



Co-ordinating Committee for Media Reform

FUNDING MODELS FOR NEWS IN THE PUBLIC INTEREST – preliminary briefing paper, 28 November 2011. For further information, please contact info@mediareform.org.uk.

As has already been demonstrated, a high degree of media concentration limits media pluralism and deters reform of the press by cowed politicians. This has perpetuated a culture of impunity in which press self-regulation has failed, and a cowboy spirit has prevailed that has given rise to the illegal hacking of voicemails. Meanwhile the local press is in steep decline, emasculated first by freesheets and more recently by the diversion of classified advertising to the internet. If we are to tackle these problems and come up with effective solutions, we have to examine the funding of the media. It is to this that we now turn.

Introduction: a crisis in news does not mean there is a crisis in the communications industry

It is no secret that the traditional business models for delivering news are in crisis. Faced with the slow but steady decline in readers and viewers, the migration of advertising online, only limited success in 'monetising' new online audiences and now a crisis of legitimacy underscored by the phone hacking scandal, the economics of news are looking grim. As Claire Enders pointed out in her [presentation](#) to the Leveson Inquiry, Johnstons Press, Trinity Mirror, Northcliffe and Newsquest have all suffered huge falls in income, including the loss of £1 billion in classified revenue from 2008 to the present.

The severe pressures affecting the business models of news should, however, not be conflated with problems concerning the profitability of the wider communications sector. Consider the comments in 2008 of Emily Bell, then content director of Guardian Digital, who [claimed](#) that

We could be on the brink of two years of carnage for Western media. In the UK, five nationals could go out of business, and we could be left with no UK-owned broadcaster outside the BBC. We are facing complete market failure in local papers and regional radio. This is a systematic collapse—not just a cyclical downturn.

Three years later, the predicted collapse has not taken place and no national newspapers have yet gone out of business.

Indeed, in 2011, the editor of the *Financial Times*, Lionel Barber, [painted](#) a rather different picture to that of Emily Bell:

the decline of the newspaper does not necessarily translate into the death of the newspaper. This is not nostalgia or some irrational fondness for dead trees – print newspapers can still be profitable products; many of our readers and advertisers still want them; and our journalists still know how to write and edit a great print newspaper. And print advertising, while declining as a portion of revenues, is still a powerful machine. Moreover, new, more efficient forms of printing are springing up which are less expensive than the industrial style plant with gigantic (and costly) presses.

Barber is on to something. Profits in 2010 for many UK news providers, as well as organisations which have news outlets as part of a much wider portfolio, were significantly *up* from the previous year.

Company	Profits in 2010 (£m)	Up or down from 2009
Trinity Mirror	101.5	Up 39.6%
Daily Mail and General Trust	247	Up 22.9%
Telegraph Media Group	60	Up 53%
Northern and Shell	30.3	Up 240%
Archant	8.2	Up 157%
BSkyB	1170	Up 157%
ITV	321	Up 200%
Pearson	670	Up 28%
Press Association	5.7	Down 12.3%
Newsquest*	88.5	Down 52%

* figures from 2009 and 2008 respectively. All figures taken from company reports.

When it comes to Google, an increasingly powerful actor in the news industry, the situation is particularly encouraging. According to the [Evening Standard](#):

accounts for Google UK Limited, recently filed at Companies House, showed it made a pre-tax loss of £22 million with a turnover of £240 million. Yet the parent company, Google Inc reported to the American stock market in January that the UK had generated £2.15 billion in revenues. It should also be noted that the UK is Google's biggest overseas subsidiary. Google Inc's profit before tax was £6.98 billion in 2010. Analysts believe that on that basis, UK profits could or should be 10% of that figure.'

While Google, as well as some other companies listed in the table above, do not make the bulk of their profits from news, we can nevertheless conclude that some major organisations active in the British news and media industries continue to make substantial profits despite the undoubted volatility of the period.

Reactions to the crisis of news business models

First, there is an attempt to search for additional revenue sources and, in particular, to monetise digital audiences through the creation of paywalls and digital subscriptions. It is too early to assess the success or otherwise of, for example, the *Times* in erecting a paywall for its online edition but it is notable that, unlike FT.com, it does not provide any specialist information. It seems unlikely that paywalls will be a successful model for ‘generalist’ news in the short-term. As long as there is at least one source of news that is free in a similar format, there will be little reason to pay and therefore little certainty that revenue from digital news will compensate for lost advertising and print sales particularly because, as an [Enders Analysis briefing](#) argues, online readers are worth only between one quarter and one third that of print readers.

Second, there is the view, held by a large proportion of the news industry, that news organisations must do whatever it takes to ensure their survival. Cost-cutting, bureaux closures, the pursuit of multi-platform efficiencies and the intensification of competition within specific market segments are all justified by precarious economic conditions. Above all, no additional economic or regulatory demands should be imposed on companies in such dire financial circumstances.

The economic situation is particularly acute in regional and local news where conglomeration has seen a diverse ecology of media ownership now reduced to a handful of major media groups who have bought local and regional news businesses using leveraged debt finance. This has led to aggressive business plans that have undermined local news in the following ways:

- Costs have been cut whilst output increased, meaning fewer journalists work on more stories, with inevitable decline in quality and depth.
- The leveraging that has taken place to finance this conglomeration has led to groups requiring returns of around 30-40% each year to service debt and enable dividends to their shareholders.
- Local offices have been closed and production centred on regional editorial offices, leading to reporters being remote from the communities they serve – and seen as such by readers and viewers.

