very many broadcasting-related community projects it carries out around the country. Its commitment to new talent 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 Government expects the BBC to continue to develop such activities in line with its public purposes, subject to its general duty to consider the impact on the wider industry.

A Guide through the technologies of the future

- 3.1.14 Technology is developing at an unprecedented, often bewildering, rate. If we want the UK to stay at the forefront of these developments – with all the benefits to society and industry that might bring – the public needs to be drawn into them. This is where the BBC has a critical role to play.
- 3.1.15 Since its establishment the BBC has taken a leading role in opening up the benefits of new technologies to mass audiences. As we said in the Green Paper, it is seen as a “trusted guide” to new technology and the new experiences that come with it. Over its long history it has helped introduce audiences to black & white and then colour TV, to FM and then digital radio,

to digital and interactive TV, the internet, podcasting and 7-day catch-up. We want the BBC to have the scope to develop this role under the new Charter and Agreement.

- 3.1.16 So the BBC must have the flexibility to adapt to a constantly changing media landscape over the next Charter period. It must be able not only to react to changing audience expectations, but to anticipate and help shape them; this will be all the more important in a world where user-generated content will come to play an increasingly important part. This will help create opportunities for the whole industry to exploit and will safeguard the BBC for future generations of licence fee payers.
- 3.1.17 But, at the same time, the Government supports an equally vibrant, competitive and innovative commercial sector. 2006 is very different from 1927 when the BBC was set up in its current form. The BBC will need a very different relationship with the outside world to reflect that.
- 3.1.18 That principle is at the heart of our governance reforms, set out in section 10. It underpins the new mechanisms for regulating the activities of the Executive set out later – service licences, the Public Value Test and new *ex ante* codes to address issues that might give rise to competition concerns. It is also central to the BBC's new public purposes, which build on the Reithian formula of inform, educate and entertain.
- 3.1.19 We therefore confirm the policy set out in the Green Paper; the Reithian aims will continue, with the new public purposes as the driving force behind the BBC in the next Charter period. Everything the BBC does will be geared towards delivering the public purposes, with its efforts reflected in the quality of its public service programming.

Building consensus and setting priorities

- 3.1.20 The new purposes offer the Trust an opportunity to build consensus about the BBC's role, to set priorities and to highlight areas where the BBC is best placed to make a difference; the BBC cannot do everything, so it must focus on its strengths. The Trust will consult on new "purpose remits" setting out its strategic priorities within each purpose, and on how success will be judged, taking into account the BBC's impact, not just its output.

Impact and output

The Trust will need to engage licence fee payers in a debate about its priorities and how its own success in achieving them will be judged. In doing so, the Trust will need to think about the BBC's impact. For example, as part of its plan for sustaining citizenship and civil society, the Trust, following consultation, might decide that one of its objectives should be to explain issues behind the news better than any other broadcaster. It will need to develop measures, perhaps based on audience research or peer review, to demonstrate how well it has achieved that objective.

- 3.1.21 In consulting, the Trust will need to engage with licence fee payers, but also with a wide range of other interested parties, such as broadcasters and potential partners, consumer representatives and trade unions, to ensure that the BBC's purpose remits work with the grain of the strengths and qualities that others have to offer.

- 3.1.22 In developing its remits, the Trust will need to set clear priorities. Although the forthcoming licence fee settlement will ensure that the BBC is adequately funded to deliver its public purposes, the Trust will need to make choices about how the BBC applies its resources as well as ensuring continued efficiency in how it delivers its services. Its purpose remits provide a powerful means for involving licence fee payers in deciding its priorities. The Trust should keep its plans under review.
- 3.1.23 With each of the purposes it will be for the Trust to determine the BBC's priorities and how success will be judged. The Charter and Agreement will set out the key defining elements of each purpose that the Trust will need to take into account in framing its priorities.

3.2 Citizenship

- 3.2.1 The Green Paper defined the citizenship purpose as “informing ourselves and others and increasing our understanding of the world through news, information and analysis of current events and ideas”. It set out some of the areas the BBC might consider in delivering the purpose (see box). Public consultation demonstrated support for them.

Citizenship: Green Paper description

- Inform the public and increase understanding of the world through news, information and analysis of current events and ideas;
- Set standards of quality in news and current affairs;
- Engage the widest possible cross-section of the UK population with differently-targeted services, including BBC Online;
- Continued commitment to local and regional news;
- Stimulate engagement with social and political issues through programming outside news and current affairs – e.g. through themed seasons or campaigns;
- Help people understand Parliament and the UK political system including the devolved administrations; 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;
- 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 – within clear boundaries;
- Implement the core recommendations of the Neil report.

- 3.2.2 From our research and consultation it is clear that licence fee payers place a very high premium on accuracy and impartiality, particularly in news and current affairs. They see the BBC as standing out from the rest. The Trust will no doubt wish to ensure that its plans maintain the BBC as the UK's most trusted provider of news, and that it continues to reach audiences with news tailored to the particular needs of its different audiences, for example Radio 1's *Newsbeat*.
- 3.2.3 In this context, licence fee payers will welcome the moves the BBC has already made to strengthen its journalism.

Together we can

“Together We Can” is a campaign, backed by community organisations with the support of the Government, to encourage more citizens to have their say in shaping public policies and services.

We welcome the BBC’s work to develop a strategy to involve more citizens in considering and responding to public policy issues – for example, through its own Action Network initiative.

Media Literacy

- 3.2.4 It is becoming more and more important to our democratic process that people are equipped to navigate a media world with an increasing choice of channels, platforms and voices. The Government placed a specific duty on Ofcom to promote media literacy under the Communications Act 2003. The BBC continues to play a leading role in the development of a media literate population in the UK, helping people understand and access new communications technologies and underpinning personal creativity in the digital world.
- 3.2.5 The BBC is one of the founder members of the Media Literacy Task Force, working with the UK Film Council, Channel 4, the British Film Institute and Skillset to co-ordinate industry activity and raise public understanding and awareness of media literacy. One of the key aims of the Task Force, through its new Media Literacy Charter, is to ensure the development of a media literate UK population by providing the significant portfolio of skills, knowledge and understanding needed by every citizen in the 21st Century. This includes:
- Broadening people’s experience and understanding of different kinds of media forms and content;
 - Helping them develop critical skills in analysing, assessing and developing their own critique of the media;
 - Developing creative skills in using media for expression, communication and participation in public debate;
 - Drawing on the BBC’s unique role in promoting widespread access to new media technologies and resources alongside Ofcom’s broad strategy for the development of media literacy across the UK.

3.3 Education and learning

- 3.3.1 Education has been central to the BBC’s mission for eighty years. It is enshrined in Lord Reith’s famous definition of the BBC’s purpose: to inform, educate and entertain. Our vision of the future of the BBC retains the central importance of education and learning. That is why we set out in the Green Paper a specific education and learning purpose for the new BBC, which we defined as:
- 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 material to facilitate learning at all levels and for all ages.

Education and learning: Green Paper description

- Continue to be a major force in education and learning across a full range of subjects and issues, from traditional support for curriculum topics to areas with a wider impact on society;
- Contribute through formal educational material as well as informal learning through mainstream programming;
- Meet the different needs of different audiences, ranging from pre-school and school to adult learners and those in further education;
- Be at the forefront of harnessing opportunities offered by technological developments, to deliver both formal and informal learning;
- At the same time, encourage 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;
- Make use of all its services, as appropriate, for educational purposes, including its larger broadcast channels, its archive and its local services;
- In delivering all its aims, the BBC must keep in mind its privileged position and its potential market impact.

3.3.2 Consultation demonstrated public support for the proposed role of the BBC in education and learning. The three categories of learning that the Green Paper identified – “formal”, “informal but targeted” and “informal from general programming” – were all recognised by respondents. We therefore confirm the BBC’s education and learning purpose as defined in the Green Paper. The BBC will continue to be a force in both formal and informal learning across all age groups. We would expect the BBC to consider these elements in deciding how to take forward its education and learning purpose.

Creative Archive

The Creative Archive Licence Group was launched in April 2005, by founding members the BBC, the British Film Institute, Channel 4 and the Open University, to make content available for download under the terms of a single, shared user licence scheme. This licence, called the Creative Archive Licence, has been created for the downloading of moving images, audio and stills.

The licence has been designed specifically to make it as easy as possible for educational establishments to benefit.

The Creative Archive has the potential to make a major contribution to the achievement of the BBC’s education and learning purpose, subject to going through the Public Value Test.

3.4 Creativity and culture

3.4.1 The BBC has a unique role to play in the cultural and creative life of the nation. We reflected this role in our proposals for a new creative and cultural purpose for the BBC, which we defined as:

- 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.

Creativity and culture: Green Paper description

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;
- Use its unique funding position to take more risks than its commercial counterparts;
- Accept the recommendation of the House of Commons Select Committee on Culture, Media and Sport that the BBC should 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:

- Use its unique ability to inspire, support and showcase the work of the best of the UK's creative talent;
- Maintain its vital contribution to new music, from Radio 1 and One Extra to Radio 3.

Promoting engagement with and participation in cultural activity:

- Provide audiences with a gateway to cultural experiences and pathways to further exploration;
- In sport, promote interest and participation in the smaller, minority-interest sports that are less well covered by commercial networks;
- Engage in partnership with other public sector organisations.

3.4.2 At the heart of this purpose is bringing the very best programmes and other content to licence fee payers: programmes, like *Life on Earth* which set enduring standards for others to aspire to, like *I'm Sorry I Haven't a Clue*, which draw audiences back year in and year out, like *Strictly Come Dancing*, which bring people together in water-cooler moments and like *6:06*, which foster debate on a national scale. The BBC is in a unique position to take creative risks, to invest in talent and to inspire and excite audiences.

3.4.3 The BBC is one of the country's most powerful creative engines. It plays an important role in knowledge transfer and supporting creative excellence, and in developing cultural partnerships with other public bodies working in support of the creative sectors. And it must reflect the diversity of 21st century Britain.

- 3.4.4 The creative industries are already important to the UK economy, and the government wants them to make an even greater contribution in the future. Between 1997 and 2003 the creative sectors grew twice as fast as the overall economy. They employ around 1.8 million people and account for a twelfth of our economy, more than in any other country. The UK's current strength in creative industries is a real opportunity. We need to build on this strength and capitalise on growing markets.
- 3.4.5 The Green Paper made clear that support for film is an important part of the BBC's role. The Charter and Agreement will require the BBC Trust to include a film strategy in its plans for achieving the creative and cultural purpose. This should include investment in new films and also support for Britain's film culture by helping audiences to understand and have access to a wide range of British and international films, as is already the case with music. We welcome the recent announcement of a partnership between the BBC and the UK Film Council to give maximum effect to the BBC's new film strategy.
- 3.4.6 Just as entertainment will continue to be a vital part of the BBC's mission, it will also retain an important role in the sporting life of the UK by bringing the best of sport to its audiences. The BBC has a special capacity to foster national cohesion, from the first broadcast of the Oxford and Cambridge boat race in April 1927 through to the 2012 Olympics. It should therefore aim to continue providing access both to a selection of those great sporting events that are national assets serving to unite the nation – from World Cup football matches to Wimbledon – and to those smaller, minority sports which might develop a new following among audiences and potential participants.
- 3.4.7 In the Green Paper, the Government set out its view that the BBC should stay out of bidding wars for expensive foreign imports except where it is clear that no other terrestrial broadcaster would show the programmes or films in question, or that the acquisition would clearly contribute to a public purpose. This does not mean that the BBC will be prevented from acquiring foreign films and programmes. On the contrary, the BBC should strive to offer the best programmes to its audiences. But, as expressed by the special House of Lords Select Committee on Charter Review, the BBC should be conscious of its public service obligations when deciding to bid for imported programmes².
- 3.4.8 As is the case for all of the BBC's purposes, the BBC has a significant role to play in developing partnerships with other organisations in the relevant sectors. In its response to the Green Paper, the BBC set out a range of initiatives which have been set up in collaboration with other organisations, for example with Sport Action and Music for All. In this context, we welcome the Memorandum of Understanding that the BBC and the Arts Council have established together. There is scope for greater collaboration in future to build the BBC's contribution to the public realm.

3.5 Representation of nations, regions and communities

- 3.5.1 In the Green Paper, we described how much the public values the work the BBC does to represent nations, regions and communities. We proposed to recognise this role by setting a new representative purpose which we defined as:

² *The Review of the BBC's Royal Charter*, Volume 1: Report, House of Lords Select Committee on the BBC Charter Review, para. 166.

- Reflecting and strengthening our cultural identity through original programming at local, regional and national levels, 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.

Representation: Green Paper description

Programming:

- Provide network programming that reflects, in a balanced and accurate way, the activities and cultures of the diverse range of different communities within the UK;
- Bring audiences together across the UK for shared experiences;
- 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;
- Provide a range of programming reflecting different religions and other beliefs that is appropriate to multi-faith Britain;
- Provide news and current affairs programmes on television at a regional level and maintain the network of local radio services and locally-focused internet sites; together, these services should continue to promote community debate and localised learning;
- In line with Ofcom's recommendation, consider what scope it has for expanding its contribution to regional programming;
- Provide a larger amount of dedicated programming in and for each of the devolved nations (Northern Ireland, Scotland and Wales); to include provision in indigenous minority languages across a range of platforms – the internet has particular value in supporting these languages.

S4C:

- 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;
- Further consideration to be given to the details of any new BBC/S4C settlement, including the level of the BBC's contribution; how it should be expressed in monetary terms as well as in hours of programming; how best to ensure its value is maintained over time and where responsibility should rest for decisions on content.

Gaelic broadcasting:

- 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; the BBC will have a key role to play in jointly providing 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.

- 3.5.2 The representative purpose received broad general support from our public consultation, and we therefore confirm it in this White Paper. The whole country pays for the BBC and the whole country should therefore be able to recognise itself in the BBC's output.
- 3.5.3 It will perhaps be more important for this than for any other of its purposes that the Trust engages in genuine dialogue with licence fee payers from all sections of the community in setting its priorities. And it will be particularly important for the Trust to work hard to capture the views of those with whom the BBC's relationship requires most development.

Programming

- 3.5.4 Public consultation confirmed the Government's view, set out in the Green Paper, that the BBC should produce network programming that reflects the range of cultures and communities across the UK, and that portrays and celebrates that diversity in mainstream as well as specialist programming. This will form an important part of the Trust's plans.
- 3.5.5 Consultation also underlined the importance of the continuing role for the BBC in providing regional news and current affairs across its television, radio and on-line platforms. The Trust will need to have regard to Ofcom's Public Service Television review³, which encouraged the BBC to identify new and innovative ways of providing regional programming. The Trust will wish to consider the opportunities offered by technological development, to deliver such services, subject to available resources and appropriate regulation through the Public Value Test.
- 3.5.6 Another key message from the public consultation was the importance of reflecting nations, regions and communities to the whole of the UK, and not just back to themselves. This was echoed by some industry respondents in calls for more regional programming on the network to complement the programming produced for regional consumption. In this context, the Government welcomes the BBC's own plans to increase its network commissioning from the regions. Ofcom's current review of the TV production sector, to be completed later in 2006, will make an important contribution to this debate.

