

Broadcast Panel submission by ITV plc

Introduction

PSBs are operating in communications markets that are rapidly changing. At the time of Ofcom's first PSB review in 2008/9, the biggest change was the Digital Switchover (DSO) process – something that, with the benefit of hindsight, now looks like a relatively modest change to the number of linear TV channels available. Today's revolution in broadcasting and communications (what one might perhaps call the *real* digital switchover) is on a profound scale by comparison. Global TV content producers, funders, distributors as well as digital advertising platforms (many growing out of scale operations in the US) are increasingly powerful forces in their respective businesses worldwide and are now able to directly reach anyone with an internet connection.

The effects of the arrival of global digital competition in what are still predominantly national audiovisual markets in Europe is starting to look profound. The really important challenge for the UK is in ensuring that the key outputs of the PSB system are maintained and strengthened. In particular, continuing to maintain a strong universal and free to view PSB ecology with very high levels of investment in high quality original UK content **and** strong provision of programming in market failure genres such as local and regional news, children's programmes etc will require real effort and a dynamic and innovative approach to policy making.

PSB is hugely valued by audiences in the UK

All the evidence indicates that the key outputs from the PSB system remain of profound importance to viewers, and that the PSBs are delivering high quality content that in turn delivers clear consumer and citizen benefit. For instance, Ofcom's most recent PSB review consultation found that:

“Audiences continue to value the purposes of PSB and continue to believe that the PSB characteristics are important. Satisfaction with PSB among audiences remains high, in many areas higher than in 2008.

Our audience research suggests that consumers still associated PSB output with quality, and they consider that the programmes produced by the PSBs compare well UK and abroad.”¹

Given the importance to viewers of the PSB system, and given the vital role that plurality and competition play in deliver consumer and citizen benefit, the future strength of the PSB system should not be left to chance.

The PSBs are by far the most important investors in original UK TV content

¹ Paragraphs 3.201-3.202 of the Ofcom PSB Consultation

Not only is the PSB system of profound importance to viewers, but ITV and the other PSBs also continue to be by far the most important investors in original UK television content. Ofcom's headline figures for 2013 suggest that the PSBs' non-sport original content spend of £2.4bn accounted for **87%** of spend on originated content, with the non-PSBs accounting for **13%**.

However, in practice, the comparison is even more stark than the above headline figures suggest. Our analysis suggests that at least **£80m (or 23%)** of the 2013 non-PSB originations spend of £350m is actually accounted for by the wider PSB channel families. Accordingly, it is difficult to see how the pure multichannel non-PSBs' non-sport originations spend could have exceeded around **£270m** in 2013.

As a result, it is more accurate to conclude that the PSBs – and their wider channel families – accounted for **90%** of originations spend in 2013, with the pure multichannel non-PSB channels accounting for only 10% of expenditure. As a result, despite the growth of multichannel investment in content, the role of the PSBs remains absolutely critical – and it is clear that measures to ensure the sustainability of PSB are far more likely to result in incremental TV content investment than are measures that support non-PSB broadcasters.

Furthermore it is also important to reiterate the key characteristics of ITV and of the other PSBs that set it apart from pay-TV. In particular, PSB services are universally available in the UK, free to air and **guarantee** the continuity of key PSB programming such as news and current affairs. Furthermore, because of its universal nature, PSB offers content for and coverage of all areas of the UK (in particular the nations and regions) however hard they are to serve or access.

But original UK content investment by the PSBs is under pressure

Although the PSBs remain the core investors in original UK content, that investment is clearly under real pressure. On Ofcom's numbers, PSB spend on network originations declined from £2.9bn in 2008 to £2.4bn in 2013, a real-terms decline of 17% over the five-year period. It is important to be clear, again on the basis of Ofcom's numbers, that non-PSB investment, third party funding for PSB commissions and online revenues are not filling the gap created by the decline in PSB investment.

The pressures on investment in original UK content are very real, particularly in high-cost genres such as drama. As such there is a strong case to ensure that the policy and regulatory regime helps to sustain PSB investment in UK originated content.

Challenges to the PSB system

Some of the reasons for this pressure on UK content investment are the combination of technology, market and consumer factors (many of which reflect the rapidly globalising and consolidating nature of content and distribution markets) that represent a real risk to the PSB system over the next few years. The danger here is of significant and irreversible consequences, and a downward spiral of under-investment in original UK content.

ITV is not seeking protection from competition. Rather, we are transforming our business to compete in a rapidly changing market, delivering substantial efficiencies as well as growing and diversifying our business.

However, we must not underestimate the challenges of sustaining a universally available, free to air PSB TV offering in a globalising market that is increasingly dominated by far larger international pay-TV platforms, broadband providers and global on-demand platforms. What is vital is that PSBs (and free to air operators more generally) do not suffer from inherited regulatory disadvantages from another era, and that they are able to generate a viable economic return on successful content investments whilst continuing to deliver public value.

Against this backdrop, it is important to describe the cumulating risk factors that cause us to believe that radical thought and action are now required in order to maintain and strengthen PSB in the UK. In particular, we believe that the cumulative effect of a number of different factors risk putting real pressure on PSB in the UK in the medium term. So, for instance, we note that:

- Competition for audiences and viewing time is intensifying – new on demand services such as Netflix are growing rapidly, and competition is intensifying between linear and non-linear services.
- There is increasing competition for advertising revenue from a wide range of platforms and media. Unregulated, global online advertising platforms have built substantial scale and increasingly successfully offer cheap and targeted alternatives to TV.
- Globalising platform operators and aggregators are increasingly controlling (and monetising) viewers' navigation to content – with the home screens from Sky, Samsung and others increasingly driven by on-demand content access, clearly reducing the prominence of linear television services. The Netflix button on the remote control of many new TV sets is powerful evidence of the emerging issue.
- There are increasingly serious emerging concerns from the European Commission's Digital Single Market initiatives which, if pursued to the extent of affecting the territorial exploitation of TV content in the EU, will have a negative impact on the economics of investment in original UK content and PSB.

We believe there is an opportunity to temper the speed and effect of these challenges through policy and regulatory action – much of which would be about ensuring a fair return for successful content investment, and deregulation to ensure a level playing field between broadcast and (currently largely unregulated) online competitors.

In particular, we consider that Ofcom's regulatory duties in respect of PSB require it to be extremely vigilant about the effects of market change in four key respects:

1. The decline in the attractiveness of PSB benefits (arising, for instance, from threats to DTT spectrum and EPG prominence). These benefits enable audiences to find and access PSB content easily and enable ITV to justify maintaining its PSB status and hence provision of PSB obligations that would otherwise not be commercially sustainable – particularly regional news and current affairs.
2. The erosion of the commercial return on successful PSB content investment as a result of out dated regulatory arrangements which do not keep up with changing economics and technology. In particular, there clearly needs to be a resetting of the relationship between the PSBs and the main pay-TV platforms which better reflect the increasing value that those platforms derive from PSB content but do not return to the PSB content investors.
3. The difficulty that free to air TV faces in innovating commercially to meet growing digital online display advertising competition as a result of prescriptive, TV wide, regulatory constraints.
4. The increasing challenges that universally available free to air PSB TV channels face in competing to acquire sports rights for events of national significance for broadcast to everyone in the UK for free.