We are left, following this approach, with the prospect of a significant democratic deficit given that the sectors left most vulnerable—investigative journalism, foreign coverage, regional and local news—are precisely some of the areas most central to the ability of news to serve democracy: to hold power to account and to produce well resourced, innovative and relevant stories.

However there is a third approach that this briefing will highlight: one that accepts the instability of existing business models but seeks to highlight a range of alternative models—both in terms of organisational structure and revenue generation—that may sustain news in the public interest.

These include fresh proposals for co-operative, community and charitable structures as well as new methods of funding that may include levies and other subsidies to ensure that journalism's ability to contribute to robust democracy does not fall victim to a short-sighted determination to cut costs and boost profits. We need to reconsider existing support mechanisms and funding arrangements and propose alternative remedies to current ills because, as a recent [Reuters Institute study](#) on the economics of media makes clear, 'simply preserving the current arrangements will not preserve the status quo'.

Public support is not the enemy of independent journalism

Commercial media organisations and industry associations representing them occasionally claim that public support for the media undermines the viability of market-based models by constraining private enterprise and crowding out commercial players. Comparative [research](#) suggests this need not be the case and that, for example, targeted subsidies for minority newspapers in Finland, discounted rates for postal delivery in Italy, paying the salaries of 60 young journalists in the Netherlands and subsidised provision of newspapers to young people in France have all helped ensure 'the press increase its reach, helped smaller publications survive, and helped bigger ones increase both their profits and their potential to do public good.'

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Field Code Changed

When it comes to public support constraining private enterprise, it is worth keeping in mind that media organisations commonly seen as market-based, like private for-profit newspapers, have historically and in virtually all democracies been at the receiving end of considerable amounts of indirect public subsidies through extensive tax exemptions and other forms of regulatory relief. This suggests public support does not preclude private media, but can in fact underpin them and incentivize them to innovate in both their business practices and journalistic enterprises and encourage them to emphasize their public role as parts of democratic politics. Public policy can, in the media sector as elsewhere in society, work with commercial enterprises and need not exist at their expense.

Furthermore, public support need not privilege particular viewpoints nor marginalise others. As the authors of the recent Reuters [report](#) argue, public support for the media that operates through a series of mechanisms including subsidies, tax exemptions and promotion of public service has the 'clear advantage of being able to be instituted in a viewpoint-neutral fashion that does not give politicians or government bureaucrats ways of discriminating against particular publishers.'

In terms of the claim that public support may crowd out commercial players, it is important to note that even very strong license fee funded public broadcasters such as those found in Germany, the Scandinavian countries, and elsewhere in Northern Europe have, commercial misgivings aside, clearly been able to co-exist with sizable advertising and pay-TV commercial television businesses and ensured a more diverse and durable media environment than a more exclusively commercial model such as the one seen in the United States. Some industry executives see the BBC as the main

obstacle to financial sustainability in online news, including James Murdoch who, in his 2009 [MacTaggart lecture](#), claimed that ‘dumping free, state-sponsored news on the market makes it incredibly difficult for journalism to flourish on the internet.’ However, the inability of American general interest news organizations, both print- and broadcasting-based, to break even despite the absence of strong public media competitors suggests that the BBC and other publicly-funded organisations are not what stands in the way of online profitability.

The revenue attached to existing forms of subsidy is considerable. Total indirect support for US newspapers and magazines via a range of tax breaks and reduced postal rates is at least \$1.2 billion a year while in the UK over half a billion pounds (£594m) is provided in public support in terms of VAT exemptions for newspapers alone. Indirect support is far more popular than direct subsidies but nevertheless the latter are still significant in countries like France and Italy making up 10 per cent and 13 per cent respectively of total public support. The problem is, of course, that the value of indirect subsidies, such as those based on non-payment of VAT on sales, is declining in direct proportion to the drop in circulation and print revenues. Yet, if they were extended to digital sales, this could amount to a considerable advantage for news organisations facing a volatile time. Surely the current situation is absurd—because VAT exemptions are only provided for print products, it is actually [more expensive](#) to subscribe to the digital-only version of the *Wolverhampton Express & Star* than the much more expensively produced and distributed print product.

The notion of economic incentives, or even subsidies for newsgathering may seem radical and problematic to some, but it is the case that broadcasting policy in the UK has always been based on a system of subsidies since its inception and that there remain strong reasons, based on market failure and social welfare, to continue them. The principle source of public subsidy outside the BBC has been the use of spectrum licensing as an indirect subsidy scheme. The main terrestrial ‘Public Service’ television broadcasters do not pay market prices for spectrum and the economic benefit of advertising revenues that result is used to fund news and other public service genres. Whilst it is the case that subsidies of news may entail problems of broadcaster independence it is arguably the case that the current system is already subject to such pressures.

The subsidies that currently go to large media organisations, in the shape of tax breaks and VAT exemptions, could be used along with new sources of funding (that we describe below) to divert sums of money into funding publicly accountable media designed to increase diversity of opinion in the printed media, broadcasting and the internet. Indeed, we propose that if large news organisations are to continue receiving indirect subsidies, this must be conditional on their practical support for either new or existing forms of public interest news.