Languages

- 3.5.7 The BBC is in a unique position to be able to contribute to the development of content that serves the UK's nations and communities, including the provision of services to support minority languages across a range of platforms.
- 3.5.8 The BBC has been broadcasting Gaelic for over 80 years, has been committed to Welsh since its pioneering broadcasts in the 1920s and has broadcast in Irish over the radio for nearly 25 years. It is currently investing in a new Language Learning Initiative for Welsh, Irish and Gaelic and a new Irish Language Broadcast Fund, and also provides services in Ulster Scots. Local radio stations in England also carry over 67 hours of specialist language programming each week, including: Bengali, Cantonese, Cornish, Guernsey French, Gujarati, Hindi, Mandarin, Mirpuri, Polish, Portuguese, Punjabi, Somali and Urdu.

³ Ofcom Review of Public Service Television- Phase 2: Reshaping television for the UK's nations, regions and localities, 2004.

- 3.5.9 The Government welcomes the commitment of the BBC and S4C to reaching a new settlement that will benefit Welsh language audiences. We believe it is important that this settlement provides clarity to S4C about the levels of funding involved, together with control over the commissioning of the programmes to be provided and how the budget is used, but consistent with the BBC's editorial values and obligations to the licence fee payer. We expect this settlement to be reached before the new Charter and Agreement are finalised.
- 3.5.10 The Green Paper made clear that our policy is for the BBC to continue to play a crucial role in safeguarding Gaelic cultural heritage. We therefore welcome the discussions taking place with the Gaelic Media Service and others about the joint provision of future services which would help support policies to promote the place of the Gaelic language in society. We look forward to current discussions being brought to a rapid conclusion and the launch of enhanced services from 2007.

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

- 3.6.1 The Green Paper proposals for a specific international purpose received wide support in consultation. The purpose will be adopted on the terms set out in the Green Paper:
- 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.

Bringing the UK to the world and the world to the UK: Green Paper description

- 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;
- The BBC's commercial services should support its international role in two ways:
Better promotion of UK culture, talent and intellectual property overseas;
Added value returned to licence fee payers.
- 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;
- The BBC should continue to provide international news to the rest of the world.
- 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.

New priorities

- 3.6.2 The Government welcomes the restructuring of the World Service announced in October 2005. The closure of ten low impact vernacular services, mostly in Central and Eastern Europe, will free up resources to allow greater investment in new media services, in particular the launch of a 12-hour Arabic TV service.

- 3.6.3 These new priorities were based on authoritative research and evaluation of the existing services' geo-political importance, the reach and impact of each of its vernacular services, the increased importance of new technologies and changing audience preferences. The valuable contribution made over the years by services which are to be closed has been widely acknowledged. But the world does not stand still. Nor can the World Service.
- 3.6.4 The World Service should expect the pace of change and level of competition in international broadcasting to increase. It will need to continue to adapt to these changes and be ready, where appropriate, to adjust further and prioritise its range of vernacular services.

Carter review of Public Diplomacy

Lord Carter's review recommended a more strategic approach to public diplomacy to be coordinated by a new Public Diplomacy Board. The Board will establish a medium-to-long term framework for the delivery of public diplomacy outcomes which support the Government's international priorities.

In recognition of its editorial independence, the World Service will have observer status on the Board, which will include the British Council and the Foreign and Commonwealth Office as members.

- 3.6.5 As of March 2006, the World Service will offer thirty-two vernacular radio services and eight online vernacular languages. The Green Paper outlined the benefits of using the number of online languages as the baseline for review of vernacular services. The World Service should continue to pursue vigorously its policy of expanding its presence on FM Radio overseas and seek opportunities to make its vernacular services more widely available to communities in the UK.
- 3.6.6 In setting its priorities, the BBC should assume that pressure on all streams of public funding will increase with time, and there will be a need for transparency about how resources are allocated. The World Service should also take into account the challenges of developing successful services in what is, for the World Service, the new medium of TV. It will be for the World Service, in discussion with the FCO, to decide its priorities and how expenditure could be prioritised to allow for the development of new services in priority countries.

4. Preparing for the future: Building Digital Britain

4.1 The BBC in a world of rapid technological change

4.1.1 The next Charter period will see unprecedented technological change. In order to continue delivering for licence fee payers, the BBC needs to be able both to keep up with changing audience expectations and to help shape them. That is why we have set out a new, special purpose for the BBC which we have called “Building Digital Britain”.

Building Digital Britain: Green Paper description

- The BBC must help shape the digital future; new BBC services have already helped to drive the take-up of digital TV and radio but a new initiative will be needed if the country is to become fully digital;
- The BBC should pursue its target to extend digital audio broadcasting (DAB) radio coverage to 90% of the UK population;
- Provide generic information on digital television which will include the options for getting digital services;
- Develop new interactive and web-based services, as demand grows for new media, such as broadband;
- The BBC should make sure there is adequate access provided, across all media platforms, for viewers and listeners with sensory impairments;
- The BBC to help establish and manage the organisation that will co-ordinate the technical process of switchover;
- 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 establish and fund schemes to help the most vulnerable consumers make the switch.

4.1.2 The BBC has always helped the people of Britain get the most out of technological change. Throughout its history, the BBC has been instrumental in introducing people to new ways of receiving media services and encouraging their take-up. This does not apply solely to recent developments, for example the role of BBC Online in stimulating the use and take-up of the internet, BBC digital radio services in contributing to the take up of Digital Audio Broadcasting (DAB), and its digital television services in encouraging people to acquire digital television. In fact, it goes to the very heart of the BBC’s historical mission; it was the BBC and its services that drove many of the most fundamental changes in this country’s broadcasting landscape – including the development and take-up of radio, and black and white, then colour television services.

4.1.3 This role has strong public support; in our consultation on the Green Paper, when we asked the question “do you agree that the BBC should be a responsible leader in helping the public to

adopt and use new technologies, including digital television?”, the response was very positive, particularly amongst those who already had access to digital services. The consultation demonstrated strong support for the proposal that the BBC should be a leader in the development of digital communications; more than two-thirds of web questionnaire responses addressed this issue, of which 68% answered positively.

- 4.1.4 We confirm that, as part of its purpose of “Building Digital Britain”, the BBC should continue to play a leading role in technological development, and in leading audiences to new ways of receiving content.
- 4.1.5 It seems clear that the traditional setting of the television in the corner of the living room, or the radio in the kitchen or car, will still be with us for the foreseeable future. Most people still want to sit on their sofa to watch – free at the point of use – quality programmes on a TV set. However the development of digital technologies has already dramatically transformed the broadcasting environment. It has opened up new ways of providing and consuming content, whether via digital TV and radio, the internet, or mobile phones. The pace of change in the next Charter period is likely to accelerate. Information and programme content will become increasingly personalised and accessible “on demand” via a whole range of different platforms and devices. In other words, the digital revolution will make it easier for people to watch what they want, when they want and where they want.
- 4.1.6 Personal video recorders make it easier than ever before for TV viewers to select and watch programmes at their own convenience, rather than when the broadcaster schedules them. The increasing availability of high speed broadband makes it possible for people to download programmes over the internet – the BBC itself is trialling its Interactive Media Player, which gives users access to programmes via the web for 7 days after they have been shown on broadcast TV. More and more people are already using mobile devices – like mobile phones and personal organisers – to download video and music or web pages, to listen to the radio and even to produce their own content and share it with friends. Mobile television – broadcast to handheld screens – has recently been trialled in Oxford and London. Meanwhile developments such as High Definition TV – which BSkyB will begin broadcasting later this year – offer the possibility of a new, cinematic viewing experience on large home screens.
- 4.1.7 One of the main challenges for the BBC over the next Charter period will be to anticipate and adapt to this changing world. In deciding how to do so, it will need to make judgements about how it can best deliver value to licence fee payers. It will also need to be vigilant about its potential impact on the wider market. The broadcasting market of 2006 is very different from that of 1968, for example, when the BBC introduced colour television for the Olympic Games from Mexico. The explosion in new media and digital television take-up has led to the creation of a market in which there are very many providers offering a sometimes bewildering array of services – often of very high quality. The technology market is increasingly crowded and the BBC should launch new services or make significant changes to existing services only after a rigorous Public Value Test. The Trust’s duties to conduct a Public Value Test before approving significant changes in the BBC’s activities are described in section 5. But the Government is clear that, within this framework, the BBC needs to have the flexibility to deliver its programmes and other content in new ways as technology develops.

- 4.1.8 Millions are seizing the new opportunities as they appear, but many do not. Some cannot afford or do not want to be early adopters and some are confused or even intimidated by the sheer pace and scale of change. However, even those who choose not to adopt new technologies now know that at some point in the near future they will need to make changes. Many of them find reassurance in the thought that the BBC will help them along the way. The Government recognises this and will continue to give the BBC a lead role in guiding people through periods of change. A divide in society, between those who enjoy the benefits of new opportunities (such as special services for the hearing and visually impaired) and those who are unaware of or otherwise excluded from those benefits, would be a cause for concern, and the BBC is uniquely placed to help heal those divisions.
- 4.1.9 The immediate challenge is to take forward the programme of switching over all television services to digital, a process which will begin in 2008 and be completed by 2012.

4.2 Digital switchover

- 4.2.1 Digital television brings many benefits to consumers, including a greater choice of TV services (both subscription and free-to-view), better technical quality and new interactive features. However, these benefits are not currently available to every viewer in the UK, and they will not be unless and until we complete switchover.
- 4.2.2 Digital switchover is the process of converting the terrestrial transmission networks from analogue to digital and encouraging everyone to convert or upgrade their TV and recording equipment to receive digital television, by one platform or another. The Government confirmed the region-by-region timetable for switchover (see box) in September 2005.
- 4.2.3 Over two-thirds of UK households already have digital TV – so the move to switchover goes with the grain of public trends. But there are three key reasons why switchover is needed:
- Until analogue is switched off, the coverage of digital terrestrial services (received through an aerial via a set-top box or integrated digital television) cannot be increased beyond its current level – around 73% of UK households. Switchover will allow digital terrestrial coverage to match current analogue levels;
 - Digital switchover will free up a large amount of spectrum for new uses, allowing us to benefit from new technologies and services. Examples could include new standard or high definition TV channels, mobile TV or wireless broadband networks;
 - “Simulcasting” in analogue and digital is inefficient for broadcasters, tying up resources which could be used elsewhere, for example to make programmes. Today’s ageing terrestrial broadcasting network needs to be replaced with the best available technology, digital, so that the UK can continue as a world leader in broadcasting.

Region	Switchover start date
Border	2008 2nd half
West Country	2009 1st half
Wales	2009 2nd half
Granada	2009 2nd half
West	2010 1st half
Grampian	2010 1st half
Scottish Television	2010 2nd half
Yorkshire	2011 1st half
Anglia	2011 1st half
Central	2011 1st half
Meridian	2012 1st half
London	2012 1st half
Tyne Tees	2012 2nd half
Ulster	2012 2nd half

4.2.4 Many people will choose to get their digital TV via satellite, cable or, in some areas, broadband, and the Government will continue to be platform neutral in its public policy. However, for many households, digital TV through an aerial will be the cheapest, most convenient option, and for some it will be the only method available. Extending the coverage of digital terrestrial – and hence switching off the analogue signal – is the only way to ensure that virtually everyone can get digital television, and that, as far as possible, people have a choice of platforms.

4.3 The BBC's role

4.3.1 The BBC is acknowledged as a trusted guide to new technologies and a key outcome of digital switchover will be to ensure that all licence fee payers can receive the BBC's digital services. It is therefore right that the BBC should take a leading role in making digital switchover happen. It is the majority shareholder in Digital UK, the organisation set up by the main broadcasters to coordinate the switchover programme. Under the new Charter and Agreement, the BBC's responsibilities will fall into three key areas.

a) Extending the digital network

4.3.2 About 98.5% of UK households can currently receive analogue television via an aerial (although the precise figure varies for different channels). In common with the other main public service broadcasters (ITV, Channel 4 and Five), the BBC will be required to achieve, through digital switchover, substantially the same level of coverage as currently exists in analogue. The aim is to

ensure that consumers who can now receive analogue signals of acceptable quality will be able to receive digital terrestrial signals in the future.

- 4.3.3 The BBC will also continue to make its TV channels available via Sky's satellite service – both for customers who pay a subscription and those who don't – and via cable. The Government is keen to ensure that consumers have as wide a choice as possible of how they get digital TV. We welcome the plans being developed by the BBC and ITV for a free-to-view satellite service alongside Sky's offering and we hope that the other public service broadcasters will join them in this endeavour. This promises to enhance further both consumer choice and competition in the television market.
- 4.3.4 The BBC has a significant amount of digital terrestrial capacity, which it uses to broadcast its services. It is likely that, because of technical changes, the BBC will gain capacity to carry additional services within its existing spectrum. The Government proposes to retain the flexibility, under defined circumstances, to ask the BBC to make some capacity available to other users. In particular it is envisaged that it will need to carry Five and (in Wales) S4C, on terms to be agreed with those broadcasters. This will ensure that Five, which is currently available to only 80% of households terrestrially, becomes available to virtually everyone, and that viewers in Wales can receive both S4C and Channel Four.

b) Informing the public

- 4.3.5 Digital switchover will require a major communications effort in order to ensure that all viewers are properly informed, well in advance, about when it is happening and what they need to do in order to prepare for it. The BBC has a central role to play in the communications effort, for the benefit of all licence fee payers. It has the highest reach of any broadcaster – in any one week, about 90% of people use the BBC's services. It is also one of the nation's most trusted institutions, with one of the most trusted brands – when we asked which organisations people would trust to inform them about the advantages and disadvantages of digital television, the BBC came first⁴.
- 4.3.6 All of the public service broadcasters, including the BBC, will need to provide their viewers with information on how to continue receiving their services after switchover. In addition, the BBC will be the major contributor to an extensive general communications campaign, to be organised in conjunction with the other broadcasters via Digital UK.

c) Helping the most vulnerable TV viewers

- 4.3.7 The Green Paper set out the Government's proposal that the BBC should help establish, and should fund, schemes to ensure that the most vulnerable households are not left behind. In September 2005, the Secretary of State for Culture, Media and Sport, Tessa Jowell, announced that these schemes would focus on providing practical help with the switch to digital TV for those aged 75 and over and people with severe disabilities.
- 4.3.8 This decision reflected extensive research and consultation with consumer groups. It was clear from this that switchover is affordable for the vast majority of the population: costs of

⁴ Research conducted by MORI for DCMS available on http://www.culture.gov.uk/global/publications/archive_2001/mori_report.htm

equipment are steadily decreasing and take-up rates do not vary greatly across different income groups. However, there is clear evidence that those aged 75 and over and people with disabilities are particularly likely to face practical difficulties in obtaining, installing and beginning to use digital equipment.

