**Barry Cox**

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Digital technology is undermining public service broadcasting around the world. Indeed some people feel there is now only the most minimal need for traditional publicly-funded broadcasting at all. I do not agree with this radical view, but I do think we need to re think the role and purpose of public service television.

Today I want to indicate how I see the future of state-financed television content. Essentially it would have two purposes – a negative one, correcting market failure- that is providing minority appeal programmes that would not otherwise be available: and a positive one **–** in a global market, ensuring the place of original local content in the national context. This leaves out what some see as the principal PSB function – the provision of wide-ranging, diverse services universally-available and free to view. This is because I believe this latter function will demand far too many public resources and overlaps far too much with what commercial producers and distributors can easily deliver. Indeed in Britain, the aggressive pursuit of this ambition by the BBC has seriously inhibited the development of new services by commercial companies.

Though I suspect the basic pattern is familiar to most of you, I want briefly to sketch what has been happening to traditional broadcasting, and to make my own stab both at what it likely to happen, and at what ought to happen, in the medium term future. And I hope you will understand if I concentrate on the British story.

Put simply, both the BBC and the commercial public service broadcasters have been in decline for nearly 20 years. From a world in which they took 100 per cent of television viewing, these broadcasters now command just two-thirds of all TV viewing **.** Worse still, the screens in the home offer other rival non-TV opportunities – games, DVDs, the internet; and there are mobile platforms which offer an equivalent of television viewing outside the home**.** Twenty years ago, the traditional broadcasters in the UK took 100 per cent of the revenues. Now collectively they get just over half: indeed the biggest single broadcaster is one which didn't exist 20 years ago - BSkyB, whose total revenue in 2005 exceeded £4 billion.

The free-to-view monopoly of audiences enjoyed by the traditional broadcasters has been shattered. Paying for what you watch now competes increasingly effectively with both public (licence fee) income and with the revenues from the sale of advertising**.** With more than 8million subscribers, Sky is now in one in three homes in the UK, and, as they will cheerfully point out, all their customers voluntarily pay on average almost £400 a year while the BBC has to rely on a compulsory tax of £135.50 a household.

Sky has come from nowhere to being the biggest and most dominant media company in Britain in less than 20 years. The competition with pay-TV started in the analogue world, but the switch to digital is intensifying the process, as satellite and cable competitors are joined by broadband and mobile operators. Of course there is a major problem with Sky's success: it may earn the biggest revenues, but it doesn't make or commission many original programmes. Locking up sport and Hollywood films may be good business but is a very limited contribution to culture.

In Britain the response of the PSBs has varied according to their status. All of them have developed so-called "families" of new digital channels, which break from the old universal approach to target much more specific audiences – children, the under 35s, the middle aged and middle class ABC1s, both male and female. (However some ethnic audiences have by-passed British PSBs and sought their own services from abroad.) These minority appeal channels have been quite successful, partly because they prosper in the limited digital terrestrial environment, partly because the traditional broadcasters have cross-promoted these services in ways which are not open to smaller multi-channel broadcasters, and partly because they have by far the biggest supply of British content.

However this success has moderated rather than reversed their overall decline in both ratings and commercial revenues**.** ITV, the biggest and oldest of the commercial advertising-funded broadcasters, has suffered the biggest loss of audiences . It lost more than 15 percentage points of audience share in the ten years between 1996 and 2006, and it has yet to manage to offset the revenue lost by its main channel with gains on its digital channels.

With regulatory approval ITV has been substantially reducing its public service obligations – in children's programming, in religion, current affairs, news, documentaries, and local programming, and is pressing for more. It is an open question whether it will want to retain its PSB status after digital switch-over in 2012. (Similar strategic issues affect the much newer and much smaller Channel Five.)

Channel 4, which is publicly-owned but financed entirely by advertising, resisted this decline for several years. It had a very effective long-standing appeal to younger audiences, and supplemented this with new kinds of leisure and life-style programming which the middle class middle-aged enjoyed. Not very much of this could really be called contributions to public service as traditionally understood, but few people (other than the old-fashioned producers whose ideas were no longer in demand) cared much, since the channel retained a distinctive and serious element in its schedules as well. As a result C4 maintained its audience share and increased its revenues – until last year. However it had become clear a few years ago to the C4 board that this happy blend of circumstances could not continue; the inexorable loss of viewers from analogue to the much more fragmented digital world meant either that the public service character of the channel would, like ITV's, steadily diminish or that it would need for the first time a tranche of public money on a regular basis to sustain the unprofitable programmes its remit required. This analysis has now been endorsed by the regulator, Ofcom, but there are growing calls to privatise the channel rather than see it become in part a publicly-funded service.

