



HOUSE OF LORDS

Select Committee on
Communications and Digital

1st Report of Session 2019

Public service broadcasting: as vital as ever

Ordered to be printed 31 October 2019 and published 5 November 2019

Published by the Authority of the House of Lords

Select Committee on Communications and Digital

The Select Committee on Communications and Digital is appointed by the House of Lords in each session “to consider the media, digital and the creative industries”.

Membership

The Members of the Select Committee on Communications and Digital are:

[Lord Allen of Kensington](#)

[Baroness McIntosh of Hudnall](#)

[Baroness Bull](#)

[Baroness Meyer](#)

[Viscount Colville of Culross](#)

[Baroness Quin](#)

[Lord Gilbert of Panteg \(Chairman\)](#)

[Baroness Scott of Bybrook](#)

[Lord Gordon of Strathblane](#)

[Lord Storey](#)

[Baroness Grender](#)

[The Lord Bishop of Worcester](#)

[Lord McInnes of Kilwinning](#)

Declaration of interests

See Appendix 1.

A full list of Members’ interests can be found in the Register of Lords’ Interests:

<http://www.parliament.uk/mps-lords-and-offices/standards-and-interests/register-of-lords-interests>

Publications

All publications of the Committee are available at:

<http://www.parliament.uk/hlcommunications>

Parliament Live

Live coverage of debates and public sessions of the Committee’s meetings are available at:

<http://www.parliamentlive.tv>

Further information

Further information about the House of Lords and its Committees, including guidance to witnesses, details of current inquiries and forthcoming meetings is available at:

<http://www.parliament.uk/business/lords>

Committee staff

The staff who worked on this inquiry were Theodore Pembroke (Clerk), Theo Demolder (Policy Analyst) and Rita Cohen (Committee Assistant).

Contact details

All correspondence should be addressed to the Select Committee on Communications and Digital, Committee Office, House of Lords, London SW1A 0PW. Telephone 020 7219 6076.

Email holcommunications@parliament.uk

CONTENTS

	<i>Page</i>
Summary	3
Chapter 1: Introduction	7
Background	7
Figure 1: Viewing habits of all users aged over 16	8
Figure 2: Viewing habits of 16–34 year-olds	8
Figure 3: Growth of SVODs	9
Figure 4: Changing market	10
Our inquiry	11
Box 1: Public service broadcasters	11
Chapter 2: Public service broadcasting	13
Introduction	13
Box 2: PSB purposes and characteristics	13
Serving all audiences	16
Younger generations	17
Figure 5: Minutes per day spent watching BBC channels	17
Black, Asian and minority ethnic viewers	21
Commissioning and the creative process	23
Bringing the nation together	26
Listed sports events	26
Table 1: Listed events	27
Chapter 3: TV production	29
Investment in UK production	29
Box 3: Growth of the production sector	29
Figure 6: Total spending per year of production (£ million)	30
Figure 7: Total hours of HETV production per year	30
BFI National Archive	32
Cost inflation	32
Skills	34
Terms of Trade	35
Box 4: Terms of Trade	36
Affordability of high-end drama	37
Figure 8: Public service broadcasters' co-production partners:	
Most active PSB partners by year of production	39
Figure 9: Spending on original content by public service	
broadcasters	42
Regional production	43
Table 2: Quotas for regions and nations programmes on PSBs	44
Chapter 4: Towards a new PSB compact	47
Challenges	47
A new approach to regulation	48
The financial sustainability of PSBs	49
The BBC	49
Commercial PSBs	53
Box 5: Advertising regulation	54
High in fat, salt and sugar advertising	55
BritBox	57

Reviewing the PSB compact	58
Prominence	58
Retransmission fees	60
Digital terrestrial television	62
Summary of conclusions and recommendations	64
Appendix 1: List of Members and declarations of interest	69
Appendix 2: List of witnesses	71
Appendix 3: Call for evidence	76
Appendix 4: Meeting with school group	79
Appendix 5: Inquiry visits	81
Appendix 6: Online survey	83

Evidence is published online at <https://www.parliament.uk/public-service-broadcasting-and-vod> and available for inspection at the Parliamentary Archives (020 7219 3074).

Q in footnotes refers to a question in oral evidence.

SUMMARY

The way in which we watch television is changing. Twenty years ago, most people relied on five free-to-air terrestrial channels provided by public service broadcasters (PSBs).¹ These broadcasters now face competition from hundreds of other channels and online services. Subscription video on demand services (SVODs) such as Netflix and Amazon Prime have enjoyed rapid success. They have made available thousands of hours of content at relatively low prices and offer each viewer a personalised experience. Almost half of UK households now subscribe to an SVOD, while YouTube is also a major competitor.

This is at a time of widespread distrust of news, with digital technology playing an increasing role in public life. SVODs operate globally and have enormous resources, leading to concern that PSBs are priced out of the market for making high-quality television—limiting their ability to create drama and documentaries which reflect, examine and promote the culture of the UK. We sought to understand the contemporary role of public service broadcasters, the financial pressures that they face, and whether the PSB compact—the obligations they take on in exchange for privileges—is fit for the age of the video on demand.

Our evidence overwhelmingly indicated that public service broadcasting is as important as ever to our democracy and culture, as well as to the UK's image on the world stage. A wide range of witnesses and contributors told us how the PSBs help to inform our understanding of the world, reflect the UK's cultural identity and represent a range of people and viewpoints. They contribute to the economic health of the UK and support the wider creative industries. Although other channels and services offer high-quality UK programmes, the availability and affordability of public service broadcasters through digital terrestrial television remains unmatched. Their availability allows them to provide 'event television': moments which bring the nation together such as major sports events and landmark drama and documentary series. To strengthen this, we recommend that the Government should review the listed events regime to extend the availability of significant sports events on free to air television.

Despite this broad support, we found that PSBs are struggling to achieve their mission to serve all audiences in the face of increased competition and changing viewing habits. They are not serving younger people and people from BAME backgrounds well enough. Viewing of BBC channels by 16–34-year-olds has halved since 2010; this group spends only two minutes watching BBC iPlayer each day, compared with 40 minutes on Netflix. BAME viewers spend less time watching public service broadcasters than the average. PSBs' legitimacy depends on serving these groups better in future. To do this, PSBs must be willing to take creative risks and do more to involve people from different backgrounds in the development and making of programmes. To this end, we recommend that Ofcom should be empowered to gather data on the diversity of commissioners and production crews making programmes for PSBs to promote transparency.

We also heard concerns about representation of the nations and regions of the UK. Investment in TV production is still too heavily concentrated in London and many viewers believe that London and the South East, as well as 'hub' locations such as Glasgow and Cardiff are overrepresented at the expense of other areas. Although progress has been made and new entrants have made high-budget

1 BBC One and BBC Two, Channel 3 (licensed by ITV in England, STV in Scotland and UTV in Northern Ireland), Channel 4, Channel 5 and S4C.

series outside the capital, the economic benefits of investment have not spread widely enough. Public service broadcasters are obliged to commission a certain percentage of programmes outside the M25 in the regions and nations of the UK. This is crucial to building a skills base in different areas and ensuring that viewers see their locality represented on screen, but Ofcom must ensure that PSBs uphold the spirit of these obligations. The best way to support production in the regions and nations is to invest more in returning, rather than one-off series and to commission production companies with headquarters outside London.

The UK TV production sector has enjoyed impressive growth in recent years, including in exporting programmes around the world. SVODs and other commissioners such as HBO and AMC have driven significant investment, encouraged by the High-End TV Tax Relief. However, public service broadcasters remain essential to the UK production sector and play a crucial role in the ‘mixed ecology’, a mutually reinforcing system of specialist skills and talent development. They spend considerably more than SVODs and other broadcasters on original UK programmes. New entrants complement but cannot replace them.

The average per-hour budgets of high-end drama series have increased over the last five years. The health of the independent production sector depends on maintaining the supply of production crews to meet increased demand. There is a serious risk of the sector reaching full capacity and overheating. The Government should address skills shortages in the sector through urgent reform of the Apprenticeship Levy and changes to the High-End TV Tax Relief. Public service broadcasters are especially vulnerable to further cost inflation. We support the continuation of the regulated Terms of Trade between PSBs and independent production companies but recommend that they should be reviewed to reflect better their original purpose of protecting small and medium sized production companies rather than large international companies.

Fundamental to the health of the PSBs is how they are funded. If public service broadcasters are to continue to serve us and to afford to make world-class programmes, they must remain financially viable. In our view, PSBs, especially the BBC, should not be given further responsibilities without a corresponding rise in income. We are concerned that the integrity of the licence fee as the guarantor of the BBC’s financial independence has been undermined. In particular, the Government should not have asked the BBC to accept responsibility for over-75s’ licences, nor should the BBC have agreed to take it on. A new, independent and transparent process for setting the licence fee is necessary. We recommend the establishment of a new body called the BBC Funding Commission, which should be in place in 2021 in time for the next round of licence fee negotiations. Commercial public service broadcasters also face challenges. As conventional TV viewing decreases, particularly among younger audiences, the value of TV advertising will come under increasing pressure from online advertising. Differences in the regulation of broadcast and non-broadcast advertising should be reviewed and the Government should think very carefully before imposing further regulatory burdens on broadcast advertising.

The obligations public service broadcasters take on and the privileges they receive in return must be balanced. However, we heard that in a competitive

environment the PSBs' traditional privileges were becoming less valuable. Most importantly, public service broadcasters have historically received mandated prominence: listed as the first five channels on the electronic programme guide. We support Ofcom's proposals to update this principle for the digital age so that it also covers on demand viewing. Digital terrestrial television will remain essential for many viewers who cannot afford or do not have access to internet or pay TV, and public service broadcasters' free access to spectrum must continue to be guaranteed. Given the pace of change in the market, Ofcom should review whether TV platforms should be required to pay commercial public service broadcasters a retransmission fee for carrying their channels.

If the UK is to continue to be a world leader in the creative industries, public service broadcasters must be enabled to thrive in the digital world. They provide a stable flow of investment for a wide range of content, made for UK audiences, and available to all. They must be held to account for their obligations, afforded full access to the commensurate privileges, and supported to ensure that the important work they do remains financially viable in an ever-more competitive environment.