Any use of public money, however, must also be transparent and open to effective challenge. Interventions have to ensure that there are proper ways of accounting for public money and, above all, that the end product of public support is to enhance diversity of expression in the country. This must also be applied to the composition

of any new bodies that allocate funds for public interest journalism which must include individuals with different views and from different backgrounds. Neither markets nor bureaucratic control have delivered and sustained the journalism we need. It is therefore time to demand that major communications interests make a significant contribution to a diverse and accountable news landscape and to develop new, democratic forms of organisation in which the public plays a more active role in the governance, commissioning and production of news.

New forms of revenue generation to support public interest news at a national and local level

Given the closure of many local newspaper titles, the decrease in regional bulletins and the demonstrable need for more accountable news organisations and more 'monitorial' news, we propose the following remedial actions that would generate substantial revenue to sustain existing and create new journalistic projects that operate in the public interest.

Extend indirect public support

Extend VAT exemptions to cover digital subscriptions and payments but only on condition that the recipients make a specific commitment to use this additional revenue to fund specific news-related projects including the News Publishing Commission (proposed by the CCMR Ethics workgroup) and ventures with an explicit commitment to the public interest.

Charge news aggregators that exploit news content

Online news is often accessed not directly through the actual news source, but through portals and news aggregators (like Google News and Yahoo News). News portals normally use the paid services of newswires and press agencies to gather their content. News aggregators, however, often only provide the headlines and first few lines, and link to the original news source. Some of that is licensed material, but a lot of the snippets of articles provided on the news aggregators' sites are not paid for, as it is considered to fall under 'fair use' by the aggregators.

This has led to accusations of the free exploitation of professional copy by news aggregators for their own commercial gain. In parts of Europe, newspapers have taken action against Google to prevent unauthorised use of their material, and the British newspaper industry has asked the UK government to intervene in order to stop Google using its material without paying for it. Regulation would be required for this type of funding to be forthcoming, and to ensure that appropriate revenues go to the original news producers, whether organisations or the increasing number of freelance contributors, and not just to those who present and further disseminate the material. If we wish to encourage original news reporting and investments in investigative journalism, we need to ensure ways for it to be financially viable for news organisations.

Industry levies

Levies, a surcharge or a tax on the revenues or profits of certain sections of the media industry, are common in many European countries and are found to be popular among the public. In 2009, the Institute for Public Policy Research conducted a thorough [investigation](#) into the potential of industry levies as a means of funding public service broadcasting. It found that a 1% levy on pay TV operators such as Sky and Virgin Media could bring in around £70 million a year. Figures from 2010 would increase that to £85.5 million.

A similar fee imposed on the country's five major mobile operators could generate £208 million a year while a one per cent levy on the total revenue of UK telecoms, according to 2010 data, would generate £405 million. Making Google meet its full tax liability in Britain would boost the pot by at least a further [£100 million](#).

Far from being 'stealth taxes', these would be open and transparent mechanisms applied to a range of operators—which could include ISPs, broadcasters, mobile phone operators and hardware companies—in order to raise much needed revenue to fill news 'gaps'.

Alternatives to the market in the provision of news

Despite claims to the contrary by many proprietors keen to shrug off the prospect of regulation, the UK news industry is not, by and large a normal commercial industry. It is true that it is just as keen as any other on selling its products (whether titles or audiences), reducing costs and operating as 'efficiently' as possible. But it is also the case that the UK's most popular television bulletin and news website is subject to a public service remit and subsidised by a licence fee; that Sky News has long been supported by the profits made by sports subscriptions at BSkyB; that the *Guardian's* far-sighted investments in digital and commitment to investigative journalism has been made possible by its unusual Trust ownership status; and that the losses of many print titles have been borne by proprietors eager for political influence. *Guardian* editor, Alan Rusbridger, was right to [claim](#) that the 'truth about our market is that, with the exception of the *Daily Telegraph*, we all exist on some form of subsidy so you are not talking economic businesses'.

So the news market is *already* circumscribed by a range of interventions and characterised by a variety of organisational forms including trusts, public limited companies, publicly funded corporations and family-owned businesses. Furthermore, policymakers, ministers and regulators have also developed a range of proposals in recent years aimed at fostering and protecting public interest news in the face of economic difficulties. This includes [Ofcom's proposal](#) in 2007 to develop a Public Service Publisher, operating on an annual budget of £50-100m, dedicated to using digital media platforms to nurture new forms of public service content; [Ofcom's idea](#) in 2009, later supported by the Labour government, for Independently Funded News Consortia to provide regional and local news coverage across the UK; and the current government's commitment to roll out [local television services](#) across the UK. All of these projects were premised on the idea of *new* structures to deliver public service content and all of them depended on elements of non-market

provision, most notably in terms of their dependence either on BBC content or portions of the licence fee.

These initiatives are based on the argument that the multiplication of media channels and platforms reduces the ability to achieve public service outcomes by regulatory demand – witness ITV’s [claim](#) in 2008 that the costs of regulatory obligations on the terrestrial platform are beginning to outweigh the benefits of being on that platform, as opposed to less regulated platforms of satellite and cable. The Public Service Publisher, in particular, rested on the conclusion that regulatory obligations for public service must ultimately be replaced by financial incentivisation in the shape of a substantial fund available for public service content.

