

A Future for Public Service Television: Content and Platforms in a Digital World

**Response from the Commercial
Broadcasters Association**

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A VOICE FOR COMMERCIAL BROADCASTERS IN THE UK

Executive Summary

1. The Public Service Broadcasting (PSB) system remains strong, with audience satisfaction high and the PSBs responding to new technology by developing their businesses with portfolio channels and, most recently, successful VoD services. ITV last year reported healthy profits and paid a special dividend to shareholders of £250m.
2. At the same time, investment in UK content is healthier than ever, flowing from a genuine range of sources, including non PSB broadcasters, producers, tax-based production incentives, and VoD services. This means that hundreds of millions of pounds are being invested into UK content from outside the PSB system. Financing for content creation is more complex than ever before, but UK production is all the healthier for having a greater range of funding sources, more creative competition and plurality in commissioning, and audiences are benefiting from more choice.
3. Going forward, the UK is well placed to build on its position as a leading global hub. New sources of funding are emerging, linear viewing and advertising remain strong and the PSBs are well placed to evolve with new technology. Indeed, their success in developing portfolio channels and on-demand services is founded on their PSB status, as they are able to cross promote between their PSB parent channels and portfolio channels and on-demand services.
4. We therefore see no need for major changes to intervention. However, we ask this review to recommend that the cross promotional value to PSBs' on-demand services is factored into the value of their PSB licences. This is already the case for their linear portfolio channels and will help ensure that the true value of these public assets is realised as on-demand viewing grows.
5. In addition, while supporting the BBC as a cornerstone of the sector, we ask for reform of how its market impact is assessed to ensure that it does not dampen competition in the UK's increasingly mixed ecology, as well as for greater transparency in its reporting.

Introduction

1. The Commercial Broadcasters Association (COBA) is the industry body for multichannel broadcasters in the digital, cable and satellite television sector.
2. COBA members are critical to the global success of the UK broadcasting sector and its “mixed ecology” of public and private investors. As arguably the fastest growing part of the UK television industry, they are increasing their investment in jobs, content and infrastructure:
 - Scale: In the last decade, the sector has increased its turnover by 30% to more than £5 billion a year. This is rapidly approaching half of the UK broadcasting sector’s total annual turnover, and has helped establish the UK as a leading global television hub.¹
 - Employment: As part of this growth, the multichannel sector has doubled direct employment over the last decade.²
 - UK production: In addition, the sector has increased investment in UK television content to a record £725m per annum, up nearly 50% on 2009 levels.³
3. For further information please contact Anna Missouri, COBA’s Policy and Communications Executive, at anamaria@coba.org.uk or 0203 327 4054.

¹ Ofcom International Broadcasting Market Report 2013

² Skillset, Television Sector – Labour Market Intelligence Profile

³ COBA 2014 Census, Oliver & Ohlbaum Associates for COBA

Response to consultation

- 1) The UK broadcasting sector is a global success story, based on an increasingly mixed ecology. Investment in UK content now flows from a genuine range of sources, including public service and non public service broadcasters, producers, tax-based production incentives, international markets and new media such as VoD services. Because of this mixed ecology, while investment from specific PSB channels may have declined – and the extent of this is highly debateable – our contention is that there has never been more funding for high quality original (UK) content. Indeed, UK content production is all the healthier for being less reliant on any one source.

PSB investment

- 2) In terms of PSBs themselves, Ofcom states that “the PSB system remains strong.”⁴ Viewer satisfaction increased significantly between 1998 and 2013, from 69% to 77%.⁵ Meanwhile, PSBs maintain near universal reach and, with their portfolio services, a combined audience share of 72.5%, representing nearly three quarters of the market.⁶
- 3) While Ofcom found that PSBs’ spending on first-run originations has dropped, the fact that first-run hours have fallen by only 5% - and risen in peak viewing times - suggests this has not had a major impact on output. Moreover, declines in spending largely levelled out in 2013.⁷
- 4) Even if PSBs have moved to potentially cheaper entertainment and comedy genres, evidence suggests that viewers had no objection to this, with audience satisfaction rising significantly over the period, as noted above.
- 5) Additionally, the majority of the decline in spending is due to inflation. A major factor behind this is the flat licence fee settlement of the BBC, rather than any underlying market conditions. In addition, it is questionable whether all costs in the production sector have risen in line with inflation.