Public service broadcasting: as vital as ever

CHAPTER 1: INTRODUCTION

Background

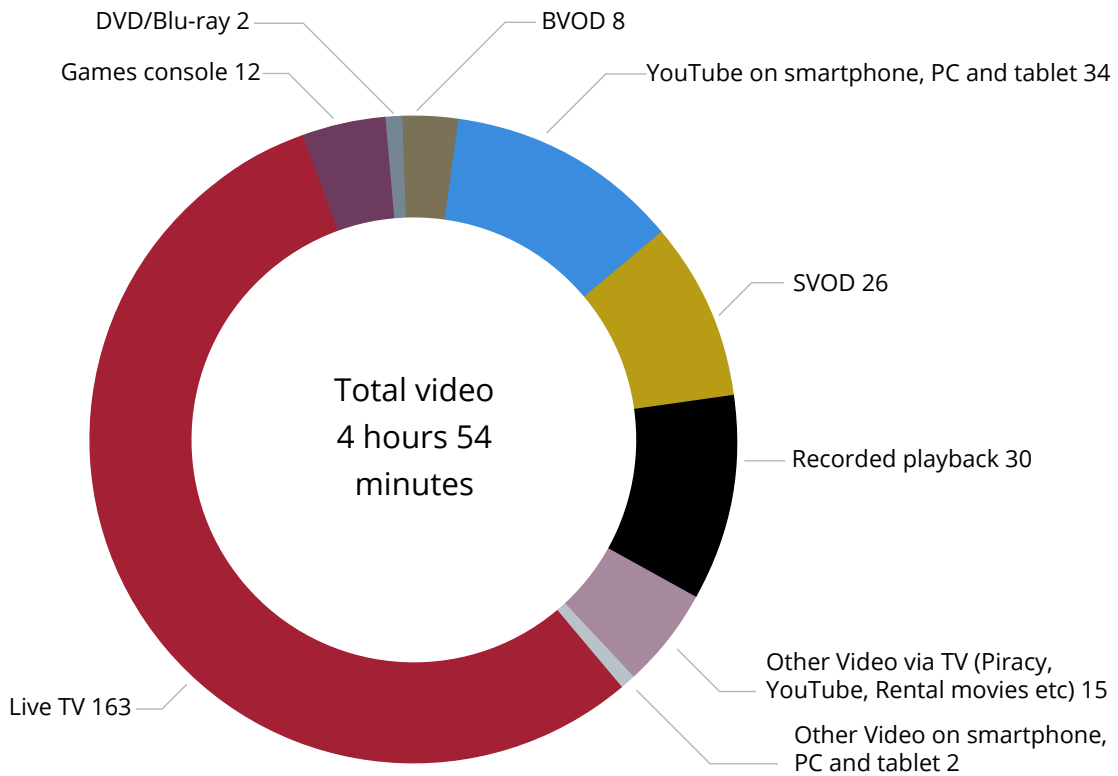
1. The ways in which we consume television, and how it is supplied to us, are changing. Twenty years ago most people relied on five free-to-air terrestrial channels provided by public service broadcasters (PSBs) with a statutory public service remit. The output of commercial broadcasters was available to only a minority of viewers who subscribed to Sky or cable services. Since then choice has increased dramatically. In 1998 the Broadcasters' Audience Research Bureau (an independent body which monitors viewing figures) reported on 57 channels, while in 2018 it reported on 342.² Television was generally watched at the time of broadcast—recording on VHS was the exception. The introduction of technology such as the digital video recorder (such as TiVo) and internet-enabled catch-up services has enabled viewers to watch TV when it suits them. For some, especially many young people, watching so-called 'linear' TV in real-time is now the exception rather than the norm. Viewers also watch content on a range of devices including smartphones, laptops and tablets.
2. Since at least 2007, when the BBC launched its iPlayer, many have anticipated the death of linear television. In fact, linear has so far been remarkably resilient.³ It is still the most popular way to consume television. A large proportion of the population, particularly many older people, watch nothing else. The phenomenon of 'event television' remains, including sporting fixtures, royal weddings and the final episodes of reality TV competitions, and makes it unlikely that linear television will disappear soon. Nonetheless, in the past few years average linear viewing has declined. As Figure 1 shows, much non-linear viewing is accounted for by recorded and on-demand viewing of traditional broadcaster television. A slightly smaller share is taken by YouTube, Google's advertising-funded video-sharing platform, whose output predominantly comprises short-form user-generated content.
3. Subscription streaming services (known as subscription video on demand or SVOD services) account for a smaller share but their popularity has grown rapidly since 2012. In that year Netflix's streaming service was launched in the UK, while Amazon Prime Video arrived the following year. This trend is driven primarily by younger people. While viewing of traditional broadcaster TV has not changed much for over-65s, it has halved for under 25s since 2010.⁴ Figures 1 and 2 show that 16–34-year olds watch half as much live TV and twice as much SVOD content as average.

2 At the time of writing this was the most recent year for which figures were available. BARB, 'TV since 1981': <https://www.barb.co.uk/resources/tv-facts/tv-since-1981/2018/reported/> [accessed 10 September 2019]

3 Written evidence from Enders Analysis ([PSB0059](#))

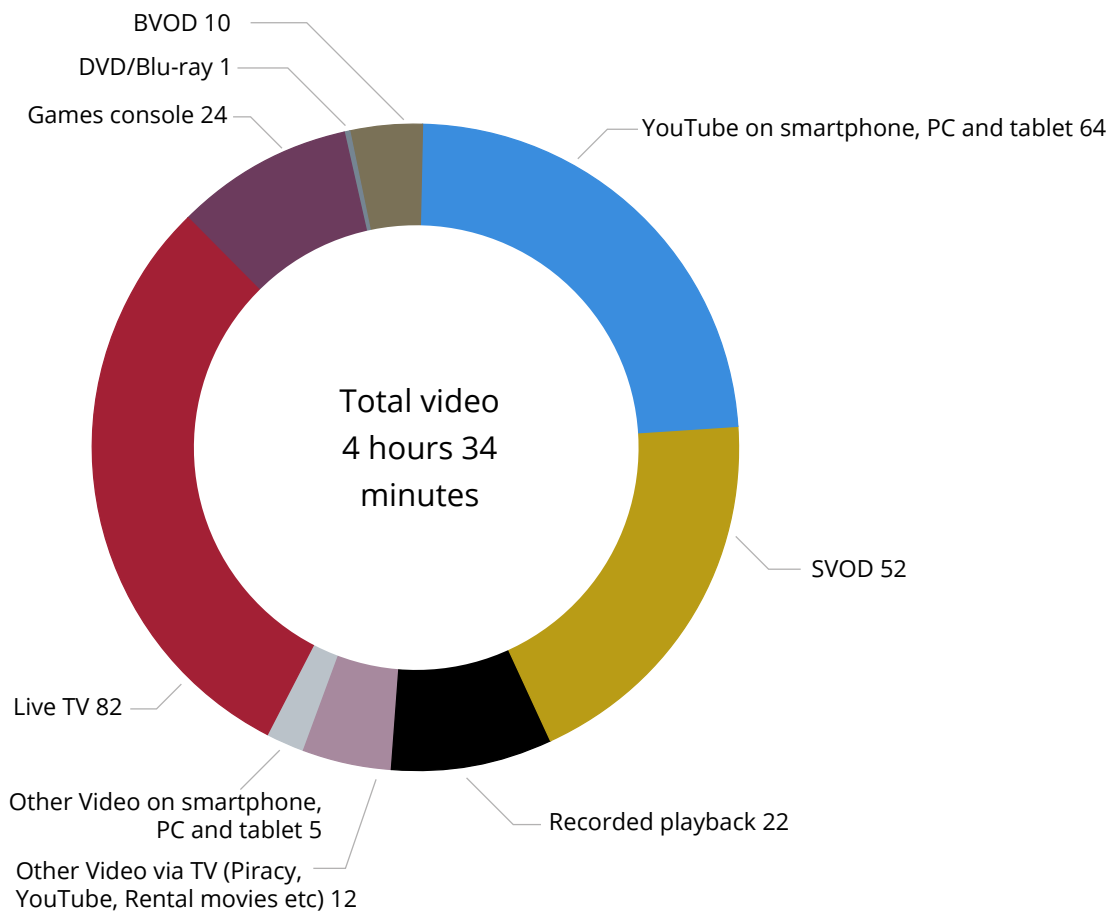
4 *Ibid.*

Figure 1: Viewing habits of all users aged over 16



Source: Ofcom, Media Nations: UK 2019 (7 August 2019): https://www.ofcom.org.uk/data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 9 August 2019]

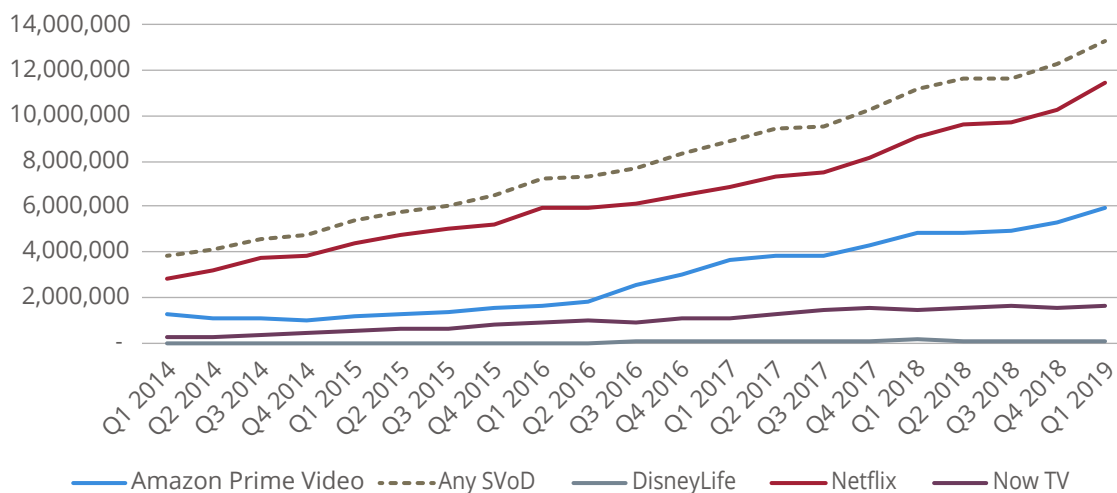
Figure 2: Viewing habits of 16–34 year-olds