- 4.3.9 The help schemes will provide the necessary equipment to convert one TV set and the assistance needed to install and use it. The equipment provided as part of the schemes will be intended to best suit the needs of the people receiving the assistance – for example, by providing audio description, effective subtitling or an appropriately designed remote control. This help will be free for the poorest eligible households. A modest fee will be charged to others. This fee will be determined nearer the time of switchover and will be linked to the cost of the equipment provided. The scheme will be technology neutral and include access to the range of digital platforms although consumers will need to make up the difference in cost if they choose a more expensive technology. The scheme will also ensure that those who are registered blind can benefit from the audio description facilities provided by digital technology.
- 4.3.10 The Government and the BBC have been running a pilot project in Bolton to support the development of the help scheme. Further announcements on the details of the scheme, including when and how it will be made available, will follow in due course.

4.4 Digital radio

- 4.4.1 The Government is committed to the development of digital radio in the UK. It offers:
- Increased choice of stations;
 - Sound free from hiss and crackle;
 - Easier tuning;
 - New functions like pause and rewind;
 - New multimedia and interactive services;
 - More effective use of spectrum.
- 4.4.2 The BBC has played an important role in promoting digital radio, and its digital radio services are available on a range of platforms – Freeview, and cable and satellite TV as well as digital audio broadcasting (DAB). BBC 7 in particular has been a significant driver in the take-up of DAB. As outlined in the Green Paper, we welcome the BBC's plans to extend digital radio coverage to at least 90% of the UK population over the life of the next Charter (it currently stands at around 85%). We welcome the BBC's investment in and promotion of digital radio, and believe that the BBC should continue its role in this area.

5. Clarity and certainty: BBC services and the Public Value Test

- 5.1.1 We are setting the BBC on course for another ten years with a clear mandate to continue serving its audiences across the established media and to lead them – particularly those who might otherwise be left behind – to the new experiences that technological development will provide. The BBC will need the flexibility to adapt to the changing landscape and help shape audience expectations, with all the benefits that will deliver for individual licence fee payers and the industry alike.
- 5.1.2 But we are also committed to sustaining a vibrant, dynamic commercial sector. This means balancing the flexibility we will give to the BBC with strong measures to give the wider industry greater clarity and certainty about the BBC’s activities. The BBC’s new purposes, described in the previous sections, are one part of the story. Service licences, content characteristics and the Public Value Test, set out in this section are another. And the package is completed by the new measures on competition and fair trading we set out later.

5.2 Service licences – a contract between the Trust and the licence fee payer

- 5.2.1 In the Green Paper, we proposed that every BBC service should have a “service licence”, issued by the Trust to the Executive. The licences would include clear indicators to enable the Trust to monitor and ensure the performance of the Executive in delivering individual services. They would provide clarity for licence fee payers on what to expect. And they would be designed to provide certainty for the rest of the market by ensuring that significant changes to individual services would be put through a Public Value Test described in more detail below. Our consultation indicated strong support, particularly among industry respondents, for service licences but there were understandable calls for more detail on their content and how they would work in practice.

Case study: BBC radio

Consultation on the Green Paper showed that the commercial radio sector continues to be concerned that Radios 1 and 2 in particular are too similar in output to their own stations. We have received further helpful evidence from the commercial radio sector, which underlined the importance of getting service licences right.

For example, in the case of Radio 1 the service licence might include the amount of news and current affairs, the amount of UK music and the amount of new and specialist music, with reference to the overall scheduling strategy of that content. This would serve two purposes:

- Setting out clearly how Radio 1 is distinctive compared to other stations;
- Ensuring that any significant change to the character of Radio 1 – which might cause problems for other radio stations – can only go ahead after all those with an interest have had a chance to have their point of view considered.

- 5.2.2 The service licence is the most important means by which the Trust will hold the Executive to account for delivery of individual services. It also provides the link between the BBC's public purposes and its services. For that reason, each service licence will set out how the service contributes to achieving the Trust's priorities. And they will include indicators the Trust will use to judge the service's performance.
- 5.2.3 One of the most important functions of the service licence is to provide clarity and certainty to licence fee payers and the wider broadcasting market about what each service will deliver. So service licences will set out all the most important characteristics of an individual service. And, when a proposed change to a service licence constitutes a significant change to the service the Trust will need to conduct a Public Value Test before deciding whether to approve it. However, the Public Value Test is not designed to be applied to day to day editorial decisions.
- 5.2.4 In addition, in order to ensure that service licences properly reflect the interests of the licence fee payer, there will be public consultation on all service licences before they are issued.

What will be in a service licence?

Although the format may vary from service to service, a typical service licence would include the following information:

- The aims and objectives of the service, including the contribution it makes to the BBC's public purposes and its role within the wider market;
- Where the service will be available, how it will be delivered, and, where applicable, its target audience;
- The composition of the service: which might describe expected amounts and scheduling of different types of programming – for example news in peak or new music in daytime;
- Information about the service's budget;
- How success will be judged.

- 5.2.5 In the normal course of business, service licences will be subject to periodic review by the Trust. However, if it becomes apparent to the Trust, from its continuous involvement with licence fee payers, that a particular service is not delivering what licence fee payers expect, the Trust will have the power to initiate a special review of the licence.
- 5.2.6 In most cases, the decision about whether a service licence is needed should be clear-cut: all television and radio services, for example will require a service licence. In some cases, however, it might be harder to tell: examples raised in consultation on the Green Paper included a new media player, providing content through a mobile platform. Under these circumstances, the decision will be up to the Trust: however, in reaching its decision it will need to look outwards – beyond purely internal BBC operational needs – and base its conclusions on what would make most sense to licence fee payers and others who might be affected by the proposal. In doing so, it will take three considerations into account:
- If a new activity involves selection or commissioning of content and its scheduling or distribution it is more likely to need a service licence;

- The importance of delivering the greatest benefit and clarity for licence fee payers and making the decisions which best reflect their tastes and needs;
- The importance of providing certainty about the scope of the service for, and opportunities for consultation with, other operators in the market place.

Reviews

Reviews will take account of a number of factors including:

- Changes in the Trust's priorities;
- Changes in technology and audience behaviour;
- Changes in the broadcasting and wider sectors which mean that the balance of public value and market impact has shifted significantly.

The Trust will carry out a public consultation as part of its review.

- 5.2.7 And it is important to note that all significant changes in the BBC's services will require a Public Value Test, regardless of whether they involve the issuing of new service licences.
- 5.2.8 There may also be significant activities that the BBC carries out that are not really services as such, but which nevertheless raise issues of public value and might have implications for the wider market. Examples might include the BBC's proposed move to the North West. Such decisions would not be subject to a Public Value Test – the Government believes that it is essential the BBC has the freedom to invest to deliver its public purposes. However, the Trust would continue to apply to such proposals its core principles, at the heart of which are engagement with licence fee payers and other stakeholders, and the delivery of value for money.

5.3 The Public Value Test

- 5.3.1 Over the lifetime of the next Charter, it is likely that the BBC will face the challenge to modify the range of services it provides in order to respond to, and often lead, changes in technology, culture and audience behaviour: to remain relevant to its audiences, the BBC will need a degree of flexibility to adapt to a changing environment.
- 5.3.2 However, that flexibility must be complemented by measures to ensure that the BBC's activities are consistent with a vibrant and dynamic commercial sector. The Public Value Test is a key part of the White Paper's balanced package.
- 5.3.3 In the Green Paper, we proposed that all new services and significant changes to existing services should be subject to a Public Value Test. The test, which would be applied by the BBC Trust, would involve weighing up the "public value" – explained further below – of the proposed change against its impact on the market, including both commercial and not-for-profit concerns. In the case of new services, we said that the market impact assessment should be carried out by Ofcom: for significant changes to existing services, it would be commissioned by the Trust based on a methodology agreed with Ofcom. In every case, the results would be published.

5.3.4 As a result of important issues raised with us during public consultation, and evidence submitted to the special House of Lords Select Committee on Charter Review, we have recognised the overwhelming need to provide reassurance that the system can cope with unpredictable developments in technology and audience behaviour over the next decade. We therefore confirm the principle that **all** proposals for significant change to existing services or for new services should have the benefit of the scrutiny provided by the Public Value Test. Whether a proposal is significant or not will be determined by the Trust with reference to clear criteria (see box). This should not be a constraint on service provision – it is intended to capture the impact of service re-design.

When is a proposal “significant”?

In most circumstances, the decision about whether a change is significant will be straightforward. However, where it is less clear, the Trust will need to make a judgement, taking the following questions into account:

- Impact – the extent to which it is likely to affect others in the marketplace, or licence fee payers;
- Scale – generally measured in financial terms;
- Novelty – whether it is a brand new area of activity for the BBC, as yet untested;
- Duration – how long the activity will last;

The Trust will exercise due diligence in making its decision: this might mean, for example, consulting the industry to find out whether a proposal has the potential to have a significant market impact.

Market impact assessments

5.3.5 The market impact assessment will be critical in considering whether a particular proposal may limit choice for consumers by constraining innovation and development in the wider market. In the Green Paper we proposed that the market impact assessment for a Public Value Test would be conducted as follows:

- For new services, the market impact assessment would be conducted by Ofcom;
- For significant changes to existing services, the Trust itself would conduct the market impact assessment, although it would need to agree the methodology with Ofcom;
- The results of the market impact assessment would be published.

5.3.6 As a result of views we received during consultation, we have refined the arrangements for carrying out market impact assessments, based on the following principles:

- The fundamental role of the Trust in upholding the public interest;
- The need for the Public Value Test to win the confidence of those outside the BBC;
- The need for the market impact assessment to generate the right kind of information to allow the Trust to weigh up market impact and public value;
- Making the most of Ofcom’s considerable expertise in assessing competition and market impact in the broadcasting and communications industries.

- 5.3.7 In the light of these principles, we have decided that whenever the Trust carries out a Public Value Test, Ofcom will be responsible for providing the market impact assessment, which will be published. In doing so, Ofcom's work will be overseen by a steering group drawn jointly from the Trust and Ofcom (with independent members where agreed), and will operate a methodology agreed by the steering group. As the new arrangements bed down, we expect the Trust to develop a partnership with Ofcom, drawing on its valuable advice to support the decision-making process.
- 5.3.8 In the Green Paper, the Government indicated that it would consider whether the Public Value Test should set a threshold beyond which the market impact of a particular service might be deemed completely unacceptable – for instance if it risked foreclosing a new market or significantly lessening competition. We have sympathy with the view of the special House of Lords Select Committee on Charter Review that “if a market impact assessment indicates that the launch of a new BBC service will risk stifling a new market then the new service should not be launched”⁵. The risks identified by the Select Committee must be taken seriously, but the whole thrust of the new competition regime for the BBC means that the Public Value Test should provide both the mechanism and the rationale for the BBC's decision making.

Public value assessments

- 5.3.9 The Public Value Test will require the Trust to weigh up market impact – positive and negative – against “public value”. Market impact is a relatively well-understood concept, and the joint steering group will agree a methodology for Ofcom to generate the information required by the Trust. The concept of “public value”, however, is less well defined – a point that was raised frequently in public consultation. The Government recognises the importance of having a sufficiently clear understanding, to generate the rigour on which external confidence in the test, depends.
- 5.3.10 In this context, “public value” is a measure of the extent to which a proposed service is in the interests of licence fee payers. It should comprise an assessment of the following factors:
- The value licence fee payers would place on the service;
 - The value the service delivers to society as a whole through its contribution to the BBC's public purposes and priorities;
 - The value for money delivered by the service – including a consideration of whether licence fee payers might benefit from a corresponding reduction in the licence fee.
- 5.3.11 The Government expects the Trust to take account of the principles of the Work Foundation's “Public Service Performance Model” as a basis for assessing public value.
- 5.3.12 The Trust will be responsible for assessing the public value of a proposal. In many cases, the Executive Board may have a role in gathering evidence that would enable the Trust to carry out its assessment, for example by running limited pilots. However, there will be an expectation that the Trust will subject the Executive Board's work to objective scrutiny and seek independent advice where appropriate.

⁵ *The Review of the BBC's Royal Charter*, Volume 1: Report, House of Lords Select Committee on the BBC Charter Review, para. 228.

5.3.13 During consultation a number of concerns were expressed about the BBC's plans to pilot various proposed services – for example, the Creative Archive and “ultra-local television services” – before subjecting them to a full Public Value Test. There is a perception that the pilots may themselves have an adverse market impact, because of their scale and duration, and that a pilot might be simply extended into a full-blown service without the opportunity for public scrutiny. The ability to pilot new services has the potential to generate useful data to assist a Public Value Test. However, the Trust will need to be satisfied that any pilot proposed by the Executive Board is of the smallest possible scale and duration to deliver the required information and there should be a general presumption that, where practical, a pilot will come to an end before any decision on a Public Value Test is taken.

Approving new services

- 5.3.14 In the Green Paper we proposed a power for the Secretary of State for Culture, Media and Sport to intervene when he or she considered that the Trust had not followed the defined process for approving new services.
- 5.3.15 We confirm that policy in this White Paper: following completion of a Public Value Test, if the Trust wished to proceed with a particular new service, it would make a recommendation to the Government to that effect. If it was apparent to the Secretary of State that the Trust had not followed the approval process properly, he or she could withhold agreement to the new service. The Secretary of State would not, however, have the power to require the Trust to change a decision it had made following the proper conduct of the assessment process.

The BBC's current plans

- 5.3.16 In October 2005, the BBC published a consultation paper seeking views on its own detailed proposals for a system of service licences and the operation of a Public Value Test. The purpose of this consultation is two-fold: to inform the operation of a Public Value Test by the existing Board of Governors, and to provide the new Trust with evidence to help it get its new systems in place as early as possible. The Government welcomes the BBC's work as an important contribution to the debate. However, any final decisions on the detailed operation of service licences and the Public Value Test will be for the new Trust to take, within the framework provided by the new Charter and Agreement.

6. Regulating competition

- 6.1.1 The BBC by definition has a very significant effect on the broadcasting market – the market would look very different if the BBC were not there. This has always been the case: indeed, the BBC was the UK’s only national broadcaster for about thirty years before the launch of ITV in 1955. The country has chosen, among other measures, to maintain a large, publicly-funded broadcaster, in the shape of the BBC, to help deliver the benefits of public service broadcasting.
- 6.1.2 Charter review has confirmed widespread public support for this intervention: the BBC commands a degree of public affection that transcends traditional arguments of market failure: it is unique, adds value in its own right and has undoubtedly helped to set the high standards of quality for which UK broadcasting is rightly renowned. Accordingly, the Green Paper confirmed that the BBC would be given a new Charter for a further ten years and be funded by the licence fee⁶ for that period. The Government considers this to be in the public interest, but it must be balanced with consideration for competition.
- 6.1.3 The BBC’s effect on the market has always been constrained by competition law. However, the rapidly developing media world, with the associated expansion of choice and competition, puts a premium on defining the BBC’s role more clearly than ever before. This Charter review offers us the opportunity to put in place the right relationship between the BBC and rest of the market and – even more importantly – ensure that it can be re-adjusted as necessary during the lifetime of the next Charter.
- 6.1.4 Many of the measures we have described so far – the framework of purposes, service licences, content characteristics and the Public Value Test – are important components of the new regime. However, there is one further major area that needs to be addressed in order to locate the BBC’s role in the context of the market: the BBC’s impact on competition.
- 6.1.5 The starting point for our policy is the fact that many of the BBC’s activities have the potential to have an impact on competition. That is not surprising: as we have made clear, the BBC as a whole represents a deliberate public policy intervention in the market, and the BBC is already subject to competition law and independent regulatory oversight (see box).