The most powerful of the traditional broadcasters is of course the BBC. This has tracked a zig-zag course as the digital world has borne in on it over the past ten years. With secure and guaranteed revenues, it has pioneered new services and been among the technological leaders in the UK, partly because its director-general in the late 1990s, John Birt, persuaded the Government to increase the licence fee by more than inflation, in order to fund this new internet and digital output. The BBC web-site has been a formidable success, seeing off all of its British commercial rivals, but Birt's new digital TV channels flopped (except those for children). His successor, Greg Dyke, revamped the digital TV channels, and created the very successful Freeview brand for digital terrestrial television, but he also lost sight of the PSB purposes of the main channels, BBC1 and BBC2. As a result, when it came to renewing the licence fee arrangements last year, the current D-G, Mark Thompson, was on a very difficult wicket. The BBC was seen as too rich and too ambitious. Thompson had begun a significant cost-cutting programme, but the Government both increased its expensive digital obligations (the licence fee is being used instead of general taxation to fund what is in reality a Government plan to switch off analogue TV by 2012) and reduced the new fee below inflation (the fee will rise by just 3% over the next two years). As a result the BBC has been forced to start cutting costs and services even more. For the first time in the BBC's history, its director-general has announced that the organisation will shrink, not just in numbers of people employed but in its overall services, during his term.

Even more seriously, though its status as a publicly-owned corporation is guaranteed until 2017, the current licence fee itself runs for only 6 years, and both Ofcom and the Government have brought forward reviews of public service broadcasting to next year. As you can see from my account, this review faces a story of steady decline across the whole PSB range, and there is the prospect of a number of radical answers to the problems that have followed from this.

If we go back to my two future PSB functions – minority programming unavailable through the market, and local (in this instance, British) programming – then clearly ITV could retain its privileged status since it still produces many original programmes. It is putting these on various new media platforms, though – like most other new media players – with little immediate prospect of decent returns. Its advertising base should be sufficient to allow it to be a maker of unambitious product – soap operas, game shows, factual entertainment – but not much in the way of the expensive shows it once gloried in – quality dramas, regular comedy and documentaries.

Channel 4, though sometimes regarded as the only long-term PSB competitor to the BBC, is in a similar position. It too is retreating from drama and comedy, and it will need some form of public subsidy if it is to continue to show the interesting and innovative content which has been its traditional public service characteristic. However, as recent events such as the damaging row over racial bullying on Celebrity Big Brother earlier this year have shown, such a subsidy could come at the price of toeing a line of public respectability which could undermine - even destroy - its cherished maverick reputation.

It is more difficult to foresee the likely outcome for the BBC. It has enormous strengths and a substantial – though diminishing – support from the British public. However its critics grow steadily stronger, and it is more tightly constrained by regulation than ever, particularly in respect of providing content for new media without charge. At some point I hope it recognises the inevitability of becoming at least in part a subscription service. I believe that, more than any of the other British PSBs, it regularly makes programmes people would be willing to pay for voluntarily and directly.

One answer to this growing crisis over public service broadcasting has been suggested by Ofcom – the creation of a public service publisher, or PSP. Conceptually, this is close to the organisation which you here in New Zealand developed many years ago – NZ On Air. For Ofcom, the key point is that funding is contestable, and does not go automatically to one or two institutions. (In this respect it is very interesting that your Government decided [a couple of years ago] to supplement this money with direct grants to a number of institutions, though I believe this has not been enough to solve the underlying problems of getting the delivery of public policy objectives from commercially-funded organisations.) In the UK, Ofcom currently links the creation of this PS publisher to the development of content for new media, but it will be tested in the forthcoming reviews of PS broadcasting overall that it has just begun.

Traditionally in Britain we have favoured the monolithic institutional answer – create a public service organisation, secure its funding and let the people running it interpret their brief as best they can. The pattern of varying degrees of public criticism that ensued was seen as an inevitable and manageable consequence – only occasionally did the wheels actually come off, sometimes taking with them those charged with running the organisation concerned. However the long and continuing decline now seriously threatens this model, in Britain and elsewhere. That is the main reason why I back contestable funding as an inevitable and highly necessary development.

In the digital future I think we will see two kinds of PSB – the first, one we don't really recognise as a public service at the moment, the provision of local content of all kinds; the second, delivery of clear minority-appeal programmes, which we have always regarded as part of a public service mission. I think the first will count as a form of public service (with some equivalent benefit, like favourable access to spectrum) because it will be the primary way to ensure local content survives at all. The extent of the second will depend on how much public money is available, and it will have to compete for funds with other public subsidies to the arts. It will notionally compete for audiences with every other media, but in truth these will generally be small, though sometimes some will cross-over to a profitable mainstream existence. They will largely be elitist, and will have to live with the contradictory responses elitist productions funded by public money always incur.