Source: Ofcom, Media Nations: UK 2019 (7 August 2019): https://www.ofcom.org.uk/data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 9 August 2019]

4. There has been sharp growth in the take-up of SVOD services over the last few years (see Figure 3). Between 2015 and 2018 the number of UK homes with access to an SVOD service doubled.⁵ Forty-eight per cent of UK households have access to an SVOD.⁶ Over 11.5 million households (41 per cent) subscribe to Netflix, the most used service. The next most popular, Amazon Prime, has almost 6 million subscribers.⁷

Figure 3: Growth of SVODs



Source: Ofcom, *Media Nations: UK 2019* (7 August 2019): https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 9 August 2019]

5. In 2013 Netflix released *House of Cards*, the first original production that it commissioned. Since then Netflix's budget for content has grown massively. Worldwide, it spent \$15 billion on content in 2018 and it is expected to spend \$18 billion in 2019.⁸ Netflix and Amazon can spend as much as £15 million per hour on production. This dwarfs what the UK's PSBs can afford.
6. This investment has helped to sustain a boom in television production⁹ which began in the United States in the early 2000s with programmes such as *The Sopranos*, *The Wire*, *Breaking Bad* and more recently *Game of Thrones*. This period is characterised by high-quality writing, the use of techniques that were once reserved for cinema, considerable studio investment in production, and the rise in prestige of television as an artform (for example, film actors moving to TV). Programmes often have international appeal and are sold around the world. The UK is both a beneficiary and an agent of this creative boom as it is an attractive venue for filming and has a talented workforce. Programmes are often the product of collaboration by different parties around the world. For example, *Chernobyl*, a mini-series about the nuclear power disaster, was produced by HBO, the US cable company, in

5 Written evidence from Enders Analysis ([PSB0059](#))

6 Enders Analysis, 'SVOD subscriber trends: who is buying and how many subs?' (23 October 2019): <https://www.endersanalysis.com/content/publication/svod-subscriber-trends-who-buying-and-how-many-subs> [accessed 4 November 2019]

7 Ofcom, *Media Nations: UK 2019* (7 August 2019), p 59: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 9 August 2019]

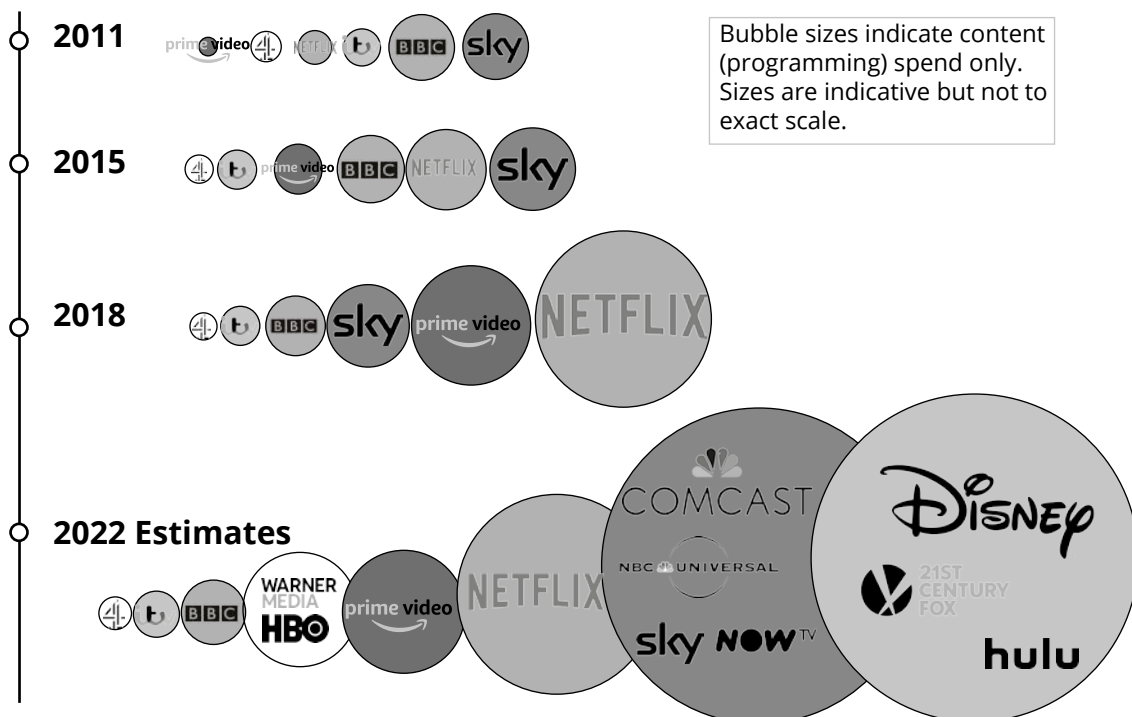
8 Written evidence from Clinton's Solicitors ([PSB0029](#)). These figures represent the total spent on new content including original content and rights to content commissioned by others. According to one estimate, Netflix Originals account for just 10 per cent of its catalogue.

9 [Q 183](#) (Jay Hunt)

association with Sky, the UK pay-TV company. Many of its cast were British as was one of its executive producers, Jane Featherstone.

7. Netflix is the largest of the SVODs with 150 million subscribers in 190 countries,¹⁰ but the market for streaming services is rapidly changing. The number of subscribers continues to grow but there is greater competition. Apple's SVOD service, Apple TV+, launched in the UK on 1 November 2019. The emergence of digital media giants collectively known as the FAANGs (Facebook, Apple, Amazon, Netflix and Google)¹¹ has already caused consolidation among traditional media companies in the US. Disney bought Fox, AT&T bought TimeWarner, and Comcast bought NBCUniversal and Sky. Newly enlarged, Disney and NBCUniversal are launching their own SVOD services in due course. Unlike the FAANGs these will be able to rely on content accumulated over decades. In providing their own services, content providers are seeking a direct relationship with consumers, cutting out intermediary platforms. This direct relationship might help them generate more value from their intellectual property (IP) and gather data about their viewers. Some IP owners have withdrawn secondary rights to programmes which had been available on Netflix in favour of their own services. However, it is uncertain how long the proliferation of services will last as many will be unwilling to pay for multiple subscriptions. Other digital markets have been captured by 'winner takes all' (or at least most) companies, and it is possible that the streaming market may follow suit after further consolidation.¹²

Figure 4: Changing market



Supplementary written evidence from Sir David Clementi ([PSB0063](#)) citing IHS Markit Technology, now part of Informa Tech, Derived from TV & Online Video Intelligence Service, 2019. Results are not an endorsement of any service. Any reliance on these results is at the third-party's own risk.

10 Written evidence from Netflix ([PSB0041](#)). YouTube has an even greater share of viewers and hours watched.

11 The FAANGs have diverse business models and are at different stages of developing media operations.

12 [Q 110](#) (Andy Harries)

Our inquiry

8. We set out to investigate the implications of these developments for the UK TV sector.¹³ This sector has long been a success story thanks to the UK’s thriving “mixed ecology”—a mutually reinforcing system of specialist skills, labour, production companies, broadcasters and other assets which are supported by both public and private investment. This ecology is integral and critical to the wider creative industries. It nurtures creative and other skills used in film making, and it is a vehicle for exhibiting British talent to an international audience. PSBs are at the heart of this ecology (see Box 1). Ofcom, the regulator for both broadcasting and streaming services,¹⁴ explained that PSBs ensure the provision of:

“trusted and impartial news, UK-originated content that speaks to the different communities and nations of the UK, and distinctive programmes. PSB helps to ensure that certain types of programmes get made—arts, religion, classical music, and original children’s TV—that would be less well provided for if left to the market alone. Another key principle is universality, namely that PSB programmes should be available to everyone, free at the point of use.”¹⁵

Public service broadcasters drive innovation and investment in the sector and provide a benchmark of high-quality programming. They generate soft power internationally by exhibiting UK culture for a global audience. In return PSBs have special privileges, for example to make them easy to find by viewers. The balance of rights and responsibilities is known as the ‘PSB compact’.

Box 1: Public service broadcasters

PSBs include the BBC, ITV, Channel 4 and Channel 5, which operate throughout the UK, and STV, S4C and UTV, which operate in Scotland, Wales and Northern Ireland respectively. Except for the BBC, PSB responsibilities primarily apply to the main channel.¹⁶

Duties of PSBs include:

- Universality—serving all audiences and free at the point of use
- Impartiality—balanced and accurate news coverage of the UK, nations and regions
- Programming quotas for independent productions, original productions and news
- Regional production and regional programming obligations
- Provision of children’s programming.

13 See Appendix 3 for our call for evidence. For much of the period of inquiry, the Committee was known as the Communications Committee. Its name was changed on 29 October 2019 to the Communications and Digital Committee.

14 Under the European Audiovisual Media Services Directive broadcasters and SVOD services are regulated by the regulator of the member state in which they are established (the ‘country of origin principle’). Netflix is regulated by the Dutch regulator as it is based in the Netherlands.

15 Written evidence from Ofcom ([PSB0051](#))

16 Channel 4 has duties which apply to its whole portfolio of channels.

Section 265 of the Communications Act 2003 makes provision about the public service remit of Channel 3¹⁷ and Channel 5, and separately Channel 4. The BBC's remit is set out in its Charter. Ofcom is responsible for ensuring compliance with these duties. It has a duty to review public service broadcasting every five years.