The Green Paper set out the existing framework for regulating the BBC with respect to competition. It comprises the following elements:

- The BBC is subject to competition law and Ofcom has the same *ex post* Competition Act powers over the BBC as it has over any other broadcaster;
- The Office of Fair Trading (OFT) can similarly get involved in competition issues whose implications extend beyond electronic communications;
- The BBC’s commercial services are subject to an additional fair trading regime, with aspirations that go beyond competition law, overseen by the Board of Governors.

⁶ The vast majority of the BBC’s public funding is derived from the licence fee. A small proportion is supplied as direct grant-in-aid from the Foreign and Commonwealth Office to fund the BBC World Service.

- 6.1.6 A number of concerns have been raised about the operation of the current system. Ofcom and the OFT are concerned that their existing *ex post* competition powers are insufficient to regulate the BBC. They make the point that *ex post* powers often take time to apply and can be ineffective in preventing competitive damage. And, as we made clear in the Green Paper, there is widespread concern among the industry that the fair trading rules are unclear, and are often seen as making it more difficult to raise complaints and follow them through.
- 6.1.7 In developing our policy, we have taken account of three factors:
- The role of the Trust in upholding the public interest and delivering value to licence fee payers;
 - Ofcom's considerable expertise in broadcasting competition issues;
 - That we are establishing the Trust to oversee and regulate the Executive Board. Any new arrangements must not cut across the Trust's responsibilities or undermine the clear separation between the Trust and the Executive.
- 6.1.8 The BBC will therefore be required to deliver its responsibilities to the licence fee payer within a new market framework:
- A duty, to be set out in the new BBC Charter, for the Trust to have regard to competition issues in ensuring the delivery of the BBC's public purposes;
 - An overhauled fair trading regime;
 - A new system of *ex ante* codes in specific areas, operated by the Trust and drawn up by them in consultation with Ofcom;
 - A new complaints regime.
- 6.1.9 All of this will be underpinned by Ofcom's role in conducting market impact assessments for new services and significant changes to existing services, a strong requirement for the Trust to ensure that the BBC is transparent in all its financial dealings, and the need for financial information to be presented according to the highest standards and the very best practice.

New fair trading regime

- 6.1.10 In the debate that led up to the publication of the Green Paper, it was clear that there were serious concerns about the effectiveness of the operation of the BBC's fair trading arrangements. In the Green Paper, we sought views on whether these should be retained in their current form. In the light of views we received on the Green Paper, the Trust will be required to develop and consult on a new fair trading regime that embodies the following principles:
- It should cover the BBC's publicly-funded as well as its commercial services;
 - It should be clear about the distinction between statutory requirements and voluntary undertakings;
 - It should set out who – the Trust, Ofcom, the OFT or the European Commission (which is the final arbiter of issues relating to State Aid) – is responsible for what.

Ex ante codes

- 6.1.11 In the Green Paper, the Government set out its view that it was not appropriate to give a new, open-ended *ex ante* competition power to Ofcom, as this would cut across the Trust's overriding duty to hold the Executive Board to account in the public interest. The Government undertook, however, to consider the case for more tightly defined powers in specific areas.

Ex ante or ex post?

In broad terms, *ex ante* regulation involves setting out rules or codes to prevent behaviour which raises competition concerns before it happens.

Ex post regulation involves dealing with complaints about alleged anti-competitive behaviour after it has taken place.

- 6.1.12 Our public consultation and subsequent discussions with stakeholders have confirmed that a form of *ex ante* regulation of the BBC is required, to supplement the existing *ex post* framework, and that this should extend to the BBC's public services.
- 6.1.13 We will therefore extend *ex ante* regulation to the BBC in the form of codes in what the Government expects will be specific and tightly-defined areas. The responsibility for drawing up and enforcing the codes will fall to the Trust, as the body best placed to balance the achievement of the BBC's public purposes against the effect on competition of BBC activities. The Charter and Agreement will require the Trust to formulate *ex ante* codes in areas of the BBC's services that, in its view, have the potential to raise competition concerns. The Trust will be required to take account of Ofcom's views in deciding which areas should be covered and in formulating the codes themselves. This means that, as a starting point, the Trust will need to consider whether any *ex ante* codes that Ofcom applies to licensed broadcasters should also be applied to the BBC – suitably modified, where necessary, to reflect the BBC's publicly funded status. It will also need to consider and respond to any specific concerns which Ofcom raise in relation to the BBC's activity, and, should it ever fail to follow Ofcom's advice, make clear its reasons. The Trust will need to ensure that it has access to the necessary competition expertise: and we expect it to work closely with Ofcom to take advantage of the advice it offers, avoiding the costs of unnecessary duplication.

Cross promotion

The Government believes that it is important that the BBC should continue to promote its services on-air so that licence fee payers are aware of specific programmes and the breadth of the BBC's overall offering. BBC promotion has also played an important role in driving the take up of digital TV and radio. Research by BBC and Ofcom suggests that the BBC's on-air promotion is not excessive in comparison with other broadcasters, and that viewers and listeners generally find on air promotion helpful, though there is a small number who are annoyed by it. The Trust will be responsible for ensuring that the nature and extent of on-air promotion remains appropriate.

However, Ofcom has identified a potential area of concern in the case of cross promotion between digital platforms. This is an example of where we expect the Trust, in

consultation with Ofcom, to formulate an *ex ante* code to ensure that effective regulation might be extended across the whole broadcasting sector.

Other potential areas of concern that have been raised during consultation include:

- Exclusivity in BBC broadcasting contracts which result in an undue distortion of competition (e.g. excessive rights hoarding);
- Improper use of proprietary distribution technology to distort competition (e.g. in downstream content services);
- Undue discrimination in the supply of non-replicable content (e.g. archive programming);
- The terms on which transactions are conducted between the BBC licence fee funded and commercial services.

6.1.14 The new codes will provide an additional level of protection on top of the *ex post* competition framework. Both Ofcom and the OFT will retain their existing powers under the Competition Act. The codes will act as a form of filter, seeking to prevent problems before they arise. Because *ex post* competition law will continue to apply we see no requirement for an appeal in relation to the operation of the codes by the Trust. In addition, we expect the BBC to be open to judicial review in discharging its responsibilities under the Charter and Agreement in this respect as in any other – see paragraph 9.11.1 for further detail on the BBC and judicial review.

6.1.15 In order for these arrangements to operate effectively and credibly, it is essential that potential complainants have confidence that any commercially sensitive information which they make available to the Trust is not passed to the BBC Executive or divulged more widely. The Trust will be under a duty to put in place the necessary measures to ensure this requirement.

Fair Trading complaints

6.1.16 The principles that the Trust will enshrine in its complaints procedures are:

- Clear guidance explaining how the complaints system works. This would include a description of all the routes open to complainants, including the scope for a Competition Act complaint to Ofcom or the OFT;
- When an issue comes before the Trust, equality of treatment between the complainant and the Executive Board;
- Full separation of advice, including legal advice, provided to the Trust and the Executive Board;
- A clear statement of the remedies the Trust might apply.

6.1.17 We believe that these arrangements strike the right balance between using the competition expertise resident in Ofcom and the OFT and the central role of the Trust in upholding the public interest. Setting out in advance how the rest of the market can expect the BBC to behave will provide an important new lever of public accountability. We believe it will be essential that the BBC Trust develops a strong partnership with other regulators, principally Ofcom, as well as other external sources of expertise, to help it do its job.

7. Commercial Services

- 7.1.1 The BBC is first and foremost a public service broadcaster. However, much of what it produces using licence fee payers' money – e.g. TV programmes – has continuing value which can be exploited in the interests of licence fee payers. That is why the BBC has been allowed for many years to run commercial services with a view to returning value to licence fee payers – for example, by reinvesting in programmes, thereby reducing pressure on the licence fee.
- 7.1.2 The Green Paper set out a clear policy, backed up by strong findings from consultation and research, that the BBC should continue to relieve pressure on the licence fee by generating commercial income. It should seek to maximise commercial revenue, in appropriate areas, to reinvest in programming and talent to the benefit of licence fee payers. However, the Green Paper also proposed new boundaries on the BBC's commercial activity, based on four principles:
- Fit with the BBC's public purposes;
 - Commercial efficiency;
 - BBC brand protection;
 - Avoiding market distortion.
- 7.1.3 Public consultation on the Green Paper has confirmed that these are the right criteria. While the majority view was widespread support for 'all responsible methods' of increasing the BBC's income, most respondents believed that commercial services must not be prioritised at the expense of the core duties of public service.
- 7.1.4 In future, the BBC Trust will be responsible for holding the Executive to account for complying with the criteria. There may well be objective or quantifiable parts of the assessment against individual criteria, but the overall decision will inevitably be a matter of judgement. The Trust will need to assure itself that systems are in place to cover the interpretation and application of the criteria – for example, when assessing the compliance of individual magazine titles with the first criterion, it might consider the extent to which editorial content aligns with programme output. And, in assessing the second criterion, it should consider whether better value for money might be obtained by selling individual commercial services or closing them down.
- 7.1.5 The Trust will require the Executive to demonstrate how a particular service is delivering the best possible return for the licence fee payer, with reference to comparable operators in the individual market, and it will challenge the targets the Executive proposes. And it will require the Executive to submit, as part of the separately published annual report and accounts, a full and open assessment of the performance of the commercial services, including a statement of compliance with the four criteria.
- 7.1.6 We stated in the Green Paper that new BBC commercial services should no longer require the approval of the Secretary of State. Instead, the Trust will assume the responsibility for commercial approvals on substantially the same basis as that currently exercised by the Secretary of State. The Trust will make clear the factors it will take into account in deciding whether a proposed activity should be referred for prior approval.

- 7.1.7 It is important that licence fee payers should have access to information on how money moves between the different parts of the BBC. It is also important that there should be no cross subsidy from the BBC's public services to its commercial activities. Appropriate safeguards will be put in place, including fully separate accounts and clear terms on which transactions are conducted between the public services and commercial activities. In this context, we expect the Trust to build on the new standards set by the latest Report and Accounts for BBC Worldwide, which provide a greater degree of detail and clarity about the BBC's commercial activities than has previously been the case.

On-air trailing

In line with the Green Paper, we welcome the BBC's decision to end on-air trails of its magazines – an activity that has given rise to significant concern amongst other magazine publishers, largely because of the scale of BBC Magazines in the market place.

We agree, however, that licence fee payers may find it helpful to see trails for other products – books and DVDs for example – which are directly related to individual programmes. The evidence we have considered from public consultation, research and, in particular, Lord Burns' public seminar on this issue has confirmed that trailing these products is less controversial than trailing magazines: the BBC's position in the markets concerned is less significant, there is more scope for the products in question to be produced by other companies and they tend to be one-off titles rather than periodicals.

The Trust will keep this issue under review.

8. Production and organisation

- 8.1.1 The Green Paper was clear about the need for the BBC to maintain its position as a broadcaster that caters for each and every viewer and listener, through mainstream as well as more specialised programming. We made clear that it will continue as a publicly-funded public service broadcaster of real scale, with a responsibility to deliver a range of services across a variety of platforms, and to make a wider contribution to its public purposes, for example:
- The degree to which a publicly-funded BBC should be expected to benefit the broadcasting industry as a whole, through its contribution to technological research and development and to training;
 - How the BBC can distribute the economic benefit of the licence fee so that it better reflects the distribution of licence fee payers across all nations and regions.
- 8.1.2 We remain fully committed to this vision of a BBC of scale and scope for the forthcoming Charter period, in which the licence fee is used as venture capital for the nation’s creativity.
- 8.1.3 At the same time, the Green Paper set out the principle that licence fee payers should benefit from the best available content – television and radio programmes and new media content – whatever the source. The BBC has a proud reputation for making its own excellent programmes, often defining the standard for their era and in their fields: from hugely popular soaps like *Eastenders*, landmark factual programmes like *Panorama* and *Horizon*, to ground-breaking comedy like the *Young Ones* and *Little Britain*. The BBC has also produced great programmes in collaboration with others: recent examples include *Life in the Undergrowth* and *Bleak House*. And much of its most innovative and popular content has been commissioned from producers outside the BBC: *Spooks*, *Who Do You Think You Are?*, *The Apprentice* and *Have I Got News for You* to name but a few.

8.2 Independent television production

- 8.2.1 In the Green Paper, we set out a clear principle that the BBC needs to maintain a significant base of in-house production to sustain its wider public contribution. However, if it wishes to broadcast the best programme in every slot, and make the most efficient use of resources available across the industry, the BBC also has a responsibility to adopt the most meritocratic commissioning process possible.
- 8.2.2 The Green Paper described a range of options available to achieve this broad policy objective. They included such measures as altering the existing independent production quotas, or changing the way they are measured. They also included the BBC’s proposal for a “window of creative competition”, or WOCC, which would open up a further proportion of the BBC’s network commissioning to competition from external producers.
- 8.2.3 We received a range of views on this issue. The Producers Alliance for Cinema and Television (PACT), the trade body for independent producers, took the view that the WOCC represented a “significant step towards the BBC’s stated aim of investing in the best ideas and the best talent, whether they come from inside or outside the BBC”. The special House of Lords Select

Committee on Charter Review also supported the WOCC, provided that it was monitored carefully by the Trust⁷. And in its review of the television production sector consultation document⁸ Ofcom endorsed the WOCC in principle. Others emphasised the importance of maintaining a critical mass of in-house production.

- 8.2.4 As we stated in the Green Paper, the existing system of quotas for independent television production has done much to help build a thriving sector. Our new arrangements will accommodate it flexibly, including any future changes in the level of the quota. However the Government believes that encouraging competition through the introduction of the WOCC, combined with a strong and sustained in-house capacity, supporting a critical mass of in-house production at appropriate levels for individual genres, is the best way of ensuring that the best programmes reach the screen, while also helping to develop and sustain a plurality of content providers to the benefit of the BBC, the wider market and the UK as a whole. The principles that will govern the operation of the WOCC are set out in the box.

The principles of the WOCC

A significant proportion of commissions – enough to provide the scale the BBC needs to deliver its wider public service contribution – will be reserved to in-house production. This “in-house guarantee” will be set at 50%.

There will also be an “indie guarantee”: the proportion of commissions offered exclusively to independent production companies, either directly or for competition within the independent sector. This will be set at the level of the existing independent production quota (currently 25%) – but can change if the quota changes.