Our interest here, however, is to highlight the *multiple* ways in which we can best sustain public interest journalism at a time when commercial models have fallen well short of this task. Partly this is through placing obligations, as we have already suggested, on some of the largest news organisations who already benefit from indirect public subsidies to continue to provide, and indeed increase, resources available for ethical and robust journalism at a national level.

But we also need to develop forms of ownership, and indeed new types of organisation, that are best placed to sustain public interest journalism at a time when commercial models have fallen well short of this task. Discussions of alternative models of news provider ownership, such as Trust models, are not new. For example, the 1949 [Royal Commission on the Press](#) gave a good deal of consideration to the value of trust ownership between and found that, while trust ownership does not by itself safeguard quality or independence of news coverage, trust structures ‘can be a valuable means of preserving quality where quality already exists’. More than 60 years on from this report, these discussions should be revisited.

However, given that it is the local and regional news media that have been especially hardest hit by the combination of the migration of advertising to online spaces, economic recession and technological shifts, this is where we are going to focus our attention.

Recent years have seen the development of an idea that local news is in terminal decline, as evidenced by the number of titles closing and journalists being made redundant. This has been accentuated by the [announcement](#) in October 2011 of hundreds of proposed job cuts in regional BBC news rooms as well as a reduction in the number of bulletins and the sharing of current affairs output. This follows Ofcom’s [sanctioning of cuts](#) in regional ITV newsrooms back in 2008.

It is argued that local newspapers, in particular, are a dying media form, challenged by the internet which is capturing classified revenue and undermining readership.

But this isn’t the only reason that 20% of local reporters have been laid off in recent years. We need to focus our attention on the way newspapers are owned and

governed. A societal shift in news consumption and production is being magnified by a business model which has left current titles unable to respond in any way except that which suits their balance sheets, i.e. closure, cutbacks and redundancies.

The upshot of the cost-cutting has been to make much news *remote*, even though readers and viewers need to feel that the people producing the news understand the community, empathise with it and will reflect it truthfully. In the case of many local newspapers, the dash for unsustainable profit levels has created conditions where quality suffers, sales decline and further cuts are made until, eventually, the paper closes.

We should be careful not to call time on the era of local news, in whatever format it is presented, for the simple reason that the need it services still exists. Whilst increased geographical mobility has undermined the strong sense of rootedness noted in previous decades, localism is acknowledged to be an increasing force in society.

For example, a recent report in the *Economist* noted that amidst the talk of the death of local news, there were still success stories including a group of extremely local newspapers based around Hampshire, such as the *Lymington Times*. It concluded that:

These papers, and others like them, are successful because they retain the best characteristics of their past. They have low overheads and levels of debt. They cover the local news and politics which matter to people. They have a belief in themselves that, some say, results in high staff satisfaction and low employee turnover.

People are connecting locally, acting locally and demonstrating that they want more control over their lives and that of their local area. All major parties subscribe to this view on a policy level—not least the current government with its [Localism Bill](#)—and civil society action at local level grows daily, from community shops, credit unions, protest and action groups and volunteering.

There needs to be a better recognition of the role of local and regional news as public services as well as businesses. They can be a ‘watercooler medium’, providing information that helps to bond communities together. They enable new members of that community to understand what issues concern people and what services are available. Furthermore, at times, they hold local power to account—a critical function of the local media—and provide a physical expression of the very existence of a community.

The importance of local news (not least to local politicians who require adequate local coverage for publicity) makes this an issue of public policy as well of business.

We need models of news which:

- Put the needs of regions and communities before that of remote owners

- Reflects the sense of local news as a service as much as a business
- Can be sustainable year-on-year to provide a stable business model
- Can fund ways to tap into the community's goodwill, raising money through innovative forms of equity rather than debt
- Are flexible enough to engage in experimentation to address the real challenges and opportunities of the internet and not to use them as a smokescreen to cover for failed business models.

There are three types of ownership structures that may help to deliver these public purposes: trust, charitable and co-operative ownership.

Trust ownership, such as that found at the *Guardian*, *Frankfurter Allgemeine Zeitung*, and the *New York Times* is a means of placing ultimate control in the hands of trustees who are obliged to fulfil specific remits and adhere to certain values. A [Reuters Institute report](#) from 2011, *Is There a Better Structure for News Providers?*, gives a full assessment of the advantages and disadvantages of trust ownership. It concludes that trust structures are more commonly found in larger commercial organisations and that, while they may be used to preserve a certain journalistic ethos and can be particularly significant during times of intense commercial pressure on news media, they are not a panacea either for economic difficulties nor for challenges to core professional values.

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Field Code Changed

Charitable ownership for local newspapers has potentially more encouraging prospects. There are already a number of examples that demonstrate the successful work of charities in media, notably Prison Radio, TV for the Environment, British Film Institute and the Media Trust.

Charitable *local newspapers* have enormous potential to bolster community co-operation and civic participation. [According to Lord Phillips of Sudbury](#), Liberal Democrat peer and founder of solicitors BWB who specialise in charity law, it is absolutely clear that, despite some legal uncertainties, 'the promotion of community life is explicitly a charitable Purpose'. It is also his opinion that the Charity Commission is at last ready to accept that local newspapers can be successfully owned and operated by a charity. There is no need for a change in charity law. In order to implement the model, an existing newspaper will need to navigate the process of obtaining charitable status.