9. While public service broadcasting encompasses a diverse range of media—including radio and online—our inquiry focused on two areas which were highlighted by witnesses as under particular pressure from SVODs: drama and factual programmes on television. Drama and factual programmes account for 71 per cent of Netflix's library and 74 per cent of Amazon's, compared with less than 20 per cent on the PSB channels.¹⁸ We address other areas where they are relevant, but do not examine every area of public service broadcasting in detail.
10. At the outset of our inquiry we were struck by the amount that SVODs can afford to spend per hour of programming. Much of their output is of high quality. The increase in private investment in production led us to question whether there was still a need for public service broadcasting, at least as regards drama, factual and other forms of entertainment programming. We set out to investigate how public service broadcasters might be reformed or better supported.
11. In Chapter 2 we examine whether the public service remit of PSBs is still needed, and how well the PSBs fulfil their remits. The PSBs are not the only parties affected by the changing media environment. In our inquiry we also sought to understand how public policy could better support the wider ecology, including independent production companies and commercial broadcasters. In Chapter 3 we examine the production sector. Finally, in Chapter 4 we consider how to make the regulation and funding of public service broadcasters fit for the future.
12. We heard from a range of interested parties across the TV sector, including trade associations, creatives such as producers and directors, commercial broadcasters, pay-TV providers, hardware producers, SVODs and PSBs. We also heard from academics, media analysts, Ofcom and the Government. We wanted to hear from a broad section of the public on how well they feel that they are served and to hear first-hand how viewing is changing. Therefore, we met a group of 16–17-year-olds from a visiting school, conducted an online survey and visited Glasgow where we held a roundtable discussion with local residents. We are grateful to everyone who contributed. We also thank Professor Steve Barnett, Professor of Communications at the University of Westminster, who provided expert advice.

¹⁷ STV holds the Channel 3 licence in Scotland and ITV in the rest of the UK.

¹⁸ Ofcom, *Media Nations: UK 2019* (7 August 2019), p 69: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 9 August 2019]

CHAPTER 2: PUBLIC SERVICE BROADCASTING

Introduction

13. Our evidence overwhelmingly indicated that public service broadcasting was essential. Almost all witnesses supported the continuing role of public service broadcasting, including independent producers, academics, new entrants to the market and commercial rivals.¹⁹ The Commercial Broadcasters' Association described public service broadcasting as the bedrock of the UK audio-visual sector.²⁰ Public service broadcasters create demand for workers across a range of specialist fields (acting, music, visual effects, production etc.), provide training and development opportunities, and ensure the viability of lifelong careers in the sector. The Government stated: "in this changing media landscape, the purposes of PSB—to inform our understanding of the world; to stimulate knowledge and learning; to reflect UK cultural identity, and to represent diversity and alternative viewpoints—remain vitally important."²¹
14. Public service broadcasters also explained the continued importance of their remit. The BBC argued:

“PSBs inform, educate and entertain; they create distinctive content across all genres and in specialist areas such as religion, arts, music and children’s; and they deliver impartial and accurate news that supports our democracy. Above all, they serve the UK—reflecting the diversity of its nations and regions, telling distinctively British stories and bringing the nation together.”²²
15. Building on the provisions of the Communications Act 2003, Ofcom listed four purposes and six characteristics of public service broadcasting. These are in Box 2.

Box 2: PSB purposes and characteristics

Purposes:

- Informing our understanding of the world
- Stimulating knowledge and learning
- Reflecting the UK’s cultural identity
- Representing diversity and alternative viewpoints

Characteristics:

- High-quality
- Original
- Innovative
- Challenging
- Widely available
- Distinctive

Source: Ofcom, *PSB annual research report 2016* (11 July 2016): https://www.ofcom.org.uk/_data/assets/pdf_file/0018/80046/psb-annual-report-2016.pdf [accessed 4 November 2019]

-
- 19 For example written evidence from Pact ([PSB0030](#)); written evidence from Professor Diane Coyle ([PSB0005](#)); [Q 173](#) (Jay Hunt); written evidence from Sky ([PSB0042](#))
 - 20 Written evidence from the COBA ([PSB0044](#))
 - 21 Written evidence from HM Government ([PSB0045](#))
 - 22 Written evidence from the BBC ([PSB0052](#))

16. In 2009 our predecessor committee found that Ofcom’s list of purposes was not “sufficiently discriminating to distinguish between those programmes and services that merit public finance and special regulatory treatment and those that do not.”²³
17. In that report, the committee recommended a policy approach that focused on “the provision of core elements including national and regional news, current affairs programmes, the arts, children’s programming, programmes dealing with religion and other beliefs and UK content.”²⁴ In our current inquiry, we found that, while support for these elements remained strong, the value of public service broadcasting was broader. For example, we heard widespread support for the provision of universal and freely available content and the importance of ‘event television’ which brings the nation together.
18. Many witnesses felt that public service broadcasting existed to serve the ‘citizen’ or ‘public’ interest, as distinct from the consumer interest served by the market. The Voice of the Listener and Viewer explained:
- “Citizen interests go beyond our choices as private consumers, to provide broader social benefits to democracy, culture, identity, learning, participation and engagement. Citizen interests tend to have a longer-term focus than consumer interests which are influenced by ongoing market trends.”²⁵
19. Professor Patrick Barwise, Emeritus Professor of Management and Marketing at the London Business School, provided a definition of public service broadcasting which focused on institutions. He argued that it was broadcasting by a broadcaster “managed and regulated to (i) be universally available across the UK and (ii) deliver explicit public service objectives in addition to those delivered by a purely commercial broadcaster”.²⁶
20. This was supported by Alex Mahon, Chief Executive of Channel 4, who argued that everything Channel 4 produced across all its portfolio of channels counted as public service broadcasting.²⁷ Dame Carolyn McCall, Chief Executive of ITV, noted that programmes which did not obviously provide a public service subsidised less commercially viable programmes such as news and current affairs.²⁸
21. Many witnesses noted the importance of universal availability to public service broadcasting. BBC One, BBC Two, Channel 3, Channel 4 and Channel 5 are available via digital terrestrial television to all those who have a TV licence, which costs £154.50 a year. Age UK noted that online subscription services were not yet available to everyone:
- “In 2018, 4.5 million adults in the UK had never used the internet—just over half of these (2.6 million) were aged 75+ (51 per cent of that age group), but there were also 1 million people aged 65–74 (16 per cent), and nearly half a million people aged 55–64 (6 per cent).”²⁹

23 Select Committee on Communications, *Public Service Broadcasting: short-term crisis, long-term future?* (2nd Report, Session 2008–09, HL Paper 61)

24 *Ibid.*

25 Written evidence from the Voice of the Listener and Viewer ([PSB0006](#))

26 Written evidence from Professor Patrick Barwise ([PSB0072](#))

27 [Q 153](#)

28 [Q 197](#)

29 Written evidence from Age UK ([PSB0019](#))

22. Some felt that public value content could be found on channels and services which are not public service broadcasters. Ali Law, Head of Policy at Sky, said:
- “We have long believed that the way the legislation sets out what constitutes public service broadcasting and public service content, and Ofcom’s set of characteristics, is definitely fulfilled by content that is produced by those other than the PSBs, including Sky. There is a lot of frustration at the tendency to take an institutional approach that merely counts those things shown on PSB channels, rather than having a much-wider appreciation.”³⁰
23. Dr Cento Veljanovski, Founder and Managing Partner at Case Associates, worried that “a false dichotomy is being set up between public service broadcasting, which seems to be defined as ‘good’ and ‘British’, and commercial media, which seems to be characterised as ‘bad’ and ‘foreign’.”³¹ He noted that much content shown by public service broadcasters is produced by private companies.³²
24. However, few witnesses supported the view that public service broadcasting should be limited to filling gaps in the market. Dr Veljanovski argued for ‘consumer sovereignty’: the idea that individuals are the best judge of what they want to watch and public service broadcasting should exist only to enhance the choices available to them.³³
25. Professor Philip Booth, Senior Academic Fellow at the Institute of Economic Affairs, argued that the concept of ‘public service broadcasting’—as policy focused on state-supported institutions, such as the BBC—had become outdated: “The likelihood is that, in the modern world, public service broadcasting objectives are best served by a range of providers, large and small, some of them niche and some of them broadcasting internationally to groups of people with similar interests in different countries.”³⁴
26. However, most witnesses argued that—in addition to being widely available—public service broadcasters produced distinctive content in this competitive market. For example, Andy Harries, Chief Executive of Left Bank Pictures, which produces *The Crown* for Netflix, told us: “the BBC provides shows that you will not see anywhere else, from documentaries to talk shows to news to dramas that are specifically British.”³⁵ Mark Oliver, Chairman and Co-Founder of Oliver & Ohlbaum Associates, also suggested that public service broadcasting had a role in “raising the level” of the what the market provides rather than merely filling in gaps.³⁶ We discuss the role of public service broadcasters in supporting the UK production sector in Chapter 3.
27. Kevin Bakhurst, Group Director for Content at Ofcom, told us: “clearly PSB-type content is provided by a whole range of organisations, including Netflix and Amazon and others.” However, Mr Bakhurst added that the

30 [Q 88](#)

31 [Q 41](#)

32 [Q 42](#)

33 [Q 41](#)

34 Written evidence from Professor Philip Booth ([PSB0001](#))

35 [Q 109](#)

36 [Q 43](#)

distinctiveness of public service broadcasters was best judged on their whole portfolio rather than individual programmes.³⁷

28. Public service broadcasters must continually re-evaluate their place in a changing market if they are to maintain their distinctive value to UK citizens and the UK economy. As Directors UK argued: “the focus now should be on identifying the elements of PSB that are of lasting value and [using] these to build a PSB structure for the modern age.”³⁸
29. We did not focus on news and current affairs in this inquiry because it is an area in which there is less competition from SVODs. However, many witnesses said that the provision of impartial and trusted news is crucial to public service broadcasting. Ofcom found that news was the aspect of public service broadcasting audiences valued most highly.³⁹ Notably, year 12 students we met said that although they went to SVODs such as Netflix first when they wanted to watch TV they trusted public service broadcasters most to give them impartial and accurate news.⁴⁰
30. According to the Reuters Institute, the BBC and ITV are the UK’s most trusted news brands.⁴¹ ITV told us that its news reached 19 million people each week:

“Arguably, there has never been a more important role for well resourced, accurate and impartial news services than in the context of the current national debate about the UK’s future. It is very striking indeed that ITV’s news services—both national and international as well as nations and regions—are performing exceptionally strongly with substantial growth in audiences over the past year. TV is still the medium that people turn to for help in understanding the news in the UK.”⁴²

31. **Public service broadcasting remains essential to the UK media and losing it would leave UK society and democracy worse off. Public service broadcasting can bring the nation together in a way in which other media cannot and can ‘raise the level’ of quality, as well as ensuring continued investment in original UK content across a range of programming. An essential feature of public service broadcasting is its universality, free at the point of use after paying the licence fee: both the availability and affordability of public service broadcasters are unmatched by other services. In its forthcoming PSB review, Ofcom should also consider the contribution of content from non-public service broadcasters to public service objectives.**