The WOCC represents commissions offered for open competition to all comers: BBC in-house production, independent producers and other external producers. The BBC will aim to ensure that the WOCC and the indie guarantee together will add up to 50% of total commissions, as measured by hours.

- 8.2.5 The Trust will ensure that there is proper separation between the commissioning and production functions of the Executive and that there is equal access to the commissioning structures, and fair treatment in the process, for in-house, independent and other producers.
- 8.2.6 The Trust will be required to review the performance of the WOCC regularly. In doing so, it will follow the principle that the WOCC should deliver range and diversity, providing genuine opportunity for all types of independent producer (as well as the BBC itself) from all parts of the UK and across a wide range of output. In doing so, it may draw on external expertise and data, including that generated by Ofcom in its role in relation to the relevant quotas, and take into account the wider policy content.

⁷ *The Review of the BBC's Royal Charter*, Volume 1: Report, House of Lords Select Committee on the BBC Charter Review, para. 267.

⁸ Ofcom: *Review of the television production sector: a consultation document* 10 January 2006 www.ofcom.org.uk

8.3 Independent radio production

- 8.3.1 The Green Paper sought views specifically on whether the BBC's existing arrangements for independent radio production were sufficient, or whether there was a case for increasing the voluntary quota or making it mandatory. The views that we received on this point were divided: independent radio producers argued strongly for a binding quota, covering the whole of BBC radio's output and, ultimately, set at the same level as that for independent television production. PACT took a similar view. Many others, however, regarded the voluntary 10% quota as sufficient, although there were calls for it to be kept under review.
- 8.3.2 The starting point for the Government's policy is that the objective in radio should be the same as in television: ensuring that the audience gets the best possible content, via the right mix of competition for ideas and in-house production capacity. However, as noted in the Green Paper, the two markets are very different. The BBC is much more significant as a commissioner in the radio sector even than it is in the independent television market, although this may change as the popularity of DAB increases, and with it the proliferation and diversity of radio stations available to the listener. Moreover, the BBC has consistently exceeded its radio quota since it was introduced. There is a strong argument, therefore, that making the voluntary quota binding in itself would serve little purpose – indeed, it might act as a disincentive to the BBC to build partnerships with the sector. Nevertheless, we believe it is important that, where possible, competition for quality should be encouraged in the interests of bringing the best programmes to listeners.

Radio indies and the BBC

The BBC has for many years operated a voluntary quota of 10% for independent radio production across a range of qualifying genres. It has consistently exceeded that quota – for example, in 2003/04, about 12% of “eligible hours” came from independent radio producers, with a total value of approximately £12.9m.

As we noted in the Green Paper, the BBC has decided to extend the programming covered by the quota – the “eligible hours” – to cover sport, radio in the Nations and the new digital radio stations, resulting in an additional 3,000 hours of independent production annually. We welcome this development, and the new terms of trade for independent radio producers published in August 2005.

- 8.3.3 We will therefore place on the Trust an overall duty of ensuring that independent radio producers have the opportunity to contribute fully to the BBC's provision of the best possible programmes for listeners.
- 8.3.4 We expect that, in order to meet this general obligation, the Trust will want to continue setting a voluntary quota of at least the existing level. It will also wish to consider other means of increasing opportunities. In this context, we welcome the BBC's commitment to operate a “window of creative competition” for Radio 4, and expect it to identify further opportunities in the future. The Trust will be required to keep the position under review. We also welcome the BBC's extending eligible hours to cover sport, radio in the regions and the

new digital radio stations. It may wish to seek further extensions over the lifetime of the next Charter, reflecting its general obligations.

8.4 Independent production for BBC Online

- 8.4.1 As we reported in the Green Paper, the BBC has adopted Philip Graf's recommendation⁹ that 25% of BBC Online's content should be produced externally. It has, accordingly, set a 25% quota, measured by spend. This measure was also supported by the special House of Lords Select Committee on Charter review.¹⁰
- 8.4.2 Consultation on the Green Paper generated little comment in this area. However, we will ensure that similar principles are adopted for online content as for radio: where possible, competition should be encouraged as it is likely to bring the best content to audiences. As a minimum this should include a voluntary quota for independent production.

8.5 Training

- 8.5.1 As we set out in the Green Paper, the Charter and Agreement will provide for the BBC to continue to invest in training on a significant scale. This will be a vital part of the BBC's contribution to quality production. It will need to develop its training strategy in line with the new obligations placed on it by the Charter and Agreement, notably the operation of a WOCC system for independent television production, and the increasing importance of new media to the delivery of its public purposes.
- 8.5.2 The BBC is the biggest employer in our audio-visual industries. In preparing and maintaining a highly-skilled media workforce, therefore, the BBC's training strategy will make a significant contribution to its new public purpose of stimulating creativity. Training in a range of portable skills is crucial if we are to maintain the dynamism of our creative industries. The BBC's contribution will support competitiveness and productivity across the industry and the development of skills across all communities of the UK. Responses to the consultation on the Green Paper demonstrated widespread support for the BBC's role as described.
- 8.5.3 It will be for the BBC Trust to ensure that the BBC's investment in and strategy for training and skills develops over time to match the needs of the BBC and the wider industry, drawing on periodic expert review as necessary.
- 8.5.4 In recent years, National Skills Strategies have been developed across the UK in order to sustain a competitive, productive economy, with Sector Skills Councils at their heart. Skillset is the industry-led and Government-licensed, UK-wide Sector Skills Council for the audiovisual industries. The Government welcomes the BBC's current commitment to Skillset and wishes to see the further strategic development of the BBC's training and skills policy for the wider industry and an exemplary contribution to the UK's skills agenda developed with and through them. The Government welcomes the BBC's decision to participate in and support the establishment of the new Broadcast Training and Skills Regulator and co-regulatory system in partnership with Ofcom, Skillset and the rest of the broadcast industry, as well as increasing its commitment, through this new structure, to freelance training.

⁹ Report of the Independent Review of BBC Online, May 2004.

¹⁰ *The Review of the BBC's Royal Charter*, Volume 1: Report, House of Lords Select Committee on the BBC Charter Review, para. 276.

Respect

The Government welcomes the agreement by the BBC and other broadcasters to provide mentoring and work experience opportunities for young people as part of the Government's Respect agenda.

8.6 Research

- 8.6.1 The Government remains of the view, set out in the Green Paper, that the BBC has a key role to play as a “centre of excellence” for the whole broadcasting industry. It should have the ability to carry out innovative research with the freedom that public funding allows and which may not always be available to market-funded and market-oriented companies. And it should be able to influence both policy and standards-making at national and international levels respectively, while complying with rules on state aid.
- 8.6.2 The Government looks to the BBC to build on these past successes and maintain its position as a risk-taker and world leader in this field – particularly as it delivers its new purpose of Building Digital Britain, including through its leading role in digital switchover. The special House of Lords Select Committee on Charter review agreed with this proposition¹¹.
- 8.6.3 The BBC's unique position also means it will be in a position to counter any trends towards the domination of proprietary technology by developing open standard alternatives, as well as being able to bridge market failures in the development and deployment of new systems within the broadcasting environment.
- 8.6.4 Under the new Charter, the Trust will need to consider how to maximise the public value to be derived from the BBC's research and development activities. It will need to ensure that an appropriate balance is struck between the potential for generating revenue through commercial exploitation of its intellectual property, and the value that might be delivered to licence fee payers and the UK economy by making new developments widely and openly available
- 8.6.5 We welcome the work the BBC is undertaking as part of its Technology Review, particularly its plans to focus its research and development more sharply on those areas where the market cannot provide, where the BBC is forced to use proprietary systems although the licence fee payer would get better value for money through the development and use of open standards, or where the BBC is in the best position to assume leadership and develop the market – including working more closely with partners where possible.

8.7 Regional Production

- 8.7.1 In the Green Paper, the Government set out its view that the BBC should ensure that 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, with the potential to deliver on-screen benefits for licence fee payers.

¹¹ *The Review of the BBC's Royal Charter*, Volume 1: Report, House of Lords Select Committee on the BBC Charter Review, para. 209.

- 8.7.2 For this reason, we repeat our welcome in principle for the BBC's proposals to move a significant amount of production to cities outside London, in particular to the North West of England. It is potentially a powerful means of furthering the BBC's representative purpose. It also has the potential to stimulate the regional media industry enormously, with benefits for the wider economy. It is clear, however, that the Trust will need to satisfy itself that the plans represent value for money on behalf of the licence fee payer. As we stated in the Green Paper, one of the guiding principles for decisions in this area should be efficiency and value for money. The Trust will need to satisfy itself that the BBC's current proposals represent the most cost-effective way of achieving the objectives of boosting the creative industries outside London, and giving the BBC a greater UK-wide focus.
- 8.7.3 The BBC will also wish to explore the scope for maximising the benefits of partnerships in the nations and regions, particularly with ITV and local co-ordinating bodies like the Regional Development Agencies, with a view to keeping to a minimum the cost to the licence fee payer.

9. The BBC Trust and Executive Board

- 9.1.1 The British people own the BBC. They have invested through the licence fee in what has become a trusted and admired broadcaster. The Government believes that the best system of governance for the BBC is one that recognises this unique relationship between the BBC and the British public. The new BBC Trust will represent the interests of the licence fee payer more clearly than the existing Board of Governors and the new system will be more transparent, independent of Government and more outward facing. It will clearly separate the current Board of Governors' dual and sometimes conflicting roles of representing both the public interest and the BBC management.
- 9.1.2 Licence fee payers are the BBC's shareholders. They cannot express their views directly by selling their shares or by voting down the board – so their interests need to be represented by a body whose purpose is to understand, capture and bring to bear the public interest on the activities of the BBC. This body will be the BBC Trust. Its job will be to defend the interests of licence fee payers, not those of BBC management.

Principles of good governance

The new model supports these principles because it:

- Is founded unequivocally in the public interest;
- Is appropriate for an organisation built on creativity;
- Strengthens and protects the independence of the BBC;
- Is genuinely open, transparent and objective;
- Ensures appropriate accountability for the public's money;
- Commands public confidence, and involves the public adequately in decision-making;
- 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);
- When conducting assessments of impact, uses criteria that allow direct comparisons with the rest of the broadcasting market;
- Is clear about the distinction between governance and regulation and has structures which support both;
- Is clear about the respective roles of Executives and non-Executives and embodies this in ways of working;
- Incorporates adequate mechanisms for audit, complaints etc.

- 9.1.3 We set out in the Green Paper why we needed to reform the existing system, and our guiding principles, as developed by the independent panel on Charter Review led by Lord Burns¹² (see box). We explored options that had been proposed by the panel, by the BBC and by other stakeholders. We concluded that the best way to resolve the conflicts of the current system was to replace the existing Board of Governors with two new bodies: the BBC Trust and the Executive Board. Each will have different roles and responsibilities, set out in the new Charter and Agreement.

“To suggest that you can just pick up the combined code and impose it on an NHS Trust Board or the BBC I think is missing the point”

Sir Derek Higgs

- 9.1.4 The new arrangements take account of the Combined Code on Corporate Governance¹³, but are specific to the BBC. This is consistent with evidence¹⁴ given to the special House of Lords Select Committee on Charter Review by Sir Derek Higgs, whose report on corporate governance informed much of the Code.
- 9.1.5 Our proposals received broad public support in principle, and we confirm it as our model of conviction. However, there were widespread calls for more explanation and clarity about the new structure and the roles of the Trust and Executive Board, which we set out in the following sections.

Who will be the BBC?

- 9.1.6 Under the new Charter, both the Trust and the Executive Board will formally be part of the BBC. This reflects the fact that there will be two different bodies with important roles which together make up the BBC. However, the Charter will also make clear that their respective responsibilities are very different. The Trust and Executive Board will operate and take decisions separately but, between them, will have responsibility for everything the BBC does.
- 9.1.7 The Trust will be the sovereign body of the BBC and this will be made clear in the new Charter. In simple terms, this means that where the Trust and the Executive Board disagree, the Trust’s word is final. It does not mean that the Trust can exercise the Executive Board’s functions itself.

9.2 Separation between the Trust and Executive Board

- 9.2.1 The new system is designed to strengthen the BBC’s independence from Government. It will create a new line of accountability – from the new Trust directly to the licence fee payer. This new accountability will be reinforced by very clear separation between the Trust and the Executive Board, coupled with an unprecedented obligation to openness and transparency.

¹² *Emerging themes* December 2004 http://www.bbccharterreview.org.uk/pdf_documents/041130_emerging_themes.pdf

¹³ The Combined Code on Corporate Governance, Financial Services Authority, July 2003.

¹⁴ House of Lords Minutes of Evidence Taken Before the Select Committee on the BBC Charter Review, 5 July 2005, Dr. Dieter Helm, Sir Derek Higgs and Sir Robert Phillis, Sir John Bourn, Questions 1263-1349. See p. 3.

This will help remove the potential conflict of interest inherent in the role of the current Governors as both champion and judge of the BBC management.

- 9.2.2 This clear separation will be achieved through the distinct and different roles of the Trust and the Executive Board, embodied within the new Charter and Agreement. The new system will deliver effective oversight of the Executive Board's activities by the Trust, in the public interest; at the same time, it will prevent micro-management of the Executive Board's activities by the Trust in a way that would distract from the Trust's strategic role.

What's in a name?

In the Green Paper, we explained that the '**BBC Trust**' was a working title.

However, since the Green Paper was published, people inside and outside the BBC have accepted this title and become used to it.

The BBC Trust is not a 'Trust' in a legal sense. Its members are not trustees of any property. But, importantly, the title does accurately denote the body's role as guardian of the public interest.

The new **Executive Board** will include non-Executive members. But we think it's sensible to retain the title, because it is an expression of the Board's duty to execute the strategies set and decisions made by the Trust.

- 9.2.3 The key respective roles of the new bodies are set out in more detail at Appendix I.

9.3 The Trust

Trust members

- 9.3.1 Taking into account the range of its responsibilities, we have decided that the new Trust will have a Chair, a Vice-Chair and ten other members. Members will be appointed by Order in Council, which means that they will, like the current Governors, be appointed by the Crown on the advice of the Government. All new positions will be advertised and filled according to Nolan procedures. Trust members will be appointed for no longer than 5 years, and can be re-appointed for a further term, in line with best practice in public appointments.

Skills, experience and representation

- 9.3.2 There are two important questions about the membership of the Trust: firstly, what skills and expertise should its members have and, secondly, to what extent should it attempt to represent specific communities or groups?