Investment by non PSB broadcasters

⁴ Public Service Content in a Connected Society, Ofcom’s Third Review of Public Service Broadcasting, Section 2.46, page 3

⁵ Ibid, Figure 20, page 44

⁶ Ibid, page 81

⁷ Public Service Content in a Connected Society, Ofcom’s Third Review of Public Service Broadcasting, Figure 25, page 49

- 6) Furthermore, PSBs' investment is being augmented by a dramatic increase in investment in original content from non PSB broadcasters, who have increased spending on first-run UK programming by 43% since 2008.⁸
- 7) In response to statements by this review, however, we would like to stress that headline levels of non PSB investment cited by Ofcom exclude a number of important sources. Ofcom's headline figure of £343m for annual investment in first-run content by non PSB broadcasters does not include:
 - a. Investment in sports production (as opposed to rights): This supports independent producers, production infrastructure and crews, and creates a range of content including women's and disabled people's sports.
 - b. Investment by smaller channels: Ofcom's sample excluded many smaller channels that are significant investors in UK content – CNN produces 20 hours of news in the UK a week, for example.
 - c. Investment by overseas channels: More than a third of UK commissions by COBA members involve part funding from sister channels within the same corporate group.⁹ Although these will be overseas channels, they will often be regulated by Ofcom via non domestic licences, and so subject to UK rules.
- 8) Adding these factors, and COBA's 2014 census estimates that investment by non PSBs in first-run UK content is nearly £600m a year (and this excludes investment by the portfolio channels of PSBs), rising to £725m if repeats are included.¹⁰

Investment from other sources

- 9) However, this is just the start of additional funding for UK content beyond the PSBs. Other significant sources of investment for UK content (also not included in Ofcom's figures) now include:
 - a. Producer equity: investment by the production company itself is worth more than £200m a year, according to producers body Pact.
 - b. Production incentives: The recently introduced tax breaks for children's, animation and high end television are helping fund PSB and non PSB

⁸ Public Service Content in a Connected Society, Ofcom's Third Review of Public Service Broadcasting, December 2014

⁹ Building A Global TV Hub, Communications Chambers for COBA, page 7

¹⁰ COBA 2014 Census: Multichannel investment in TV production, O&O for COBA

commissions. Recent productions – notably dramas – to benefit include Wolf Hall, Sherlock, and Downton Abbey.

- c. Video-on-demand funding: Amazon and Netflix are investing 10s – perhaps 100s - of millions of pounds in UK commissions such as The Crown, The Collection and Ripper Street. This is largely in drama but also includes entertainment (Top Gear) and factual (Our Planet).
- 10) So, beyond PSBs' spending, hundreds of millions of pounds are being invested in a range of genres. For example, ITV majority funded Downton Abbey, but NBCUniversal, through the producer, provided around 20% of the budget. And, in the latest series, up to 25% of production costs came from the new tax relief. None of this additional investment is reflected in Ofcom's figures.

The benefits of a mixed ecology

- 11) While this mixed ecology means the world is more complex, it also creates a number of advantages. These include:
- a. Genuine plurality in commissioning beyond the four PSBs.
 - b. Providing audiences with increased choice, with a range of additional services, often serving niche audiences in a way that PSBs rarely do.
 - c. Strengthening the financing system by widening the range of funding streams.
 - d. Stimulating creative competition in a range of genres. Between them, CNN and Sky News have won RTS News Channel of the Year for the last three years, competing against the BBC. Sky Arts has raised the bar for arts programming. Disney, Nickelodeon, Pop and Turner are commissioning children's and animation content, including live action and animated productions with public service credentials, such as First Class Chefs, from Jamie Oliver's production company. Drama is enjoying a renaissance, with such ambitious productions as Sky's The Last Panthers and The Tunnel, and Netflix and Amazon with The Crown, Ripper Street and The Collection.
- 12) Much of this content is available free-to-air - more than half of the channels on Freeview are non PSB.
- 13) We also caution against easy assumptions that PSB investment in UK content is guaranteed, while that of non PSB services is not. There is every indication that, given the continuation of a reasonable legislative and regulatory framework, non PSB investment will continue to grow. The UK has strong underlying factors that make investing in domestic content attractive: a strong

production sector, a high level of skills, a large domestic market, the English language and, more recently, the introduction of tax reliefs for television production.

- 14) Conversely, despite statutory commitments and the concerns of Ofcom, ITV1 has exited UK children's programming and was recently fulfilling 40% of its Out of London hours with just one show, a late night listings service.¹¹