Serving all audiences

32. Public service broadcasters are mandated to appeal to all audiences. However, many witnesses expressed concern that public service broadcasters were failing to appeal to certain groups and that they were not being held to

37 Q 205

38 Written evidence from Directors UK (PSB0021)

39 Ofcom, *Media Nations: UK 2019* (7 August 2019), p 35: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 9 August 2019]

40 See Appendix 4

41 Reuters Institute, *Digital News Report 2019*, p 68: https://reutersinstitute.politics.ox.ac.uk/sites/default/files/2019-06/DNR_2019_FINAL_1.pdf [accessed 9 August 2019]

42 Written evidence from ITV (PSB0060)

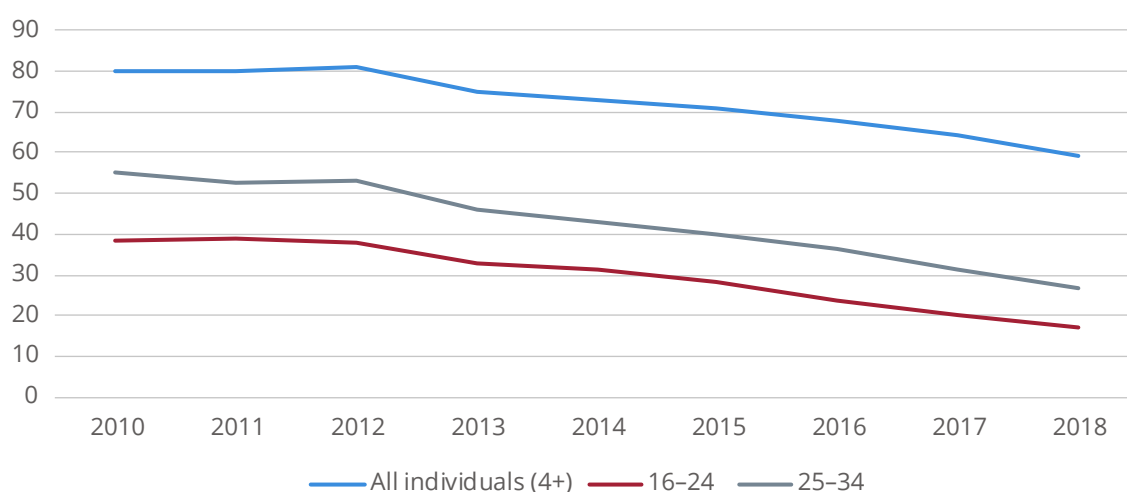
account for this. Dr Tom Mills, Lecturer in Sociology and Policy at Aston University, argued:

“the BBC has become a very unaccountable institution and does not represent certain demographics. That includes young people, but also ethnic minorities. It is a very strongly London-centric organisation, and it has always tended to cater more to middle-class tastes.”⁴³

Younger generations

33. The most widespread concern we found related to 16–34-year-olds. UKTV noted that PSBs now account for only 35 per cent of viewing by this cohort.⁴⁴
34. Ofcom found that in 2018 the 16–34 age group consumed less than half as much BBC content as the average person: 72 minutes compared with 153 minutes on average and 77 minutes for this age group in 2017.⁴⁵ This includes all form of BBC content, including BBC online and BBC content on SVODs and YouTube. For the first time, in 2018 less than half of 16–24 year-olds watched any BBC channel for 15 minutes or more during a typical week.⁴⁶
35. Figure 5 shows that 16–24 and 25–34-year-olds spent around half as much time watching BBC channels in 2018 as in 2010. BBC iPlayer has not made up the difference: 18–34-year-olds watched it for an average of two minutes a day, compared with 40 minutes for Netflix.⁴⁷

Figure 5: Minutes per day spent watching BBC channels



Source: Ofcom, *Media Nations: UK 2019* (7 August 2019): https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 9 August 2019]

36. Year 12 students we met said that they went to public service broadcasters for ‘event’ television, such as sport and live entertainment, which they often watched with their family. However, they spent most of their time watching SVODs such as Netflix because they produced drama and comedy which

43 Q 55

44 Written evidence from UKTV (PSB0013)

45 Ofcom, *Annual report on the BBC* (24 October 2019) p 11: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/173735/second-bbc-annual-report.pdf [accessed 24 October 2019]

46 Ofcom, *Annual report on the BBC* (24 October 2019) p 12: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/173735/second-bbc-annual-report.pdf [accessed 24 October 2019]

47 Ofcom, *Media: Nations UK 2019* (7 August 2019), p 19: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 19 August 2019]

better appealed to them.⁴⁸ Ampere Analysis found that 48 per cent of Netflix users were aged 18–34.⁴⁹

37. One student at our engagement event at the University of Strathclyde described the BBC’s output for young people as “frankly awful” and a poor attempt to emulate YouTube. They felt that the BBC had become “a jack of all trades and master of none.”⁵⁰
38. Many witnesses told us that providing the right content was key to appealing to 16–34-year-olds. Alistair Law, Head of Policy for the UK & Ireland at Sky, told us: “It is demonstrably not about the ability of people under 35 to find content; they are experts at being able to find the content that they want to watch. It is very much about the fact that the content they want to watch might come from a variety of different sources.”⁵¹
39. Dan Cheesbrough, Commercial Director of Hartwood Films, was worried about how public service broadcasters were “addressing or failing to address younger audiences. That is something that the SVODs are in absolute mastery and control of. They are producing show after show which young audiences own; they belong to them. Young audiences might watch *Bodyguard* or *Line of Duty*, but those are not shows owned by them, whereas young audiences absolutely see Netflix as a hallmark of quality.”⁵²
40. Pact, the trade association for UK independent TV companies, believed that the decline in BBC Three’s reach was evidence that: “Greater availability will not bring in the audiences if the content offer is unappealing to the 16–34-year audience demographic.”⁵³ The BBC made BBC Three, its service aimed at 16–34 year-olds, online-only from 2016.
41. Lord Hall of Birkenhead, Director-General of the BBC, said in 2014 that becoming online-only would “move BBC Three into the world where young people are”.⁵⁴ He announced: “we will recruit new types of experts and learn new tools and techniques, to make the online programmes, new formats and content that will mean BBC Three thrives online and doesn’t just live there.”⁵⁵
42. BBC Three’s weekly reach among 16–34 year olds fell from 26 per cent in 2014 to 8 per cent in 2017–18.⁵⁶ It remained at 8 per cent in 2018–19.⁵⁷ The

48 See Appendix 4

49 Ampere Analysis, *The UK VoD market* (2019) p 9: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/149075/ampere-analysis-current-status-future-development.pdf [accessed 4 November 2019]

50 See Appendix 4

51 Q 91

52 Q 111

53 Written evidence from Pact (PSB0030)

54 ‘DG Tony Hall defends making BBC Three online-only’, *BBC News* (6 March 2014): <https://www.bbc.co.uk/news/av/entertainment-arts-26465317/dg-tony-hall-defends-making-bbc-three-online-only> [accessed 19 August 2019]

55 BBC, ‘The BBC in the Internet Era’, 2 March 2015: <https://www.bbc.co.uk/mediacentre/speeches/2015/tony-hall-bbc-internet-era> [accessed 19 August 2019]

56 BBC Trust, *Service Review of BBC Television* (July 2014) p 14: http://downloads.bbc.co.uk/bbc/trust/assets/files/pdf/regulatory_framework/service_licences/service_reviews/television_services/television_services.pdf [accessed 19 August 2019]; BBC, *Annual Report and Accounts 2017/18* p 65: http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/bbc_annualreport_201718.pdf [accessed 19 August 2019]

57 BBC, *Group Annual Report and Accounts 2018/19* p 149: <http://downloads.bbc.co.uk/aboutthebbc/reports/annualreport/2018-19.pdf> [accessed 19 August 2019]

BBC's decision was criticised by respondents to our survey, respondents to Kantar Media's survey for Ofcom on diversity, the Voice of the Listener and Viewer and Roger Mosey, former Editorial Director of the BBC.⁵⁸

43. Since March 2019, the BBC has shown BBC Three programmes in the 10.35pm slot on BBC One on Monday, Tuesday and Wednesday. However, the average number of 16–34-year-olds watching BBC One after 10.35pm on these days has fallen from 130,000 to 90,000 since the change was introduced.⁵⁹ In 2018–19, only one BBC Three programme in the 10.35pm timeslot was viewed by a higher share of 16–24 year olds than the average.⁶⁰
44. Jasmine Dotiwala, Head of Youth Engagement and Media at the Media Trust, argued that the BBC did not produce enough content which appeals to younger people and that this undermined the legitimacy of the licence fee: “There needs to be a new way of requesting viewers to pay for PSB content and for the PSBs to deliver for all, not the few”.⁶¹
45. Ofcom warned:

“If people don’t consider the BBC as a core part of their viewing, then it will be hard to encourage them to pay the licence fee in years to come, and public support for the licence fee could become eroded. This is a direct threat to the BBC’s ability to continue to deliver its Mission and Public Purposes.”⁶²
46. It added: “Unlike previous generations, the BBC is no longer seeing younger audiences coming back to it but instead they are transitioning their viewing to SVODs.”⁶³
47. Several respondents to our survey who subscribed to an SVOD felt that it offered better value than the licence fee; younger people were more likely to hold this view.⁶⁴ A Netflix subscription starts at £5.99 a month, which is less than half the £12.88 monthly cost of the licence fee. However, Professor Diane Coyle, Bennett Professor of Public Policy at the University of Cambridge, said that this comparison was misleading because the BBC provided a wider range of services.⁶⁵
48. We heard that children were not growing up with public service broadcasting as previous generations did. Professor Jeanette Steemers, Professor of Culture, Media and Creative Industries at King’s College London, said that public service broadcasting was “even more important for kids

58 See Appendix 6; Kantar Media, *Representation and portrayal of audiences on BBC television* (25 October 2018) p 24: https://www.ofcom.org.uk/_data/assets/pdf_file/0016/124252/kantar-bbc-qualitative-research.pdf [accessed 19 August 2019]; Q 54 and Roger Mosey, ‘Crisis at the BBC’, *The Sunday Times* (21 April 2019): <https://www.thetimes.co.uk/article/c3c3c454-6109-11e9-b696-822cbbf2340e> [accessed 21 August 2019]

59 Matthew Moore, ‘BBC attempt to lure young viewers by cutting News at Ten backfires’, *The Times* (14 September 2019): <https://www.thetimes.co.uk/article/0cd4f85a-d664-11e9-aa6d-16cb9f989e55> [accessed 16 September 2019]

60 Ofcom, *Annual report on the BBC* (24 October 2019) p 11: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/173735/second-bbc-annual-report.pdf [accessed 24 October 2019]

61 Q 103

62 Ofcom, *Annual report on the BBC* (24 October 2019) p 8: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/173735/second-bbc-annual-report.pdf [accessed 24 October 2019]

63 Ofcom, *Annual report on the BBC* (24 October 2019) p 10: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/173735/second-bbc-annual-report.pdf [accessed 24 October 2019]

64 See Appendix 4

65 Written evidence from Professor Diane Coyle (PSB0005)

because it encompasses in microcosm diversity and range. Quite frankly, other providers out there are not really providing stuff for kids who live in the UK.”⁶⁶ Professor Steemers noted Ofcom research that 41 per cent of 12–15-year-olds felt that there were not enough programmes on TV which showed children in their part of the country.