- 9.3.3 Our public consultation and research¹⁵ demonstrated support for the Green Paper proposal that the BBC Trust should be drawn from a range of backgrounds and professional experience. Many respondents suggested other qualities that should be represented on the Trust, from an enthusiasm for watching TV and listening to the radio to experience of running a large non-media organisation. However, the quality respondents most often suggested was simply ‘good common sense’.
- 9.3.4 There is an even wider range of views about the extent to which the Trust should represent the UK population. We received many suggestions from various organisations and interest groups that they should be represented directly on the Trust – that they should have their own members. Our public consultation and research¹⁶ confirmed the Government’s view that seeking to make the Trust a directly representative body is neither necessary nor practical.
- 9.3.5 There is one exception to this general rule, however. The Trust will include individual members dedicated to the interests of each of the constituent nations of the UK – England¹⁷, Scotland, Wales and Northern Ireland. We have made this exception in the light of an overwhelming view from public consultation in favour of this proposal. However, even these members will be appointed for their wider expertise. The Government’s aim will be to appoint the best people to the Trust – those most capable of carrying out its challenging duties – regardless of their gender and ethnic or national origin. In addition, we would expect the composition of the Trust to reflect strongly the BBC’s relevance to the whole nation.
- 9.3.6 The Trust will need to be fit for the purpose of upholding the public interest in the BBC and holding the Executive Board to account. It will need people with the right expertise, including in the broadcasting and media industries (including new media); competition; the financial, legal, corporate or regulatory aspects of running large organisations; managing a large property portfolio; expertise in the areas covered by the BBC’s public purposes, including international affairs; and in delivering the accountability of such organisations to their stakeholders.

Running the Trust

- 9.3.7 The Trust will be responsible for its own dedicated support staff. It will also have access to its own legal advice and external expertise. The existing Governors have already taken steps in this direction by setting up their own “Governance Unit” and moving into separate headquarters. The Trust will need its own resources to carry out its strategic oversight role effectively – however, in meeting its costs, it will apply the same disciplines of economy as apply to the wider BBC.

¹⁵ BBC Charter Review Revised Report, Opinion Leader Research, November 2005, 22.

¹⁶ BBC Charter Review Revised Report, Opinion Leader Research, November 2005, 23.

¹⁷ We would expect the Trust member for England to have particular responsibility for ensuring that all the English Regions are represented in, and contribute to, the BBC’s services

Pay

Trust members

The level of pay for Trust members will be set by the Secretary of State to match the responsibilities of the job and the skills and expertise needed. Pay rates for these posts should be set at a level comparable with Ofcom board members.

Although Trust members are likely to be part-time, the time commitment required is likely to be significantly greater than that for existing Governors.

Executive Board

Non-Executives will be paid a flat rate, decided by the Trust, and the Trust will set the pay of the Chair of the Executive Board. For the rest of the Executive Board, the Trust will set out broad parameters – for example, setting a limit on the total size of the pay budget and ensuring that bonuses reflect performance and the expectations of licence fee payers. The remuneration committee of the Executive Board – made up exclusively of non-Executive members – will set individual levels of pay within those broad parameters.

- 9.3.8 Under normal circumstances, the Trust must meet to conduct its business, but it will be able to decide for itself where, when and how often it meets – although we would expect it to build on the existing practice of holding some meetings out of London, and providing opportunities for the public to feed in views – which might include holding meetings in public from time to time. It will publish its arrangements for doing business.

9.4 The Executive Board

- 9.4.1 The Executive Board will include mainly senior Executives, but with a significant minority of non-Executives. It will be chaired by the Director General or, at the discretion of the Trust, a non-Executive.

Non-Executives

- 9.4.2 At least a third of the Executive Board, and no fewer than four, will be non-Executives. The main job of the non-Executives will be to bring a wider perspective to the Executive Board's decisions, acting as a "critical friend". They will not be there to represent the BBC's "shareholders": that will be an important function of the Trust itself. Instead, they will give the BBC management the kind of support currently provided by the Governors – but which would otherwise be lost with the separation of the Trust and Executive Board. It will be open to non-Executives to alert the Trust to emerging issues.

The nominations committee

For the purposes of appointing Executive members, the nominations committee will be made up of the Director General, one further Executive and two non-Executives. Where necessary, the Director General will have a casting vote.

- 9.4.3 Except for the Chairman, who is appointed directly by the Trust, members of the Executive Board will be appointed on the recommendation of the Board's nominations committee (see box).
- 9.4.4 To get the right balance of expertise, non-Executives will be appointed according to Nolan procedures and the Trust will need to approve them. The terms of office of non-Executives will be decided and published by the Trust.

Running the Executive Board

- 9.4.5 In line with best practice, the Executive Board will be required to set up at least three committees: audit, remuneration and nominations. The audit and remuneration committees will be made up of non-Executives. In the case of the audit committee, the chair should have appropriate recent financial expertise and experience.

9.5 Sovereignty of the Trust: where does the buck stop?

- 9.5.1 At the heart of these reforms is a desire to make the BBC more transparent for licence fee payers and other stakeholders. It is critical that people outside the BBC know which part of the organisation is responsible for addressing their concerns.
- 9.5.2 The Trust will be the sovereign body within the BBC. What this means in practice is that the Trust's word is final. However, as we have already explained, the Trust and the Executive have clearly defined, and different, roles and responsibilities. Although the Trust embodies the public interest, in most cases the Executive will be best placed to address stakeholders' concerns in the first instance. Viewers' and listeners' enquiries about the daily running of the BBC's services will be dealt with, in the first instance, by the Executive. Public and commercial partners and competitors will also approach the Executive first in most cases.
- 9.5.3 There are some important exceptions to this, based on the special role of the Trust in bringing the public interest to bear on the BBC's activities. For example, when the Trust is considering the case for making a significant change to an existing service or approving a totally new service, it will ask the public, other broadcasters and interested parties to put comments to it directly. And when it is carrying out public consultation on service licence proposals it will engage directly with interested parties.
- 9.5.4 The most important thing is that it should be clear to people outside the BBC who it is they should talk to. The Trust will make this clear in a number of ways:
- Published protocols – setting out how day to day traffic will flow transparently between the Trust and the Executive Board;
 - Complaints procedures – the Charter and Agreement will require the Trust to determine and publish procedures for handling complaints, setting out how complainants might expect to be treated, for example in terms of response times and equality of access for both complainants and BBC management;
 - Contract of accountability with licence fee payers – setting out the means by which the Trust will engage with licence fee payers.

Ofcom's continuing role

9.5.5 The Communications Act 2003 gave Ofcom extensive regulatory powers over the BBC (see box). We see no case currently for diminishing Ofcom's role in this respect – it has conducted its responsibilities in a way which has generated a great deal of external confidence.

Ofcom's responsibilities in relation to the BBC

The BBC has 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.

9.5.6 In the Green Paper, we therefore made clear that we would want the new arrangements for the Trust to bed in before considering again the distribution of responsibilities for the regulation of standards and quotas. We confirm that there will be no changes in the current position until at least five years into the new Charter.

9.6 The BBC's commercial services

- 9.6.1 Although the BBC's commercial services are run as commercial subsidiaries, they will work to the same general principles that underpin the new system: transparency and accountability. In addition, the structures that are put in place will need to ensure complete separation between the BBC's publicly-funded services and those that it runs purely commercially and that there are no cross-subsidies between the two. This will include, for example, providing separate annual reports and accounts for the commercial services as well as ensuring that transactions with the public services are conducted on commercial terms.

BBC Worldwide Board

We welcome the BBC's proposals to restructure the Board of BBC Worldwide, which is responsible for all the BBC's operating commercial subsidiaries other than BBC Resources and BBC World. The Board will include Executive members and two types of non-Executive. "Independent non-Executives" will be those who hold no other position within the BBC's public or commercial services, whilst "BBC non-Executives" may have other roles within the Corporation (including being members of the Executive Board, but never of the Trust). There will be a significant minority of non-Executive members. The Board of BBC Worldwide will be chaired by an independent non-Executive and there shall be two other independent non-Executives.

9.7 The World Service

- 9.7.1 Our consultation on the Green Paper confirmed that the BBC World Service – part of the BBC's wider Global News division – is hugely valued by the general public, and considered to be a unique and irreplaceable part of the BBC's offer. But how does the World Service fit into the new governance structure?
- 9.7.2 Unlike the rest of the BBC's public services, the World Service is funded by direct grant-in-aid from the Foreign and Commonwealth Office (FCO). Its relationship with the FCO is defined by two key documents, a Broadcasting Agreement and a Financial Memorandum. Although the World Service has complete editorial and managerial independence, the Broadcasting Agreement requires the FCO and World Service to work together on the spread and mix of services. The FCO is responsible for agreeing performance measures for services delivered – in practice this means, for example, the markets covered, audience figures and audibility. The Financial Memorandum sets the financial framework within which the World Service operates.
- 9.7.3 Within the BBC, the World Service will be accountable to the Executive Board and, through the Executive Board, to the BBC Trust.

9.8 Accountability

- 9.8.1 The Green Paper set out a vision for a new kind of accountability: one in which the Trust would actively seek out the interests of licence fee payers and bring them to bear on the activities of the Executive Board. In the Green Paper we suggested a number of tools that the Trust might use to achieve this.

- 9.8.2 The response from the consultation demonstrated clearly that the majority of people did want to see increased transparency and accountability in the BBC's behaviour and decision-making. There was particular support for programmes of research, publishing the minutes of meetings and webcasting. The internet was mentioned frequently as an ideal medium through which to improve public accountability.
- 9.8.3 Subsequent audience research also emphasised the importance of audience research and consultation via e-forums, open meetings and annual general meetings as ways to help the Trust assess and respond to public opinion.¹⁸
- 9.8.4 The consultation and research demonstrate the potential for the Trust to develop a new relationship with licence fee payers. The Trust will be required to publish and consult on its own detailed arrangements for engaging with licence fee payers. It will ensure that its programme of engagement includes a range of contact methods to enable it to represent the interests of the full range of licence fee payers across the country. Further examples of engagement techniques can be found at Appendix III.
- 9.8.5 However, it is important to recognise that the BBC is in a unique position. It will need to find solutions to two problems in particular:
- How to engage hard-to-reach audiences;
 - How to weigh up the views it receives. Not only does the BBC serve a very wide audience, with potentially sixty million viewers and listeners in the UK, but it excites intense interest from a wide range of opinion formers and pressure groups.
- 9.8.6 The challenge for the Trust will be to ensure that it captures the public interest without being captured by special interest groups. It will set out its plans for direct public engagement in a new contract of accountability with licence fee payers. The contract will describe how the Trust will make best use of the methods available to it, including using its own broadcast services, to engage the public: for example, in exercising its power to bring forward a review of a service licence in response to the views of licence fee payers.

National, regional and local accountability

- 9.8.7 The BBC has a complicated structure of advisory bodies in place, at the top of which are the Broadcasting Councils for Wales, Scotland and Northern Ireland, and the English National Forum. Our consultation showed that the existence of the Councils is not widely known amongst the communities and regions they speak for. People are unclear about who sits on them and how to get in touch with them. From that perspective at least, their wider impact has been limited.
- 9.8.8 The Government believes that the Councils, or their successors, still have a valuable role to play within the Trust's wider accountability framework. However, they need to be made to work better. It will be for the Trust to decide how best to achieve this. As a starting point, the Charter and Agreement will provide for the Broadcasting Councils to be replaced by new "Audience Councils" for England, Scotland, Wales and Northern Ireland.

¹⁸ BBC Charter Review Revised Report, Opinion Leader Research, November 2005, p. 31

9.9 Complaints

- 9.9.1 The way the BBC deals with complaints has a very significant influence on how it is seen by the outside world. For many people, making a complaint is their only real engagement with the machinery of the BBC. It is essential, therefore, that the framework for handling complaints – which the Trust itself will set – leaves people feeling that they have been taken seriously and treated fairly and professionally, even when their complaint is not upheld.
- 9.9.2 The Trust's framework will embody some key principles, such as equality of treatment of the complainant and the Executive Board when appeals are made to the Trust, clear deadlines and explanation of decisions in full. However, the Trust's framework will also need to reflect Ofcom's responsibilities for content standards: although complaints will be directed to and dealt with by the Executive Board in the first instance, the framework must ensure that the Trust itself plays a role as final arbiter, except where complainants take advantage of Ofcom's jurisdiction.

9.10 The National Audit Office

- 9.10.1 Following the Communications Act 2003, the role of the NAO regarding the value for money of the BBC's use of the licence fee was strengthened, whilst safeguarding the Corporation's editorial independence. The main features of the arrangements, contained in the BBC Agreement, are:
- The BBC Audit Committee establishes a programme of reviews following a dialogue with the Comptroller and Auditor General (who is Head of the National Audit Office). Individual reviews are allocated to organisations including the NAO;
 - Reports by the NAO, and other organisations, are made to the BBC Audit Committee and are then presented in full to Parliament by the BBC Governors, together with the BBC's response, at the same time as publication of the BBC's annual report and accounts.
- 9.10.2 The Government believes that the existing arrangements have improved the BBC's accountability to Parliament for use of the public money it receives, whilst at the same time preserving the BBC's independence on editorial policy and programming. Untrammelled extension of NAO access would, in the Government's view, risk encroaching on the BBC's editorial independence and conflict with the principle that the main line of accountability should run directly to the licence fee payer. Our public consultation showed that people do not want either Government or Parliament to have any more control over the BBC than they do now.
- 9.10.3 Nevertheless, under the new arrangements we believe it would be helpful to the Trust, in its job of holding the Executive to account, to strengthen its relationship with the NAO, for the following reasons:
- the separation between the Trust and the Executive means that there is greater scope (and need) for the Trust to seek expert advice from outside the BBC on a range of issues;
 - the new Charter and Agreement will place specific duties on the Trust to ensure that the Executive delivers value for money.

- 9.10.4 In the light of this, the BBC Governors and the NAO have discussed the operation of the arrangements so far and have agreed that it is vital that the NAO should be able to play a full part in discussions with the Trust about which areas should be subjected to value for money reviews. This means that the NAO should be provided with the information about the BBC's activities which it reasonably needs in order to form judgments about the areas for examination. The Trust will ensure that this happens.
- 9.10.5 The Governors and the NAO have also agreed that it would be helpful for the NAO's reports to be published as soon as practicable after they are completed, rather than waiting for the publication of the BBC's annual report and accounts.
- 9.10.6 We propose to reflect these points in the new Agreement.
- 9.10.7 The Government expects these arrangements to result in a close relationship between the Trust and the NAO, with the Trust making use of the NAO's considerable expertise to help it oversee the Executive. We welcome the proposal of the current Chairman of the BBC that the Trust should ask the NAO to consider the extent to which future "self-help" targets are being met and that the results of this work will also be reported to Parliament. The Government believes that this will strengthen the relationship between the BBC and the NAO significantly.

9.11 Judicial Review

- 9.11.1 The new Charter and Agreement will set out in detail the purposes, responsibilities, duties and obligations of the BBC and, within it, the Trust and Executive Board. Although it will ultimately be a matter for the courts, the Government is of the clear opinion that the BBC should be open to judicial review for failure to comply with its Charter and Agreement on the same basis as statutory public bodies which fail to comply with their statutory frameworks and there will be nothing in the Charter and Agreement to prevent this. And, for the first time, the Charter will refer explicitly to the scope for judicial review to play such a role.