The future for UK content

- 15) Far from declining, therefore, investment in UK content is strong, and benefiting from a rich and growing range of funding sources. As a core part of this ecology, PSBs remain strong and are successfully evolving with new technology. ITV last year reported healthy profits and paid a special dividend to shareholders of £250m, while independent research commissioned by COBA from Communications Chambers indicates that the commercial PSB licences remain eminently viable. According to the report, for example, ITV receives an annual net benefit of £87m from its PSB licence.¹²
- 16) PSB status has enabled PSB broadcasters to successfully respond to perhaps the two biggest structural challenges in recent years, digital switchover and VoD. PSBs have adapted to digital switchover by successfully launching portfolio channels, and increasing their group market share as a result. Viewing share of PSB portfolio services in multichannel homes grew from 5% in 2001 to 21% in 2013, outpacing the rest of the market.¹³
- 17) Linear viewing and advertising remains strong, but PSBs have also enjoyed success with their VoD services. The biggest providers of longform audiovisual content in the UK VoD market are not Netflix or Amazon, but the BBC iPlayer, ITV Player and 4oD.¹⁴
- 18) This success in developing digital portfolio channels and VoD services is founded on their PSB status, and the ability to cross promote content between the PSB parent and other services. While all broadcasting groups can do this, PSBs have an advantage in that they have greater audiences in the first place, due to their PSB benefits of prominence and universal availability. Ofcom recently acknowledged this.¹⁵

¹¹ http://stakeholders.ofcom.org.uk/binaries/broadcast/tv-ops/c3_c5_licensing.pdf

¹² The costs and benefits of the C3 licences, Communications Chambers for COBA, December 2014

¹³ Ibid, Figure 3.13, page 31

¹⁴ Ibid, page 145

¹⁵ Methodology for determining the financial terms for the Channel 3 and Channel 5 licences, Statement, Ofcom, July 2013, Section 3.61

Options for intervention

- 19) We believe the system is working well and see no need for major change to intervention. We see no need for reform to the balance of payments system between PSBs and pay TV platforms, as both parties benefit from the current regime. Platforms are able to make PSB channels available, while PSBs are able to reach a wide audience and, in the case of the commercial PSBs, increase advertising revenues from being more widely available. They further boost audiences by receiving the best EPG positions. While PSBs are required to deliver certain PSB obligations in return for these benefits, this does not represent recompense to the platform, which would otherwise be able to sell these prime EPG positions to non PSB channels for significant sums. The current arrangement is therefore in our view fair.
- 20) Nor do we see a need to give PSBs additional prominence for their on-demand services, as these are already performing well and are indeed already prominent. Of course, if they do receive a statutory guarantee of prominence, then the value of this should be factored into the price of the PSB licence.
- 21) On this point, Ofcom includes the cross promotional value to PSBs' linear portfolio channels in its valuation of the PSB licence, factoring this into the cost of the licence and its attendant PSB duties. However, Ofcom has not included the cross promotional value from on-demand revenues, something which we believe it should do regardless of whether PSBs' on-demand services have statutory prominence.
- 22) We therefore ask this review to recommend that this value to VoD services is included in the commercial PSB licences, either in the form of additional payments by licence holders or, if necessary, in additional PSB duties. This will help ensure that the true value of these public assets is realised as on-demand viewing grows.
- 23) In terms of the BBC, COBA members support the BBC as a cornerstone of the UK broadcasting sector. We strongly oppose making BBC services subscription-funded, which would damage the rest of the sector.
- 24) Nevertheless, we believe that the BBC's influence on the creative ecology could be made even more positive if steps were taken to minimise where it has a negative market impact. We have therefore proposed reform of the current system of Public Value Tests to ensure that the onus is on BBC Management to make a convincing case when proposing a change. We also support granting the governing body powers to review proposals that do not meet the threshold for the PVT. Additionally, Management should be obliged to submit detailed proposals to the governing body within a reasonable timeframe after formally

announcing them. Finally on this point, service reviews should explicitly assess market impact once every five years.

- 25) Perhaps most importantly, though, we believe that oversight requires greater independence through an external body. While a unitary board may be useful, it would lack the independence required to hold management to account. Decisions affecting the BBC's market impact, such as PVTs, must be ultimately made by an external, independent body.
- 26) Finally, overseas imports can be a valuable addition to the BBC's schedules, but the BBC must be vigilant in ensuring that a high proportion of its output is UK-produced. We are concerned about the level of imported content on CBBC, which has filled more than 25% of its children's drama quota with one Canadian/US show, *The Next Step*.¹⁶ While CBBC should be able to show an appropriate amount of acquired content, such a high volume, often shown at peak times, seems at odds with the criteria for distinctiveness in CBBC's service licence. We therefore suggest BBC channels should provide a public annual breakdown of acquired and original programming hours. This would help the governing body measure the levels of distinctiveness.

¹⁶ CBBC's service licence requires the channel to show at least 665 hours of drama per year. In 2015, CBBC broadcast 10,505 minutes or 175 hours of *The Next Step*, representing 26.3% of the minimum drama output for the channel. Of the 486 airings, the majority were at peak time (weekdays after 4pm, weekday mornings before 1pm).