49. Ofcom found that 49 per cent of 8–15-year-olds prefer YouTube to TV programmes on a TV set.⁶⁷ Forty-eight per cent of 12–15-year-olds said that YouTube was the service they would miss most if they lost access to it, compared with 19 per cent for Netflix, 6 per cent for BBC One and BBC Two and 2 per cent for Channel 4.⁶⁸
50. The Children’s Media Foundation regretted the decline in spending on children’s content by public service broadcasters: “There is now, apart from pre-school programmes on Channel 5, a minimal amount of children’s content on the terrestrial channels. The dedicated children’s channels CBeebies, CBBC and CITV, provide regular services, but the level of spend on original content across the board, including the BBC, has declined steadily since 2003.”⁶⁹
51. Norwegian teen series *Skam*, which was released in short segments on social media, was cited by Clintons Solicitors and Professor Jeanette Steemers as an example which UK public service broadcasters should emulate to help their programmes to reach more children and teenagers. S4C described the success of its short-form online platform ‘Hansh’, which reached 700,000 monthly views across social platforms in January 2019. Channel 4 told us that it would create a new service on social media targeting teenagers aged 14 and over.⁷⁰ We welcome this announcement in the light of our previous finding that Channel 4’s programming for children and young adults was inadequate.⁷¹
52. As viewing habits of older and younger generations diverge, it is increasingly difficult and costly for public service broadcasters to appeal to everyone. However, more than two-thirds of 16–34-year olds are registered on All4 and 79 per cent are registered on ITV Hub.⁷² Viewing by 16–34s of ITV’s main channel increased by 3 per cent in 2018, while Channel 4 achieved its biggest share of 16–34-year-old viewers for eight years in the week commencing 23 September 2019 due to the success of *The Great British Bake Off* and *The Circle*.⁷³ For children, the Young Audiences Content Fund, which is administered by the British Film Institute, will provide up to £57 million for programming over the next three years.⁷⁴ These are positive steps on which public service broadcasters can build. However, as Professor Patrick Barwise

66 Q 14

67 Ofcom, *Children and parents media use and attitudes: Annex 1* (29 January 2019) p 59: https://www.ofcom.org.uk/_data/assets/pdf_file/0027/134892/Children-and-Parents-Media-Use-and-Attitudes-Annex-1.pdf [accessed 19 August 2019]

68 Ofcom, *Online survey with children aged 12-15* (2017) p 39: https://www.ofcom.org.uk/_data/assets/pdf_file/0011/105140/Online-survey-with-children-aged-12-15.pdf [accessed 5 September 2019]

69 Written evidence from the Children’s Media Foundation (PSB0012)

70 Q 154

71 Select Committee on Communications, *A privatised future for Channel 4?* (1st Report, Session 2016–17, HL Paper 17)

72 Written evidence from Channel 4 (PSB0048) and written evidence from ITV (PSB0060)

73 Written evidence from ITV (PSB0060); Alex Farber, ‘GBBO and Circle drive C4 to record youth share’, *Broadcast* (3 October 2019): <https://www.broadcastnow.co.uk/channel-4/gbbo-and-circle-drive-c4-to-record-youth-share/5143444.article> [accessed 7 October 2019]

74 Written evidence from the British Film Institute (PSB0028)

noted, their ability to do so depends on the resources available to them.⁷⁵ We discuss funding and the future of the PSB compact in Chapter 4.

Black, Asian and minority ethnic viewers

53. The other demographic about which we heard concern was black, Asian and minority ethnic (BAME) viewers. Several witnesses argued that public service broadcasters had not done enough to appeal to BAME audiences. A report by digital.i found that 50 per cent of TV viewing by white people was of PSB channels, but this fell to 36 per cent among BAME viewers.⁷⁶ Sir Lenny Henry, an actor and broadcaster, told us: “British BAME viewers are leaving PSBs in their droves and going to SVODs in far higher numbers than their white counterparts. All the studies show this.”⁷⁷
54. The Campaign for Broadcasting Equality noted that Ofcom’s 2017–18 annual report found that people from BAME backgrounds were less satisfied with the BBC on every measure, except for BBC News.⁷⁸
55. A number of witnesses agreed that providing the right content was key and that this could be achieved through diversity behind the camera and among commissioners. BAME people are underrepresented across UK film and TV production. Only 3 per cent of people working in the British film industry are BAME and just 2.2 per cent of UK TV is directed by BAME creatives.⁷⁹
56. Many sectors of the economy struggle to achieve a diverse workforce. As we have found in previous reports, the creative sector faces two particular challenges.⁸⁰ First, industries such as TV have a greater need than other sectors to have a workforce which reflects the range of demographics of the UK in order to be relevant to all audiences. Second, there are several barriers impeding those from less affluent backgrounds from entering the creative sector. Jobs are often freelance for short-term projects and either unpaid or poorly paid, excluding those without independent means. Meanwhile, careers advice in schools often fails to raise awareness that there are a wide variety of opportunities for careers in the creative sector. ScreenSkills noted that they had a number of programmes to “inspire school age children about the exciting careers in screen, to running new entrant programmes, to programmes aimed at helping individuals progress their careers—and all with inclusion at their heart” but they argued that the Government needed to adopt a more strategic approach to skills.⁸¹ We discuss skills further in Chapter 3.
57. The lack of available data makes it difficult to compare the diversity of those working on productions for public service broadcasters with those working on productions for SVODs. SVODs are under no obligation to release such data and, although PSBs report on the diversity of their workforce, 48 per

75 [Q 22](#)

76 digital.i, *Mind the Viewing Gap* (November 2017) p 6: <http://www.digital-i.com/wp-content/uploads/2017/11/Mind-The-Viewing-Gap-Compressed.pdf> [accessed 19 August 2019]

77 [Q 128](#)

78 Written evidence from the Campaign for Broadcasting Equality ([PSB0056](#))

79 [Q 124](#)

80 Select Committee on Communications, *Skills for theatre: Developing the pipeline of talent* (3rd Report, Session 2016–17, HL Paper 170) and Select Committee on Communications, *UK advertising in a digital age* (1st Report, Session 2017–19, HL Paper 116)

81 Supplementary written evidence from ScreenSkills ([PSB0062](#))

cent of PSBs' programmes are made by independent production companies which do not have the same reporting requirements.⁸²

58. Project Diamond, run by the Creative Diversity Network, is a voluntary online system used by the public service broadcasters and Sky to obtain diversity data on programmes they commission. It has received 44,000 responses, but this represents only a 26 per cent response rate.⁸³ Margot James MP, the then Minister for Digital and the Creative Industries, told us that the Government was considering legislation to give Ofcom power to oblige production companies to provide diversity data.⁸⁴ Ofcom has the power to collect data on disability, gender and race and wrote to Jeremy Wright, the then Secretary of State for Digital, Culture, Media and Sport, to ask for the power to collect data on other protected characteristics.⁸⁵
59. Notwithstanding the lack of data, we were concerned to hear from several witnesses that public service broadcasters were not as successful as SVODs in championing BAME representation behind the camera and in the creative process. Sir Lenny Henry told us that a survey he had conducted for *Broadcast* magazine found that BAME-led production companies find more opportunities with SVODs than public service broadcasters.⁸⁶
60. The Campaign for Broadcasting Equality concluded: "Netflix, Amazon and other SVODs are providing valuable additional services and opportunities for BAME programme and film makers that are not available via Public Service Broadcasters."⁸⁷ The Campaign for Broadcasting Equality and TV Collective gave examples of BAME creatives who could not find work from PSBs but were commissioned by SVODs.⁸⁸
61. This was corroborated by Andrew Chowns, Chief Executive of Directors UK, who said that SVODs were "much more comfortable with the idea of a diverse workforce. You look at cast pictures and hear accounts of people working with them, and it seems there is not the same lack of diversity".⁸⁹
62. Charles Lauder, Chief Executive Officer, Indie Club, warned that PSBs were not doing enough:
- "It is clear, when you look at the numbers, that BAME communities, people with disabilities and others are not involved enough in the decision-making. The question that needs to be asked of the PSBs is, within those contexts of working, where there have been innumerable trainings and initiatives, why is it that people from those communities are neither retained nor promoted within the organisations? In the end, that is part of how you will determine what kind of content is made."⁹⁰
63. Across the BBC, 15.3 per cent of staff are from BAME backgrounds and 20 per cent of on-air staff paid over £150,000 a year are BAME. The BBC

82 Ofcom, *Media Nations: UK 2019* (7 August 2019) p 51: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 19 August 2019]

83 [Q 104](#)

84 [Q 216](#)

85 Ofcom, *Diversity and equal opportunities in television* (September 2019) p 37: https://www.ofcom.org.uk/_data/assets/pdf_file/0028/166807/Diversity-in-TV-2019.pdf [accessed 18 September 2019]

86 [Q 128](#)

87 Written evidence from the Campaign for Broadcasting Equality ([PSB0056](#))

88 [Q 128](#); written evidence from TV Collective ([PSB0058](#))

89 [Q 82](#)

90 [Q 96](#)

argued that it was: “doing more than any other broadcaster on diversity and, on and off-screen, we are more diverse than ever.”⁹¹ It drew attention to its £2.1 million Diversity Creative Talent Fund and said that its Commissioning Code of Practice put diversity at the heart of the commissioning process and that this was reflected in high-profile BAME talent such as Stormzy in *Noughts and Crosses*, David Oyelowo in *Les Miserables* and Anita Rani in *Countryfile*.