9.12 Transition

- 9.12.1 The new arrangements for the BBC represent a major structural and cultural change. If they are to work properly, they will need careful implementation. The Trust will need time to oversee the development of its own policies – it will not be sufficient or acceptable for it to take delivery unquestioningly of the policies of the Board of Governors. The new Charter and Agreement will therefore provide for a period of transition, to enable the Trust to put in place the necessary structures, whilst ensuring that they are fully up and running as soon as practicable in the new Charter period.
- 9.12.2 The existing Charter expires on 31 December 2006. If it proves possible, and the BBC agrees, we will bring the Charter to a close earlier than that date to allow the new arrangements to come into force as early as possible.

10. Funding

10.1 Licence fee concessions

- 10.1.1 Consultation and research throughout the course of Charter review has demonstrated support for the licence fee to continue as the “least worst” way of funding the BBC. In addition, research carried out by Ofcom has indicated public support for a flat fee, on the basis that television, unlike other public services like healthcare and education, is something of a “luxury”.
- 10.1.2 However the Government has received a wide range of concerns about the detailed operation of the licence fee. Many expressed concern that it was unfair to people on low incomes and suggested that the existing range of concessions should be extended. Others proposed that the licence fee should be means-tested. Some respondents thought that the qualifying age for a free TV licence should be lowered from 75 to 65.
- 10.1.3 The Government’s commitment to examine the anomalies of the Accommodation for Residential Care (ARC) scheme (see box) was welcomed, but proposals for change concentrated on individual shortcomings rather than ways in which the scheme as a whole could be improved.
- 10.1.4 Respondents to the consultations we have held throughout the Charter review process have put forward a very wide range of groups which they felt merited special concessions. This highlights one of the central difficulties of any concessions scheme: demand is extremely high, but there is little consensus as to who should get concessions, the criteria on which they should be allocated, or how they should be funded. Concessions for broad groups of people, for example all students, catering staff or service personnel, would be expensive for everyone else (whether charged to public funds or to other licence fee payers); they would benefit many people who are neither on particularly low incomes nor in special need of television; and would leave unresolved the needs of other groups who are arguably equally deserving. We propose no changes to the existing range of concessions.

ARC Scheme

This concessionary scheme entitles retired people aged 60 or over and disabled people living in nursing and residential homes and in certain types of sheltered housing to benefit from a communal television licence for a fee of £5 per unit of accommodation. The regulations governing the ARC scheme are, however, narrowly drawn, particularly in relation to sheltered housing. In order to qualify, this must:

- (a) form part of a group of at least four dwellings within a common and exclusive boundary;
- (b) be provided for occupation by disabled persons, mentally disordered persons or retired persons aged 60 years or more;

- (c) be provided or managed by a local authority, a housing association or a development corporation;
- (d) have a person (e.g. a warden) whose function is to care for the needs of the residents and who either lives on site or works there for at least 30 hours a week.

Accommodation for Residential Care (ARC) scheme

- 10.1.5 The ARC scheme is riddled with apparent anomalies, arising from the fact that it allocates concessions on the basis of accommodation rather than individual need. However the qualifying accommodation is defined, there will therefore always be people who arguably deserve a concession but fail to qualify, and those who are reasonably well-off but do. In short, if the Government were designing a concessionary scheme from scratch today, it would not adopt the ARC scheme as currently constituted.
- 10.1.6 On the other hand, the ARC scheme does benefit some very vulnerable individuals. The abolition of the scheme would certainly lead to a significant number of people losing out, many of whom would belong to genuinely vulnerable groups. In addition, the Government's decision to provide free TV licences to people over 75 has extended concessions to over 3.4 million elderly people who did not qualify for the ARC scheme, reducing the overall impact of its anomalies. We do not therefore propose any changes to the scheme for the time being.

10.2 Collection and enforcement

- 10.2.1 Since the licence fee is to remain in place throughout the period of the next Charter, it is essential that the collection and enforcement arrangements are efficient, cost effective and enforced in such a way as to maintain public support.
- 10.2.2 In response to the questions we asked during public consultation, the cost associated with collecting and enforcing the licence fee was an issue for several respondents. This was also an issue for the Lords Select Committee, which found the cost of collection and enforcement to be excessive and suggested that the BBC improve cost efficiency by benchmarking its performance against other similar systems.¹⁹
- 10.2.3 Other public respondents had concerns about the tone of TV Licensing's advertisements. A few complained of 'threats and intimidation' by enforcement officials, especially those who did not own a television set and had informed TV Licensing accordingly.
- 10.2.4 Concerns were also expressed on the basis of perceptions that many people prosecuted for not holding a licence were those least able to pay. Some respondents suggested that licence evasion should be a civil debt rather than a criminal offence. They commented that imprisonment was a disproportionately harsh response to non-payment of fines imposed for licence evasion (the current position is summarised below). Research carried out as part of consultation on the Green Paper demonstrated that there is some perceived unfairness regarding enforcement of

¹⁹ *The Review of the BBC's Royal Charter*, Volume 1: Report, House of Lords Select Committee on the BBC Charter Review, para. 138.

the licence fee, although participants tended to agree that there should be some form of punishment, as long as people have been given every chance to pay²⁰.

- 10.2.5 Even taking into account the cost of the licence fee, television remains one of the cheapest leisure activities available. However, we recognise public concerns about the impact of the licensing system and the way in which it is enforced, in particular in relation to low income households. Ensuring public accountability of the enforcement arrangements and the availability and simplicity of easy payment schemes will be essential to maintaining support for the TV licensing system.
- 10.2.6 The Government proposes to address these concerns in three ways:
- Further consideration of proposals to divert offenders from the Criminal Justice system;
 - Making the Trust more directly accountable for the activities of TV Licensing;
 - Encouraging take-up of easy payment schemes.

Diversion from the criminal justice system

- 10.2.7 A person cannot be imprisoned for television licence evasion. The courts do have the power to impose a sentence of imprisonment for default on fines, whatever the original offence. However, they also have a duty to consider the means of offenders in setting the level of fines, and may resort to imprisonment for non-payment of a fine only when all alternative routes have been tried or considered. The total number of people imprisoned for non-payment of fines for television licence evasion in 2004 was 46.
- 10.2.8 On 7 November 2005, the Department for Constitutional Affairs (DCA) published a White Paper entitled 'Supporting Magistrates' Courts to Provide Justice' on the current status of the Magistracy and Magistrates' Courts and proposals for future reform. It considered a range of alternative processes and methods of disposal for some of the high volume, relatively low-level cases which come before the courts, in ways that do not adversely impact on deterrence or the quality of justice. The paper identified television licence evasion as one of a number of offences where further exploration was needed of the potential to reduce the burdens on the courts and to divert offenders from the criminal justice system.
- 10.2.9 Options under further consideration are:
- The use of an alternative method of disposal for TV Licence cases prior to them entering the court system;
 - The benefits that might be gained, and the public acceptability, of adopting a system whereby the BBC/TV Licensing would be given the power to authorise and issue summonses or postal requisitions;
 - Bulk-processing of the administrative work related to TV Licence cases with any resultant guilty pleas handled without recourse to a full Magistrates Court hearing.
- 10.2.10 The Government intends to consult further with key stakeholders on this aspect of policy.

²⁰ BBC Charter Review Revised Report, Opinion Leader Research, November 2005.

Accountability and the Trust's role

- 10.2.11 The Government recognises that there is some public concern over the way in which TV Licensing carries out its collection and enforcement functions. TV Licensing operates under contract to the BBC which, as the television licensing authority, has a responsibility for ensuring the value for money of the collection and enforcement arrangements. The BBC has been successful in bringing down licence evasion and we acknowledge that a rigorous approach is required to maintain and improve on that record. But efficiency and effectiveness cannot be seen in isolation. At the same time, treating the public with fairness and respect is important for maintaining overall support for the television licensing system.
- 10.2.12 The BBC Governors have a general duty, under the existing Charter, to satisfy themselves that all the activities of the Corporation are carried out to the highest standards of probity, propriety and value for money. We will place a specific duty on the BBC Trust to satisfy itself that the BBC's collection and enforcement activities, and those of its agents, are proportionate and consistent with the BBC's public service status.

Encouraging take up of easy payment schemes

- 10.2.13 The Government welcomes the BBC's adoption of a wide range of methods for payment of the television licence fee. 59% of licence holders now pay by Direct Debit and the BBC aims to maximise the use of this facility, benchmarked against Direct Debit usage across the UK. The Corporation is also actively promoting online payment, which was first introduced in 2000/01 and now represents around 2.4 per cent of all licences sold. The BBC aims to have 20% of all customer interactions fulfilled by self-service applications, such as web and automated telephone services. Members of the Cash Easy Entry scheme can sign up to receive reminders on their mobile phones via SMS text message and 250,000 scheme members had done so by November 2005. Harnessing new technology in this way extends choice and makes the licence fee easier to pay.
- 10.2.14 However, research carried out as part of consultation on the Green Paper suggested that the existing range of payment methods was confusing and there was a perception of unfairness for people who couldn't afford to pay one lump sum for their TV licence²¹. The Government intends to examine the issue further in the context of the next licence fee settlement.

10.3 Setting the level of the licence fee

- 10.3.1 This White Paper gives the BBC a clear framework of purposes and responsibilities for the next Charter period. However it will be for the BBC Trust to decide how these should be delivered within the boundaries of the forthcoming licence fee settlement. Accordingly, the Trust may often need to make tough decisions on how the available resources should be allocated.
- 10.3.2 The funding available through the licence fee will be used by the BBC to deliver its purposes. As we have made clear, the Trust will determine its purpose plans and priorities, in

²¹ BBC Charter Review Revised Report, Opinion Leader Research, November 2005.

consultation with licence fee payers and other stakeholders – and it will need to deliver greater clarity to licence fee payers about what their money is being used for and how it is being spent. Delivering the best possible value for money for licence fee payers must be at the forefront of every decision the Trust takes.

Sports rights

The market for sports right is highly competitive. It is in the interests of licence fee payers that the BBC should be able to compete for sports rights, whilst at the same time ensuring it maintains value for money and fair competition.

In the Green Paper we undertook to explore the BBC's processes for determining the value of sports rights, in line with the Gardam review of the BBC's digital radio services. We have found no evidence to suggest that those processes are deficient.

However, the BBC will need to ensure going forward that their sports rights acquisitions continue to represent value for money.

- 10.3.3 We continue to draw on independent advice in reaching our conclusions. In line with this commitment, the Department for Culture, Media and Sport has appointed PKF to provide expert advice on a range of issues including the value for money of the BBC's existing operations. More information on PKF can be found at www.pkf.co.uk. The Government will announce the details of the settlement in due course. Subject to proper consideration of confidentiality, we intend to make PKF's findings available. As part of our continuing examination of the issues, we will undertake research on the public's willingness to pay.
- 10.3.4 As was the case with the current licence fee settlement, we will expect the BBC to achieve a large part of the funding it needs through "self-help": efficiency, improvements in licence fee collection and enforcement and commercial revenue.

10.4 Returning value to the licence fee payer

- 10.4.1 The Government believes that one of the overriding duties of the Trust should be the effective stewardship of the licence fee on behalf of licence fee payers: making sure that it is spent with maximum effectiveness and efficiency and always providing value for money. It will be part of the Trust's role to secure and demonstrate continuing improvements in the BBC's efficiency, increasing the return provided by its commercial services and bearing down on the costs of proposed investments. In doing so it may build up strategic reserves to be invested in later years and, of course, it will have the ultimate option of not drawing down the full amount of the licence fee where the Trust considers this to be in the public interest.

10.5 Continuing the licence fee

- 10.5.1 The Government indicated in the Green Paper that it believed the television licence fee remained the best way to fund the BBC and should remain the main funding mechanism throughout the next ten years. Responses to the Green Paper consultation confirmed our

earlier conclusions²². We therefore confirm our policy that the licence fee will continue for the lifetime of the next Charter.

- 10.5.2 However, as the Green Paper set out, questions have been raised about the long-term future of the licence fee given the likely extent of technological change. Lord Burns and the independent panel on Charter review suggested that there may ultimately be a need to consider other forms of funding for the BBC, such as subscription or even advertising.
- 10.5.3 We therefore confirm that it will be our policy to review the scope for alternative funding mechanisms after the end of the next Charter in 2016, on the clear understanding that the BBC will continue to be funded by the licence fee for the next ten years. We expect this review to take place around the end of digital switchover, in order to allow for the necessary planning before any changes are implemented.
- 10.5.4 Under EU rules, the funding of the BBC's public services by the licence fee constitutes a State Aid. We will expect the BBC to continue to be rigorous in ensuring that its use of the licence fee complies with the EU rules on State Aid.

²² *What you said about the BBC* DCMS July 2004

11. The future of Public Service Broadcasting beyond the BBC

- 11.1.1 The BBC is and will remain at the heart of public service television broadcasting in the UK. But it is not the only public service broadcaster. Others – ITV, Channel 4, Five, S4C and Teletext – all make important contributions to a system which generates high quality programming across a huge range of genres, such as news, current affairs, drama, arts and regional programming. The Government believes that sustaining a plurality of PSB providers who both complement and compete with each other has been important in ensuring that this quality and diversity are maintained.
- 11.1.2 As the Green Paper outlined, the spread of digital television raises questions about the extent to which the current PSB system, and the way it is funded, can be sustained in the medium to longer term. Increasing competition from other channels puts pressure on the audience shares of the commercially funded PSBs and, by extension, their advertising revenues. Ofcom's review of public service broadcasting in 2004 suggested that, eventually, it will no longer be realistic to impose significant public service obligations on fully commercial channels such as ITV and Five. It also argued that, without intervention, Channel 4 would have to scale back its contribution to PSB in order to attract enough advertising to remain financially stable. Under this scenario the BBC would ultimately be left as the only significant provider of PSB television in the UK. A range of possible responses to such a scenario has been suggested, including direct funding for Channel 4 and Ofcom's own proposal for a new Public Service Publisher.
- 11.1.3 As the Green Paper made clear, the Government recognises the force of these arguments, although it is too early to predict with certainty precisely how the broadcasting market will develop, or the longer-term impact this will have on the provision of PSB-type programming. In looking to the future, our policy will be guided by three key considerations:
- The emerging impact of digital take-up;
 - Our commitment to a strong BBC, funded by the licence fee for the next ten years;
 - The importance of sustaining plurality of PSB provision.
- 11.1.4 We confirm that it will be our policy to conduct a review, as the impact of the move to digital becomes clearer during the course of the next Charter period, of the case for public funding – including licence fee money – to be distributed more widely beyond the BBC.
- 11.1.5 Our consultation demonstrated wide support for this proposal, although there has been some debate about the appropriate timing for such a review. The Government will conduct the review early enough to be able to allow a plurality of provision of public service broadcasting to be maintained. We expect this to mean conducting the review towards the completion of switchover, but will retain the option of conducting an earlier review before the end of this decade.