I do not think we should expect to see the traditional wide range of universal services to continue to exist as public services. Commercial operators will provide what they think they can profitably provide, and some of these programmes will have an almost universal appeal, but most won't. I don't see that this matters – we don't expect everyone to read or like the same books, films, plays or music, and we don't create universally available, publicly-funded newspapers, authors, publishers, cinemas, theatres or concert halls.

We will have two choices for funding these very different kinds of output. For local content, the funding organisation will have to sort out how much it needs to provide to get the different genres made, and what returns it will expect if they turn out to be more profitable than anyone expected at conception. Since it will largely be funding commercial broadcasters and producers, it will have be a smart negotiator itself, but one way or another I think this model will apply whether in a large market like Britain or a small one like New Zealand.

The funder of TV minority content will be a much more rarified animal. Returns and profits will be very unusual – the justifications will be based on excellence and reputation, often highly subjective and contested characteristics. The commissioning decisions will regularly provoke scorn, envy and contempt, more rarely approval. It will be almost impossible to run successfully, but I think every country will need such an organisation if it cares at all about a certain kind of quality in its cultural life.

Of course wewill  need broadcasters and producers who want to compete for the money. It will help if some traditional PSBs retain enough of their original character to become regular, and reasonably successful, applicants for these funds. And whatever the amount assigned, it will never be enough – it never is.  Those doing the commissioning will always be criticised, for being too commercial or not commercial enough, for being too elitist or not elitist enough, for being too narrow or too wide-ranging: the same kind of criticisms that the current institutional model attracts.

Contestable funding achieves the two objectives I described earlier – coping with market failure and promoting local content - however modestly. It does not and cannot sustain the older, universal and comprehensive free-to-view ideal, and nor should it. I find it hard to believe that even the BBC, probably the strongest exemplar of this latter model in the world, will still function in this way when its charter expires in ten years time.

By far the biggest problem for traditional broadcasters, whether funded by public money, advertising or both, is how to get their viewers to pay for their high-end product, at least on first viewing. In my view contestable funding should allow for such premium payments as part of its business model. Free viewing comes later in the chain. If the PSBs cannot achieve this in the reasonably near future, we will see much of this premium programming, particularly in drama and comedy, disappear from our screens – at least until someone comes up with a new model for getting them financed.

High Definition Television both makes this problem even greater but, in my view, could offer a way forward if the broadcasters were willing to take it. The introduction of HDTV – in the UK at least – replicates the original problem posed by the development of standard definition digital television to traditional broadcasters: it costs a lot of money in its early stages and – to those in the free-to-view world – offers minimal prospects of new revenue. (At least with DTT, as I explained earlier, the PSBs discovered how to create and exploit families of channels in the new space they had been given: there is no such prospect in HDTV.) Pay broadcasters like Sky face no such difficulty; they can introduce new technologies and get their subscribers to pay for them. In Britain the traditional broadcasters want free additional spectrum as the price for making the switch; at the moment the Government and Ofcom are refusing to do this. If both sides persist in their current attitudes we might turn out to be witnessing the end of much PSB in the UK. Unfortunately, few traditional broadcasters seem to see HDTV as offering the chance to break the free to view habit and get viewers to pay for the service on a premium basis.

Finally, a word about the continuing creation of original content in smaller countries like yours. I recently visited the Irish republic as a consultant to British Telecom to offer advice to the Government and industry of the development of digital terrestrial services there. It struck me that the single most important reason to pursue this path was to preserve the place of RTE, the Irish PSB, as a creator of original Irish programmes. The Irish do not, as the British do, have a need for a more efficient use of the existing terrestrial spectrum. (Though, with the prospective development of to-the-kerb broadband, they could in theory do without DTT altogether.)

However the public broadcaster RTE, faced with its own versions of the problems of decline, needs both continuing public funding and a place on a new DTT platform, if it is to sustain its ability to make a serious amount of original programmes. I imagine a similar issue faces you here with TVNZ. While receiving a decent amount of public money cannot on its own guarantee RTE’s future, withdrawing or diminishing this will certainly threaten it.

I think that around the developed world we are now well into a long transition from the highly regulated publicly financed environment that flourished twenty years ago to a conventional market place, with all the advantages and problems that brings. We will all still need public money but this will have to be administered through new models. I congratulate New Zealand on having been the first to realise this.