64. Ms Rani was the subject of media attention in June 2019 when she said: “I feel like I have to justify why I should present things more than anyone else because I’m an Asian woman. And on top of that, I’m blooming northern.” She revealed that when she met the production team for a documentary on Bollywood she was presenting she was “the only brown face in the room”.⁹²
65. Marcus Ryder, Chief International Editor at the China Global Television Network, argued that it was difficult to tell whether the BBC’s in-house production crews were becoming more diverse because the BBC changed the way it reported data following the merger of BBC Studios and BBC Worldwide.⁹³ Previously, BBC Studios focused exclusively on production and BBC Worldwide managed distribution. In 2018 9.6 per cent of BBC Studios staff were from a BAME background compared with 19.2 per cent of staff at BBC Worldwide. Following the merger, in 2019 the BBC reported that 14 per cent of all BBC Studios staff were from a BAME background. Mr Ryder said that although the BBC provided data by ‘job family’ across the organisation, such as commissioning and programming, these figures were distorted by the inclusion of BBC World Service and BBC World News, which operated in countries with large BAME populations.
66. Ofcom found: “The merger of BBC Studios and BBC Worldwide has led to less transparency being reported about the diversity of BBC Studios in the UK. This has led to a reduction in visibility of diversity in production.”⁹⁴

Commissioning and the creative process

67. We heard that the process of commissioning and developing programmes played an important part in appealing to younger and BAME viewers. Georgia Brown, Director of European Originals at Amazon, explained:
- “We have a diverse selection of commissioners, all of whom are relatively new to the game and quite young. That absolutely helps with the content we develop and commission ... We find that young audiences really want, and connect incredibly well with, authentic programming—programming that is commissioned and developed for them.”⁹⁵
68. Pact suggested that the BBC should show more ambition in its commissioning policy, while Andrew Chowns, Chief Executive of Directors UK, said that

91 Supplementary written evidence from the BBC (PSB0066)

92 Ian Youngs, ‘Anita Rani says “posh white men” should not be the default on TV’, *BBC News* (17 June 2019): <https://www.bbc.co.uk/news/entertainment-arts-48668651> [accessed 19 August 2019]

93 Marcus Ryder, ‘Television Statistics and “Diversity Gaslighting”’, *Black on White TV* (3 July 2019): <http://blackonwhitetv.blogspot.com/2019/07/television-statistics-and-diversity.html> [accessed 21 August 2019]

94 Ofcom, *Annual report on the BBC* (24 October 2019) p 18: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/173735/second-bbc-annual-report.pdf [accessed 24 October 2019]

95 Q 174

British television was “getting a big wake-up call at the moment to be more embracing of innovation and creativity”.⁹⁶

69. A number of witnesses felt that SVODs were not only more likely to work with creatives from different backgrounds but also more likely to give them freedom to be authentic in their work. Jasmine Dotiwala, Head of Youth Engagement and Media at the Media Trust, told us:

“SVODs allow everyone to be their authentic selves and they create content which is respected by communities without them feeling that their authenticity is being chipped away all the time. I have often developed and nurtured new talent for different TV companies and once you bring them in certain companies will let them be their authentic selves and certain companies will not.”⁹⁷

70. A similar view was expressed by Andrew Chowns, Chief Executive of Directors UK: “A lot of the members of Directors UK who work for Netflix tell me how refreshing it is to work for it, because it does not tend to micromanage you ... It sets them a creative brief and lets them get on with it. It is very nurturing of creativity”.⁹⁸

71. Sir Lenny Henry and Marcus Ryder noted that the subscription model created a commercial incentive to appeal widely: “the economic model—by its very nature—is built around maximising the number of programmes which are highly valued by as broad a range of people as possible to encourage them to sign up.”⁹⁹

72. Jay Hunt, Creative Director, Europe and Worldwide Video at Apple noted:

“It is extremely difficult for a terrestrial broadcaster to super-serve a particular demographic in this market when absolute volume of audience matters. If you are the BBC and you are dealing with the issue of the universality of the licence fee, being very popular with a tiny demographic is extremely difficult. ... it is similar for a commercial broadcaster. Volume audiences still matter. That is how you monetise via an advertising model, and it is extremely difficult.”¹⁰⁰

73. Netflix agreed: “The fact that our business model is not dependent on achieving a specific size of audience at a particular time of the day means we can take greater creative risks and invest in a broader range of content that is reflective of the diversity of our membership.”¹⁰¹ One respondent to our survey raised this point and believed that SVODs “tend to take greater risks, and be of far greater quality, than original drama programming on the BBC/ITV/Channel 4.”¹⁰²

74. However, Peter Kosminsky, Director, Stonehenge Films was concerned that SVODs did not foster creativity. He said:

“when you are at the commissioning stage of the process, unless you can describe the programme being pitched in three sentences, Netflix will

96 Written evidence from Pact ([PSB0030](#)) and [Q 75](#)

97 [Q 103](#)

98 [Q 75](#)

99 Written evidence from Sir Lenny Henry and Marcus Ryder ([PSB0057](#))

100 [Q 185](#)

101 Written evidence from Netflix ([PSB0041](#))

102 See Appendix 4

not commission it. The SVODs have a completely different mindset. Because we are British, we are all embarrassed to say that what lies at the base of what we do is artistic. Forgive us, but we think of ourselves as artists. That is not the mindset there.”¹⁰³

75. Channel 4 told us that it aimed to innovate, reflect diversity and different points of view, and stimulate debate. It stated: “Channel 4 is required to take risks and challenge the status quo.”¹⁰⁴ Channel 4 was praised for its work.¹⁰⁵ Audience research for Ofcom by Kantar Media found that Channel 4 was held up, alongside Netflix, as a good provider of wide representation and authentic portrayal.¹⁰⁶ It was perceived by audiences as “modern, edgy and diverse”, in contrast with the “establishment, stiff, white, middle-class and politically correct” BBC.¹⁰⁷ We heard examples of how Channel 4 supports creatives from different backgrounds on- and off-screen, with *Peng Life*, which brought YouTuber Elijah Quashie to a mainstream audience, and the Bafta-nominated *The Big Narstie Show* given as recent high-profile examples.
76. **Younger audiences are increasingly turning towards SVODs while spending less time watching public service broadcasting. Public service broadcasters face a difficult choice in dividing limited resources between appealing to older and younger viewers with different viewing habits and tastes. However, they must produce content which serves and reflects all audiences in the UK and the legitimacy of the licence fee depends on this.**
77. **The subscription model incentivises SVODs to produce content which reaches a range of audiences. This is because their success depends on building a catalogue of programmes which—as a whole—appeals to the widest range of potential subscribers, rather than judging success on the size of the audience for a given programme. For this reason, they can take creative risks on individual programmes. They have also made effective use of personalisation.**
78. **Some witnesses argued passionately that there was a problem with BAME representation in the TV sector, especially at the BBC. They cited employment data, reports of discriminatory practices and poor practices in the commissioning process. We note that the BBC and others are taking steps to address this. We believe that there is not enough data for us to opine on the substance of this issue. Nonetheless, perception is of paramount importance in this context and data show that BAME viewers spend less time watching PSBs than others.**
79. *As with other areas of the creative sector, the uncertain nature of freelance work and lack of adequate careers guidance present barriers to people from less advantaged backgrounds and BAME people from entering the TV sector. PSBs have a special role to play in lowering such barriers. They should do more to involve people*

103 Q 52

104 Written evidence from Channel 4 (PSB0048)

105 Written evidence from the British Film Institute (PSB0028)

106 Kantar Media, *Representation and portrayal of audiences on BBC television* (25 October 2018) p 3: https://www.ofcom.org.uk/_data/assets/pdf_file/0016/124252/kantar-bbc-qualitative-research.pdf [accessed 19 August 2019]

107 Kantar Media, *Representation and portrayal of audiences on BBC television* (25 October 2018) p 11: https://www.ofcom.org.uk/_data/assets/pdf_file/0016/124252/kantar-bbc-qualitative-research.pdf [accessed 19 August 2019]

from diverse backgrounds in their commissioning processes and behind the camera.

80. ***We recommend that Ofcom should report on the diversity of commissioning teams at public service broadcasters to ensure that under-served audiences are represented at all stages of programme development. The Government should empower Ofcom to collect data on the diversity of production crews making programmes for public service broadcasters, whether in-house or independent.***

Bringing the nation together

81. Public service broadcasters uniquely provide ‘event television’ which attracts a large number of viewers and provokes discussion across the country. They can simultaneously appeal to people of all ages and from all backgrounds. Ofcom noted: “Even with the decline in total TV viewing minutes, national events in 2018, especially in sport, still attracted huge audiences.”¹⁰⁸ England’s 2018 World Cup semi-final against Croatia had a peak audience of 26.5 million on ITV.¹⁰⁹
82. Claire Enders, founder of Enders Analysis, said: “The public service broadcasting system has always dominated the high viewership of universally free events.”¹¹⁰ The finale of *Bodyguard* and David Attenborough’s *Dynasties* were cited by the BBC as examples of “moments that unite the nation”.¹¹¹
83. ITV also stressed the importance of the shared experiences which PSBs’ high viewership can bring: “PSB channels reach millions of people each day and bring the whole UK together even at a time of deep division. Creating shared moments for the UK lies at the heart of the purpose of our PSB channel”.¹¹²
84. The idea of commissioning ‘fewer, bigger, better’ programmes was advocated by Roger Mosey, former Editorial Director of the BBC, who felt that the BBC spent too much money on poor entertainment shows. He said: “the BBC should ask itself how many episodes of *Pointless* (currently showing episode 32 out of 55 in series 21) or *Bargain Hunt* (into series 52) the world needs. By contrast, popular successes such as *Blue Planet*, *Bodyguard*, *Line of Duty*—along with regular blockbusters such as *Strictly Come Dancing*—repay the extra investment by both winning large audiences and being distinctive.”¹¹³
85. The ‘fewer, bigger, better’ strategy also found support from Together TV, which argued for “doubling-down on high quality news output and live events that drive distinctiveness.”¹¹⁴

Listed sports events

86. Many witnesses felt that the PSBs’ exclusive right to bid for certain sports events should be extended to support them in bringing the nation together.