There are many advantages of charity ownership including:

- Trust: The image and idea of a 'charity' has remained relatively unsullied in recent years/decades while there has been an alarming decline of trust in other social institutions.
- Financial gain: charities are eligible for a variety of tax reliefs including Corporation Tax, Capital Gains Tax and Stamp Duty Land Tax. A newspaper owned and operated by a charity would be eligible for 80 per cent mandatory rate relief.
- Gift Aid on donations

- Eligibility for charitable grants and donations
- Bequests (often underestimated as a potential revenue stream).

There are also significant challenges for charitable ownership in that a charitable newspaper must have exclusively charitable objects and must be for public benefit in order to gain charitable status. However, it may actually be easier to ensure editorial independence in a charitable newspaper than a non-charitable one as independence can be underpinned by the paper's charitable status. The Charity Commission accepts that without the ability to publish political views, newspapers risk being bland and muted and that publishing such views would not jeopardise its charitable status. What the paper could *not* have is a fixed editorial bias or express party political views. It would be necessary to build into the charity's constitution a commitment to impartiality and some reference to an ombudsman of sorts. It would also be desirable to have a capacity for external audit and an ethos statement.

For any newspaper successfully to register as a charity, it would have to maintain certain key features:

- Adhere to its charitable objects: the independent advancement of citizenship, civic responsibility and community development
- Be non-partisan and unprejudiced
- Strive to be a newspaper of record
- Contain a letters page as an open forum.

Finally, a number of different governance structures are available to charitable local newspapers. Attracting editors and journalists of a high calibre might be less of a problem for a local charitable newspaper, with the scope to tap into a legacy of voluntarism (in the governance, not the production, process) and a sense of 'giving back' to the community. One possible structure would be to open up some category of membership to all local residents, enabling participation in elections to the board and fostering a sense of ownership.

Co-operative ownership, such as that which is increasingly being used in co-operative pubs, is increasingly appropriate given the failure of commercial organisations to produce meaningful and ethical news.

As member-controlled, co-operative ventures can offer a means for readers (and writers) to influence news values and editorial stance in more nuanced ways than is currently allowed by the binary choice of either buying the paper or not. Co-operatives also must exist for the benefit of their members, rather than to generate profit per se; profitability is essential but legally only a means to an end, in this instance, of providing meaningful content to readers and members. Co-operative models have two further advantages. Firstly, their readers and members must fund them, so they cannot become dependent on a revenue stream that may or may not have the same interests (or longevity) as the outlet's reader community. Secondly, by being internally funded, co-operative media would be honest and facilitate a publication of size and scope commensurate with what its readers were prepared to pay for it.

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Conversion of existing titles into community-owned newspapers -
Creation of new platforms or titles run as community-owned ventures -

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To make these happen, you would need a 'Supporters Direct'- style body (based on principles of community ownership and member participation) to advise communities on how to create a community-owned media outlet and either make a bid to take over an existing newspaper or create a new one from scratch. You would look to create a model which was financially robust and investigates all the possibilities of co-production and multi-media approaches. That body would be given funding to exist and control a fund to provide either grant or loan finance to enable community groups to own or create community-owned newspapers. -

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There is, of course, a particular challenge in transferring an existing title to co-operative ownership. Despite the talk of an industry-wide crisis, many local and regional newspapers still run at a considerable profit, even with declining revenues, and current owners are therefore loathe to let go of them. Whereas a loss-making national like *the Independent* may be acquired for a pound, existing proprietors at present do not seem keen to let go of their local or regional titles, unless compensated in some way. -

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Additional policy options to stimulate community ownership might therefore include: -
Incentives to existing newspaper groups to transfer titles to community ownership at low/no cost (either formally or via *quid pro quo* on other issues) -
Right to buy titles from existing owners by community groups (like Highlands land transfer) -
Tax incentives for community groups to fund takeovers and investment

In this final area, co-operatives offer a new deal to readers hitherto used to receiving their news subsidised by some other source. If those sources—especially at local level—are disappearing, then the readers in whose name the title exists must take on greater responsibility. Co-operative ownership means that this is a fairer arrangement, as greater financial input is accompanied by enhanced editorial and strategic input, elements which are lacking at present.

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Four proposals to enhance UK news provision

Invest in Community Radio

Community radio in the UK has been relatively late to emerge as a distinct sector, in comparison to most other Western European countries. However, in 2001, the government gave the green light for 16 pilot ‘access radio’ services in advance of planned communications legislation. The ‘access radio’ pilot was evaluated in 2003 and deemed a clear success with community broadcasting being described, by the independent evaluator, Anthony Everitt, as promising to be ‘the most important new cultural development in the United Kingdom for many years.’

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The Communications Act 2003 provided enabling powers to extend broadcasting legislation to community radio while in 2004, Ofcom opened a general call for applications for community radio services from which 194 applications were received. The first community radio to be licensed under the new law was Forest of Dean Community Radio on 11 March 2005. Five years after the Community Radio Order 2004 came into effect Ofcom has reported 214 licences issued and 159 on air.

Evaluation studies of the sector undertaken by the Department for Culture, Media and Sport and by Ofcom have reached strongly positive conclusions about the effectiveness of community radio in contributing to social gain and community cohesion. In its [Annual Report 2008/09](#) Ofcom described community radio as: 'one of the great UK broadcasting success stories in the last few years'. Furthermore, a [research report](#) prepared for Ofcom in 2011 found that there was a large appetite for micro-local news delivered by 'small scale' radio stations (referring to a combination of commercial *and* community outlets) with some 79% of the sample identifying local radio as their preferred source of local news (even more than local newspapers).