Channel 4

- 11.1.6 Channel 4 is a public corporation, funded through advertising. The Government is clear that Channel 4 has a vital role to play, alongside the BBC, in the provision of PSB for the future. We welcome its recent moves to strengthen its commitment to providing high quality, diverse public service content across an increasing range of channels and platforms.
- 11.1.7 In the Green Paper, the Government made clear that it would explore a range of options for specific forms of help to Channel 4, ahead of the wider review described above, which might help it sustain its PSB contribution in the medium term. Channel 4 is currently doing well financially. However its audience share is significantly lower in digital than in analogue homes and it is likely to face financial pressures in the future. We welcome Ofcom's plan to undertake a full review of Channel 4's financial prospects in 2006/07 and will take a close interest in its conclusions. As part of final decisions on the licence fee settlement, we will consider forms of assistance such as asking the BBC to provide Channel 4 with financial help towards meeting its capital switchover costs and Channel 4's desire to secure a limited amount of additional digital terrestrial capacity from the BBC.

12. Next steps

This White Paper is a statement of Government policy. It is based on two years of extensive consultation, research and public debate to which many thousands of people have contributed. The decisions contained in this White Paper will be implemented in the new Charter and Agreement, a draft of which will be published on the website (see below).

There will be a short period for comment on this White Paper and the draft Charter and Agreement and parliamentary debate during this time. The new Charter and Agreement will be finalised later in 2006.

Comments should be directed to:

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

The closing date for submitting comments is Friday 28 April 2006.

For further information please visit our website **www.bbccharterreview.org.uk**

If you would like to contribute comments but are unable to put your response in writing, please call the Department for Culture, Media and Sport on 020 7211 6200; open Monday to Friday: 10:00am to 12:00pm and 2:30pm to 4:30pm.

In the spirit of Freedom of Information, we would like to publish your comments 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 comments on the White Paper that we do not publish. Your reasons for asking us not to publish your comments 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 this comment contribution process, please address it to:

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

A regulatory impact assessment has been developed to accompany this policy and is available at www.bbccharterreview.org.uk/publications

13. Appendix I: Key roles of the Trust and Executive Board

Oversight and scrutiny

The Trust will...	The Executive Board will...
<ul style="list-style-type: none"> Consult on "purpose remits", setting out the Trust's strategic priorities within each purpose, and how success will be judged. 	<ul style="list-style-type: none"> Deliver the BBC's public services within the framework set by the Trust. Account to the Trust for how well it has delivered services and met the Trust's stated priorities for the BBC.
<ul style="list-style-type: none"> Hold the Executive Board to account for its performance in delivering the BBC's services and other activities. Conduct reviews as necessary. 	<ul style="list-style-type: none"> Make decisions about the day to day running and budgets of the BBC in accordance with the priorities set by the Trust.
<ul style="list-style-type: none"> Issue service licences to the Executive Board for the delivery of individual public services. Decide which activities should be covered by service licences, according to clear principles. 	<ul style="list-style-type: none"> Submit to the Trust proposals for significant changes to existing services and for proposed new services.
<ul style="list-style-type: none"> Ensure that the correct degree of scrutiny is given to all activities, including to proposed new services and changes to existing services. 	<ul style="list-style-type: none"> Make applications to the Trust for service licences.
<ul style="list-style-type: none"> Carry out the Public Value Test whenever it is required, operating the criteria for determining significance in cases of doubt and exercising due diligence in doing so. Work with Ofcom to agree the methodology for carrying out the market impact assessment – with Ofcom itself responsible for actually carrying out that market impact assessment, subject to oversight by a joint steering group. 	
<ul style="list-style-type: none"> On the basis of the Public Value Test, approve or reject proposals for new or significant changes to existing services put by the Executive Board. 	
<ul style="list-style-type: none"> Adopt, publish and keep under review a statement on fair trading. 	
<ul style="list-style-type: none"> Approve the guidelines drawn up by the Executive in response to this statement. 	
<ul style="list-style-type: none"> Draw up, in consultation with Ofcom and others, <i>ex ante</i> codes covering specific areas of activity and ensure the Executive Board complies with those codes. 	
<ul style="list-style-type: none"> Regulate those programme standards and quotas falling within its remit (without prejudice to the existing balance of responsibility with Ofcom). 	

Commercial services

The Trust will...	The Executive Board will...
<ul style="list-style-type: none"> Hold the Executive Board to account for ensuring that the BBC's commercial services are operated according to the four criteria: fit with public purposes, commercial efficiency, trading fairly and brand protection. 	<ul style="list-style-type: none"> Approve business plans, commercial strategies, targets and budgets submitted for the commercial services.
<ul style="list-style-type: none"> Set and apply the commercial service approval guidelines. Approve or reject proposed transactions as required under the guidelines. 	<ul style="list-style-type: none"> Secure publication of a report and accounts relating to the BBC's commercial services .
<ul style="list-style-type: none"> Approve the Executive Board's targets and other elements of the BBC's commercial strategy, and hold the Executive Board to account for delivering them. 	<ul style="list-style-type: none"> Ensure compliance with financial management, control and risk management arrangements and the requirements of the Charter and Agreement and general law.
<ul style="list-style-type: none"> Approve the report and accounts prepared by the Executive Board. 	<ul style="list-style-type: none"> Trade fairly within the policies set by the Trust.

Finance, efficiency and value for money

The Trust will...	The Executive Board will...
<ul style="list-style-type: none"> Ensure that the Executive Board delivers financial efficiency and value for money. 	<ul style="list-style-type: none"> Prepare and sign off the annual report and accounts and present them to the Trust.
<ul style="list-style-type: none"> Approve macro budgets – at the level of service licences or other significant activities likely to have implications for the delivery of the BBC's purposes – put forward by the Executive. 	<ul style="list-style-type: none"> Deliver financial efficiency, transparency and value for money.
<ul style="list-style-type: none"> Scrutinise and comment on the Executive Board's annual report and accounts. Lay the report and accounts before Parliament with its own commentary. 	<ul style="list-style-type: none"> Conduct the BBC's operational financial affairs in a manner best designed to ensure value for money.
<ul style="list-style-type: none"> Commission value for money investigations into certain areas of BBC activity, including from the NAO. 	
<ul style="list-style-type: none"> Ensure that the accounts of the Executive Board conform to the fullest possible extent to current best practice. 	
<ul style="list-style-type: none"> Approve individual, strategic or financial proposals where they stand to have significant implications for the fulfilment of the purpose remits and strategies or for the overall financial position of the BBC. 	

Public accountability and consultation

<p>The Trust will...</p>	<p>The Executive Board will...</p>
<ul style="list-style-type: none"> • Conduct its business transparently, openly and in the interests of licence fee payers. 	<ul style="list-style-type: none"> • Deal with complaints in the first instance, where appropriate.
<ul style="list-style-type: none"> • Publish a contract of accountability with licence fee payers – setting out the means by which the Trust will engage with licence fee payers. 	
<ul style="list-style-type: none"> • Develop and publish a set of protocols which will among other things, set out how traffic will flow between the Trust and Executive Board from day to day basis. 	
<ul style="list-style-type: none"> • Publish a protocol describing how the Trust will maintain high standards of openness and transparency. 	
<ul style="list-style-type: none"> • Set the framework for handling complaints about the BBC and act as the final arbiter, except where another body, e.g. Ofcom, has responsibility. 	
<ul style="list-style-type: none"> • Commission research, run public consultations and seek expert opinion in order to reach informed decisions. 	
<ul style="list-style-type: none"> • Conduct investigations into any activity of the BBC which it has grounds to suspect does not comply with requirements supervised by the Trust. 	

Appointments

<p>The Trust will...</p>	<p>The Executive Board will...</p>
<ul style="list-style-type: none"> • Appoint the Chairman of the Executive Board. 	<ul style="list-style-type: none"> • Appoint and hold to account the management of the BBC, and its subsidiaries.
<ul style="list-style-type: none"> • Approve the non-Executive appointments to the Executive Board. 	<ul style="list-style-type: none"> • Appoint the non-Executives of the Executive Board.

Content

<p>The Trust will...</p>	<p>The Executive Board will...</p>
<ul style="list-style-type: none"> • Oversee compliance with principles of accuracy and impartiality. 	<ul style="list-style-type: none"> • Deliver compliance with relevant standards and quotas.
	<ul style="list-style-type: none"> • Ensure that impartiality and accuracy remain at the forefront of the BBC's reporting.
	<ul style="list-style-type: none"> • Be responsible for the direction of the BBC's editorial and creative output.

14. Appendix II: A short history

14.1 Consultation and Research

- 14.1.1 The review process to date has involved an unprecedented degree of public and industry engagement, including a range of events, consultation, research and focused analysis.
- 14.1.2 On 11 December 2003 we launched the initial 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.
- 14.1.3 As part of this period of consultation, Tessa Jowell and Andrew McIntosh, the then Minister for Broadcasting, took part in a series of visits across the UK in March 2004. They held open meetings with the public and, in partnership with the Royal Television Society, seminars with key members of the local broadcasting industry. They also visited a variety of media organisations and witnessed some of the BBC's activities in the nations and regions.
- 14.1.4 We conducted a major programme of survey research, between late January and early June 2004 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 all the consultation and research findings in 'What You Said about the BBC', in July 2004. The full report can be accessed at http://www.bbccharterreview.org.uk/publications/CR_PUBS/pub_wysabbc.html
- 14.1.5 At the start of 2005 we commissioned further qualitative research to explore people's views on the emerging proposals from the Green Paper, 'A strong BBC, independent of government', as a precursor to the Green Paper consultation. The research report was published alongside the Green Paper.
- 14.1.6 The publication of the Green Paper on 2 March 2005 marked the start of a further phase of consultation. This was advertised through the distribution of leaflets and through advertisements in the national press. The public and the industry and other stakeholders were invited to submit their comments to us either by e-mail or letter or through an online questionnaire on our website. We received around 4,500 responses to this consultation. Almost all the responses have been published in full on our website, the main exception being where people asked us not to publish their views.
- 14.1.7 Over 4,000 responses came directly from individual members of the public. Every one was read, analysed and fed into a summary report, which is published in full on our website to support this White Paper.
- 14.1.8 We received around 130 responses on behalf of organisations. We have carefully analysed each of these responses. They have helped to inform many of the policy decisions set out in this White Paper.

14.1.9 We have also commissioned some further qualitative research to test some specific aspects of the Green Paper – principally the idea of the Trust; giving greater accountability to the licence fee payer; and the question of collection and enforcement of the licence fee. The results of this research have fed into the White Paper and the report has been published in full on our website.

14.2 Independent Adviser and Seminars

14.2.1 The Secretary of State appointed an Independent Advisor, Lord Burns, on 18 September 2003, to help provide her with advice on a number of different issues throughout the Charter review process.

14.2.2 The Secretary of State also appointed an Independent Panel on 15 June 2004 to work alongside Lord Burns. The panel members were Sly Bailey, Alan Budd, Howard Davies, Janet Finch, Tim Gardam and Alice Rawsthorn.

14.2.3 Lord Burns and his panel held a series of seminars to debate a number of key issues for Charter review, which were identified through the public consultation and research.

14.2.4 The series ran from 20 July to 3 December 2004 and included 13 seminars as follows:

- BBC's Public Purposes;
- Funding;
- Principles of Governance and Regulation;
- BBC Commercial Services;
- BBC Television;
- BBC Radio;
- Representation of Nations, Regions and Communities;
- Education and Learning;
- International Role;
- Informed Citizenship;
- Culture;
- Sport;
- Models of Governance and Regulation.

14.2.5 The seminars took place in front of a small invited audience, including industry experts and representatives, as well as members of the public. The BBC broadcast these seminars live on the internet via web streams.

14.2.6 The seminars contributed to a credible evidence base which has provided us with a solid foundation for Charter Review. More directly, the outcome of these seminars played a key role in developing themes for the panel's two advice papers to the Secretary of State. They also played a role in helping to develop themes for the Green Paper.

14.2.7 The panel submitted their final advice to the Secretary of State on 28 January 2005 and this was used to help formulate the options in the Green Paper. The themes the panel considered all arose from and were defined by the public consultation.

14.3 Publications

- 14.3.1 Alongside the information gained from the consultation and research and the outcome of the seminars a wide range of external evidence was also considered throughout the consultation process, helping to inform our thinking in the Green Paper. This included:
- Ofcom's Review of Public Service Television;
 - Philip Graf's report on BBC online;
 - Patrick Barwise's report on BBC new digital TV services;
 - Tim Gardam's report on BBC new digital radio services.
- 14.3.2 The Independent Panel published two papers: the first "Emerging Themes" was published on 1 December 2004 and formed the paper for the final seminar in the series. It summarises the major themes of the debate to that point. This report can be accessed at:
http://www.bbccharterreview.org.uk/publications/in_pubs/pub_emerging_themes.html
- 14.3.3 The second was the panel's final advice to the Secretary of State and was published on 28 January 2005. It reflected the outcome of the debates which took place during the series of informed seminars, chaired by Lord Burns. The final report can be accessed at:
http://www.bbccharterreview.org.uk/publications/in_pubs/pub_final_advice.html
- 14.3.4 In total, we have received over 10,000 responses to our two phases of public consultation from a vast range of people – from the BBC to small independent TV and radio companies, from large charities and trade bodies to individual members of the public. Each and every response has been invaluable in helping to decide on the final policy contained in this document. These consultation responses, when taken alongside the extensive programme of research and other evidence gathered, have ensured that this Charter review has been one of the most publicly engaged ever and the decisions taken have been strongly influenced by the public's voice.

15. Appendix III: Methods of public engagement

Work Foundation framework for engagement

- 15.1.1 A recent study²³ carried out by the Work Foundation draws together a number of practical methods of consultation that the Trust may wish to pursue. The study recommends a framework of methods to improve participation and add public value, based on the following techniques:
- Focus Groups: 12 people, 1-2 hours, brought together to discuss a specific issue;
 - Citizen Panels (research): 500-5,000 person representative sample, 'sounding board' for policy development, views collected via surveys, interviews and focus groups;
 - Citizen Panels (standing): to test specific policy options and scrutinize policy implementation;
 - Citizens' juries: similar to focus groups, but chosen on a representative basis;
 - Citizens' forum: around 100 people, working in groups of 10, each with a facilitator and individual keypad to register responses to specific questions;
 - Deliberative opinion polling – an initial consultation, followed by deliberation, and then a second survey of opinion.

Best practice

- 15.1.2 The Trust will wish to build on best practice from the wider public and private sectors. Innovative proposals that emerged from consultation on the Green Paper include:
- Extended Electronic Town Hall Meetings -a carefully facilitated discussion of attendees and virtual attendees (via the web);
 - Collaborative Workshops – including programme makers, audiences, and members of the Trust and Executive Board;
 - Electronic Networks -a standing, representative panel of licence fee payers who are invited to provide views periodically on key issues.

²³ Public Value, Politics and Public Management: First report of the Public Value project at The Work Foundation, pp. 32-35



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PP 855 March 2006