However, it is equally clear that the success of community radio has been built on rather weak economic foundations and that many of the UK's community radio stations are operating under very precarious financial conditions. In order to address this, the Communications Act 2003 provided for a Community Radio Fund to support licensees. In March 2004, the government announced its intention to proceed with an initial commitment to the fund of £500,000 for 2004/05. Since then, however, there has been no further increase in the annual budget for the fund while the number of licensees has grown from 14 to over 200.

When the Community Radio Fund opened in 2005/06 there were only 17 applications and all received approvals of support from the fund, with an average grant per station of £26,119, representing around 20 per cent of sector income. In 2008/09 the Community Radio Fund received 117 eligible applications, against which only 30 grant awards were made, with the average grant per station being just £14,978, well below the £30,000 per annum (just over £35,000 at 2010 prices) suggested by Everitt in his official [evaluation](#). This needs urgently to be corrected if the social potential—including a well resourced hyperlocal news service—of community broadcasting is to be realised.

Develop Local News Hubs

A further way of responding to established demand for relevant, local news is the idea of the 'local news hub' as proposed by the [Media Trust](#). The concept is based on the combination of citizen involvement in feeding and shaping stories, an emphasis on collaboration rather than competition, and the creation of local newsrooms run by professional local journalists.

A local news hub that functions across media platforms could be responsive to the need for an easily identifiable and visible centre for news gathering in the community. It could also, importantly, be a meeting place where people share concerns with a view to putting them out in the local public sphere (whether that is online, in print, on radio or television) increasing local deliberation and ultimately effecting social change that would in turn attract more local involvement . This would be a place where local people could collaborate with local paid-for journalists who work for local news media that may be published or broadcast elsewhere but that have a newsroom in the hub and hold regular news surgeries with the local community.

Newsrooms operating out of news hubs could enable further cross-collaboration and training. This could function through direct link ups to journalism courses at local universities but crucially they could also provide training opportunities that counter the financial and cultural barriers currently blocking equality of access to the profession. They would also be able to offer support for training for current media workers providing the skills they need to work in modern newsrooms. It would also mean that community media and mainstream media link up more readily and share training and facilities as well as cross-promoting content and contribute to community renewal.

Local news hubs could be funded through multiple sources. They would be likely to attract some display and classified advertising from local businesses which would be placed on whichever platform is most suited to the target audience. There is also a crucial role for foundation grants and local government subsidies for new start-ups. Subsidies could come from local government advertising—guaranteeing that their local information campaigns reach their target audience while supporting and nurturing local media. This could take the form of matched funding from local authorities—a small fraction of their current £450m spend on communications.

There should be a review of the current tax regime for media organisations to examine how it can create further incentives to invest in quality local journalism in local communities operating out of the news hubs. Furthermore if there is to be any relaxation of cross media ownership regulation, companies wishing to take advantage of this should be required to support local news hubs through investing resources in them (both financial and professional), thereby fulfilling a formal obligation to invest in genuinely local newsgathering and everyday and long-term investigative reporting. Their obligations would also extend to an investment in training and community link-ups.

If properly financed, we believe that local news hubs could reinvent local newsrooms fit for the digital age while ensuring that local communities are given a renewed role in local democratic life.

Give New Powers to the Public

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Particular emphasis should be placed on ensuring that public funds are spent in ways that serve the stated preferences of people in defined localities. In addition to news hubs, we recommend giving citizens a direct say in the distribution of funds for research and investigation. Serious journalism has struggled to fund itself in the marketplace in recent years and it is time to acknowledge that we can only hope to maintain a lively and combative investigative culture if public subsidies are subject to meaningful public oversight and control.

We therefore propose giving citizens some power to direct and publicise inquiry. Public patronage of this kind will provide journalists with alternative source of funds and ensure that matters normally treated superficially or ignored—including the operations of the media—can be held up to sustained scrutiny. It would also encourage a more lively culture of deliberation and debate in the general population. The public already provide extensive subsidies to the media, as this report shows. Giving the public some powers to commission inquiry seems only reasonable in light of this lavish support. In this way, local and regional news media would help to serve as guardians of the public interest. At the moment, all too often, powerful interests ensure that some stories remain radically under-reported. Public opinion is a consequential matter and the public must play an active part in shaping it.

Fund Entry-Level Journalism Jobs

In the light of the disappearance of many journalism posts, we recommend a direct subsidy to local news organisations (both offline and online) to fund a single political reporter. The subsidy would cover the salary of one journalist who must be dedicated to coverage of local politics— in the town hall *and* in the community. The jobs should be paid for at the entry level with the intention of providing job creation opportunities for young journalists as well as improving democratic accountability and debate at local level. This is similar to the [direct subsidy scheme](#) of young journalists in the Netherlands, except that, in our proposals, the journalists would be required to focus on political coverage.

Any organisation that could provide evidence of attracting a reasonable audience in the locality should be able to apply for this funding and would have to demonstrate that the person employed was wholly dedicated to writing stories about political and civic life in the community. Adherence to the News Publishing Commission’s Code of Ethical Practice would be part of the conditions of service.

This initiative is especially designed to help emerging hyper-local sites. As long as they could get their visitor numbers up to an agreed level (for example, 10,000 hits a day) they would be able to employ a full-time journalist, freeing up resources to focus on other activities to grow the organisation. By encouraging viable local initiatives, we would be adding to the news ecology, creating jobs and facilitating the coverage of local civic life at a time when this function is under threat.

Conclusion

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If properly financed, we believe that local news hubs could reinvent local newsrooms fit for the digital age while ensuring that local communities are given a renewed role in local democratic life. -

There is no lack of demand for news in the UK but there is an increasing unwillingness to fund more expensive or less commercially attractive forms of news in a highly unstable climate. We have suggested a range of new organisational structures, news projects and sources of revenue which the government could help facilitate in order to back up its commitment to protect news as a vital democratic resource.

Non-commercial and not-for-profit models of various types, together with a variety of direct and indirect support mechanisms, offer a chance of building long term and secure ownership structures that can put the needs of communities and citizens ahead of those of shareholders and proprietors. Just as not-for-profit organisations in non-media areas have proven very resilient, there is no reason why news organisations structured on charitable, co-operative or community lines could not work to support local news media.

News has always been subsidised. The point is to make sure that existing and new subsidies stimulate journalism in the public interest rather than simply keeping an old and tired business model afloat.

Summary of Recommendations

1. Extend VAT exemptions to cover digital advertising and sales but only on condition that the recipients make a specific commitment to support any new regulatory body and public interest news ventures.
2. Insist that public support is provided only to institutions which can prove that they are accountable to the public that helps sustain them.
3. Investigate ways in which to make sure that news aggregators pay their way in the distribution of original news content.
4. Consider a range of levies on communications companies to help sustain new and existing public-service oriented news projects.
5. Amend charity law so that local newspapers may be operated as charitable organisations.
6. Introduce tax incentives for community groups and co-operative bodies to fund takeovers and investment and to facilitate transfers.
7. Increase the Community Radio Fund to a level that has significant impact as a lever for other investment and as a driver of quality hyperlocal news and informational content.
8. Consider matched funding of local authority spending on communications and advertising to support local news hubs.
9. Consider ways to enhance levels of public participation in the commissioning and production of news.
10. Subsidise entry level jobs for journalists at a local level with a specific brief to cover local government and local democracy.

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Appendix

The impact of 'free markets' in the media

This is a short summary and evaluation of the range of arguments that are used to support the idea that the media industries are best run like 'pure' businesses and that they should be run with the minimum amount of interference from governments. What are some of the main themes of these arguments and what are their weaknesses?

Freedom of the Individual

In Western democracies we live in societies which claim to prioritise freedom of the individual in matters of personal behaviour and expression. Any interference from the state can only be justified if the behaviour of those individuals causes damage to the interests of others. Given the media's vital role in sustaining democratic debate, state interference, even when the media damages the interests of others, should be carefully judged.

Underlying a good deal of the thinking about the media therefore has been the idea that, like an individual, a newspaper or a broadcasting organisation should have the maximum amount of freedom and be allowed to conduct its affairs with the minimum of state interference. This has been particularly so in the US where the First Amendment has increasingly been used to allow large media organisations to do what they want both commercially and in terms of the content they generate. In the UK we have incorporated the European Convention of Human Rights into law, and this both recognises the rights of individuals and the media to freedom of expression, but seeks to achieve a balance between the two.

It is important to maximise freedom of expression for individuals and media organisations. But it is stretching a point to argue that because we value freedom of expression for the individual, the same should apply in all cases to all media. In an age when many of the global media giants can exercise massive power over the agenda of social and political debate it makes sense to consider ways in which

- excessive power over communication should be restrained;
- constraints might be put on organisations in order to prevent undue influence in the arena of public debate.

In other words, allowing the freedom of the individual to be a yardstick against which to judge the behaviour of media organisations is in effect to equalise two very different types of power, and to allow concentrated power the same rights as that of atomised individuals. In such cases it is always the former that trumps the latter.

Freedom from the State

'We understand that we have to stand together, we have to clean our house. Or else we face statutory regulation which nobody wants' (*Financial Times*)

editor Lionel Barber in speech to 'The Press We Deserve' [conference](#), 20 September 2011).

Whenever reforms of the ownership or regulation of the media are mooted the argument is put that any state interference will inevitably lead to censorship. This is rooted in the fact that between the 16th and 19th centuries the state was, arguably, the greatest threat to freedom of expression in many European countries. Since then there have also been plenty of examples of states using their power to control the media.

What was true of the 17th century is not true today. In the 17th century a relatively centralised, powerful state, exercised power over small scale pamphleteers, news gatherers and book publishers. It was understandable that people continued thereafter to be wary of the state. But since the late 19th century there has been a tendency for the state to take a back seat on matters of ongoing censorship and control in Western democracies. What has emerged are large media organisations—particularly in the commercial press, broadcasting, film and internet industries—that dominate whole sectors and which through the selection, omission, or over emphasis of particular issues exercise considerable power over the political process. Although direct political funding of newspapers by political parties had in general disappeared by the 1950s, in the UK and elsewhere politicians had long been concerned to cultivate the views of the main newspaper conglomerates. This has given media organisations a massive role in determining the political and cultural agenda of contemporary societies.

Since the 1980s, in both the US and the UK, through a series of liberalising measures, we have had a situation where the state has actively intervened to promote the interests of large media conglomerates. As a result these organisations have played a major role in shaping political debate in the UK and the USA, with many advocating precisely the same neo-liberal perspectives as their governments and simultaneously ensuring that the issue of media ownership and control is kept under off the public agenda.

In fact, as the rush to re-regulate the media in favour of the market demonstrates, there is no country where the state does not play a major role in organising the economics and content of the media. In the UK, the state not only creates favourable legislative conditions for the expansion of private media, it provides subsidies, as we shall discuss later, for newspapers in the form of exemption from VAT, and allows major media conglomerates like News Corporation and Google to avoid paying full taxation on their massive UK earnings.

Therefore, as with questions of the regulation of standards, the question should not be 'Why should we let the state intervene?', but 'What is the most appropriate form of state intervention to promote plurality of output and diversity of media sources?'

Competition

The other argument that is used is that through competition we get the greatest diversity of organisations and, consequently, of varieties of opinion. State ownership or interference with competition simply undermines this. This was the argument used in the UK to justify the phased re-regulation of commercial broadcasting in favour of the market after the 1980s.

In fact real competition is something that media organisations want, as long as it suits them. As soon as they grow large and successful they move to reduce their risks, by forming conglomerates, by establishing elaborate controls over copyright, and by seeking legislative favours to block access to their particular parts of the market. In spite of a long history of anti-trust legislation in the US and of Competition Law in the UK, we are still faced with a media landscape dominated by a handful of major corporations.

Competition has its place in any properly organised system of communications, but it should be competition between ideas, the free flow of varied perspectives coming from different sources. Although there have always been small printers and small newspapers, and although today we have an internet full of diverse perspectives, it has always been the case that the ideas that get to most of the people, most of the time, are limited in their range and come from a very few sources. Why? Because large organisations with powerful market share simply dominate the kinds of ideas that get circulated regularly to the mass of the population. And they dominate because they use their economic resources and political influence to ensure their continued dominance.

Competition also creates negative consequences which are difficult to contain. For example, the economic competition which dominates the UK press and the US media, forces companies to target specific markets and to go for the kind of output that will help them win the biggest slice of that market. This leads to newspapers and TV producing material which is largely uniform in content, with variations in style and personalities, but conformity in content and ideas. In addition when competition between very big organisations for market share gets really fierce, the result is a systematic undermining of media standards. The developments of 'shock jock' talk radio in the US, and the tabloidisation of the UK popular press since the 1970s have illustrated this. It was the ruthless 'competitive' drive of News Corporation that resulted in the illegal pursuit of the personal details of celebrities and victims of crime by phone hacking, not some deep seated evil in the souls of a few executives and journalists.

Market-driven competition is also bad for broadcasting. The US has seen the range and quality of its output decrease as the controls over its broadcasting content have been lifted. In the UK there is an assumption built into our public policy that competition is good; but legislators rightly fear its consequences so much so that we still fund the BBC and impose some obligations on commercial TV in order to ensure that the narrowing programme types and lowering of standards, so characteristic of a fully commercial system, is countered. *Indeed, there is a strong argument for continuing to use public policy to secure public interest objectives in broadcasting*

and for extending the principle to other media, in particular the newspaper press and the internet.

Markets also have an in built bias towards reproducing the way things are in society. They operate as mechanisms for creating and disseminating goods, but always within the context of a given set of social and political inequalities. Allowing the market and competition to be the guiding principles of organisation in the media is a recipe for bolstering existing ways of organising the distribution of power and wealth in society. As such markets in the media have a tendency to inhibit informed democratic debate because they leave the power of expression and dissemination to so many people in so few hands.

The first conclusion we wish to draw from the above discussion is to accept that some of the principle ideas that have underpinned the way in which much of our media is organised are flawed. It is inappropriate to draw too strong a parallel between the rights of the individual and the rights of large corporations. The state is not necessarily the enemy of a free media as it once was; in fact it is large media corporations operating as vested interests which put the cultivation of their own interests above that of the promotion of freedom of expression. Competition and markets in communications have their place, but in the long run lead to the enclosure of the media system, dominance by a few major companies and a restraint on the development of proper democratic expression in society.

Secondly, it is clear that the state can have a productive role to play in fostering media diversity. Instead of using its powers to toss favours to large media organisations, the state can and should develop ways of organising and funding diversity in the media. There are plenty of examples of this in the UK and around the world. The most obvious example in the UK is the BBC which exemplifies a tradition of phased and graduated intervention to modify the market place and ensure that the public have access to a wide range of perspectives. While processes of transparency and accountability are just as relevant to the BBC as any other news organisation, it remains the case that companies who seek to benefit commercially from the break up of the BBC, and their cheer leaders in the national press and in selected right-of-centre 'think tanks' like the Institute of Economic Affairs, are leading calls to reduce, pare down and ultimately undermine the scope and scale of public service broadcasting. This, and not the obligation of the BBC to represent and to be accountable to the public, should be resisted by all those committed to securing a diverse and robust news media in the UK.

None of this is likely to happen unless politicians, civil servants and opinion makers take a cold, hard look at what the consequences of allowing markets to dominate communications policy are: a society in which fewer and fewer organisations shape public discussion and in which policy makers and politicians are overwhelmingly drawn from those who are ready to pay homage to the power of large media corporations. Unless action is taken we are likely to see the situation get worse before, if ever, it gets better.