108 Ofcom, *Media Nations: UK 2019* (7 August 2019) p 32: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 19 August 2019]

109 ‘World Cup 2018: England defeat watched by 26.5m’, *BBC News* (12 July 2018): <https://www.bbc.co.uk/news/entertainment-arts-44804428> [accessed 19 August 2019]

110 **Q 4**

111 Written evidence from the BBC (**PSB0052**)

112 Written evidence from ITV (**PSB0060**)

113 Written evidence from Roger Mosey (**PSB0038**)

114 Written evidence from Together TV (**PSB0007**)

Listed events must be shown on a universally available free-to-air channel either live (category A) or as highlights (category B).

Table 1: Listed events

Category A (Live)	Category B (Highlights)
The Olympic Games	Cricket test matches played in England
The FIFA World Cup finals tournament	Non-finals play in the Wimbledon tournament
The FA Cup Final	All other matches in the Rugby World Cup finals tournament
The Scottish FA Cup Final (in Scotland)	Six Nations Rugby tournament matches involving home countries
The Grand National	The Commonwealth Games
The Derby	The World Athletics Championship
The Wimbledon Tennis finals	The Cricket World Cup—the final, semi-finals and matches involving home nations’ teams
The European Football Championship finals tournament	The Ryder Cup
The Rugby League Challenge Cup Final	The Open Golf Championship
The Rugby World Cup Final	

Source: House of Commons Library, *Listed sporting events*, Briefing Paper, [Number 802](#), 4 October 2019, p 5

87. Listed events often attract large audiences, including among younger people, and therefore generate high advertising revenue for commercial PSBs. Dame Carolyn McCall, Chief Executive of ITV, gave live football as an example of where under-35s still watch ITV’s linear service. Year 12 students whom members of the committee met felt that one of the key roles of PSB was ensuring everybody could watch big sports events. However, they felt that too many events were on subscription channels only and that these were prohibitively expensive.¹¹⁵ Analyst Mark Pocock told *The Times* that viewers could have to pay £900 to access all Premier League games across Amazon Prime, Sky Sports and BT Sport.¹¹⁶
88. Professor Robert Beveridge argued: “It is vital that we continue and expand the listed events system. The spiralling costs of sports rights has placed many events out of the reach of PSBs.”¹¹⁷ Professor Petros Iosifidis, Professor Patrick Barwise and Professor Des Freedman agreed.¹¹⁸

115 See Appendix 4

116 Victoria Brzezinsky, ‘Dealwatch: Sports TV Packages’, *The Times* (29 June 2019): <https://www.thetimes.co.uk/article/dealwatch-sports-tv-packages-f660g0wcp> [accessed 19 August 2019]

117 Written evidence from Professor Robert Beveridge ([PSB0025](#))

118 [Q 29](#), [Q 58](#)

89. Roger Mosey, former Director of Sport and Director of London 2012 at the BBC, said: “I would be in favour of modestly increasing the list: perhaps including the Champions League final and the Open in golf as the kind of events that can bring significant sports-interested parts of the nation together for shared moments.”¹¹⁹
90. In its report on *Modernising the United Kingdom* Policy Exchange argued that the Government should review the list with a view to widening access and suggested women’s national football tournaments, England’s home test cricket matches and the men’s and women’s Cricket World Cup semi-finals and finals as candidates for addition.¹²⁰
91. In July 2019 Jeremy Wright MP, the then Secretary of State for Digital, Culture, Media and Sport, began a consultation on adding the Paralympic Games to the listed events and said that he planned to consult later in the year on adding women’s equivalents of men’s events to the list.¹²¹ Nicky Morgan MP, Secretary of State for Digital, Culture, Media and Sport announced in September 2019: “ I have written to the relevant rights holders to seek their views about adding women’s sporting events to the Listed Events regime. So where a men’s event is listed, the women’s equivalent would be too. I believe that this would be an important step in giving female sporting talent the coverage they deserve and putting men’s and women’s sport on an equal footing at last.”¹²²
92. The BBC has helped to build the profile of women’s football: 28.1 million people watched the BBC’s coverage of the 2019 World Cup, compared with 12.4 million for the 2015 World Cup. However, without listed status the event’s popularity could give rise to a subscription service buying the rights.
93. **An important way in which public service broadcasters can fulfil their remit of appealing to all audiences is through ‘event’ television such as sport, landmark drama and documentary series and live entertainment. At a time of division, public service broadcasters play a role in unifying the country through shared experiences.**
94. *The listed events regime provides important protection for the availability of major sports events. The Secretary of State for Digital, Culture, Media and Sport should consult sporting bodies, broadcasters and the public with a view to increasing modestly the number of listed events. This could include events such as The Ashes and The Open Golf Championship. We welcome the Government’s plans to add equivalent women’s events and the Paralympic Games to the list.*

119 Written evidence from Roger Mosey (PSB0038)

120 Policy Exchange, *Modernising the United Kingdom* (August 2019) p 72: <https://policyexchange.org.uk/wp-content/uploads/2019/08/Modernising-the-UK.pdf> [accessed 19 August 2019]

121 Written Statement HCWS1751, Session 2017–19, 18 July 2019

122 DCMS, ‘Nicky Morgan’s speech to the Royal Television Society’ (18 September 2019): <https://www.gov.uk/government/speeches/nicky-morgans-speech-to-the-royal-television-society> [accessed 19 September 2019]

CHAPTER 3: TV PRODUCTION

Investment in UK production

95. The UK production sector is a national success story. In 2018 the independent TV production sector's total revenue was £3 billion, which represents a 10 per cent growth since 2017 and is the highest figure to date.¹²³ The UK is the world's second biggest exporter of TV and in 2018 the independent production sector (companies not owned by public service broadcasters) received £962 million in international revenue, an increase of 90 per cent over the last five years.¹²⁴ The Office for National Statistics found that the Film and TV industry was the sub-sector of the service sector which had made the biggest contribution to GDP growth between June and August 2019.¹²⁵
96. British programming is popular across the world. Claire Enders, Founder of Enders Analysis, told us it is “top-end, globally relevant and always market-leading.”¹²⁶

Box 3: Growth of the production sector

Public policy has helped to nurture the growth of the production sector in several ways. The Communications Act 2003 required public services broadcasters to commission 25 per cent of their programming from independent production companies and enabled those companies to control and exploit the intellectual property from the programmes they made (see Box on Terms of Trade). This allowed small companies to enter the market and develop long-term sources of revenue. In recent years, however, the market has become more concentrated following consolidation, which has included the acquisition of UK companies by overseas media corporations.

Source: Ofcom, *Review of the operation of the television production sector* (23 December 2015): https://www.ofcom.org.uk/data/assets/pdf_file/0028/82684/tv_production_sector_review.pdf [accessed 4 November 2019]

97. In 2013 the Government introduced High-end TV Tax Relief (HETR) to support the production of high-end, culturally relevant TV programmes in the UK. Production companies are eligible for tax relief at 25 per cent on UK core expenditure and up to 80 per cent of the total core budget. Programmes must be a drama, comedy or documentary with a production cost over £1 million per hour and a duration of at least 30 minutes per episode. Programmes must pass a cultural test to show relevance to the UK or European Economic Area. At least 10 per cent of core expenditure must be in the UK and the production company must be liable for UK corporation tax.
98. In 2016 the British Film Institute estimated that £1 of HETR generated £6.10 of value to the UK economy. Production spending directly generated 13,090

123 Oliver & Ohlbaum, *UK Television Production Survey: Financial Census 2019* (September 2019) p 8: <https://touchbase.parliamentonline.co.uk/uploads/Pact%20Census%202019%20FINAL.pdf> [accessed 16 October 2019]

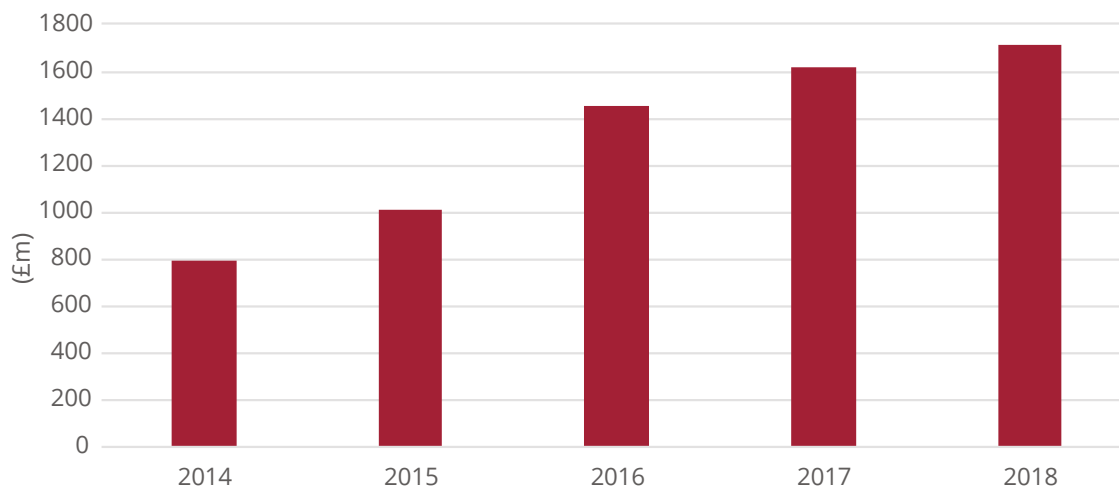
124 Written evidence from Pact ([PSB0030](#)) and Oliver & Ohlbaum, *UK Television Production Survey: Financial Census 2019* (September 2019) p 8: <https://touchbase.parliamentonline.co.uk/uploads/Pact%20Census%202019%20FINAL.pdf> [accessed 16 October 2019]

125 Office for National Statistics, *GDP monthly estimate, UK: August 2019* (10 October 2019) p 6: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/august2019/pdf> [accessed 16 October 2019]

126 [Q 7](#)

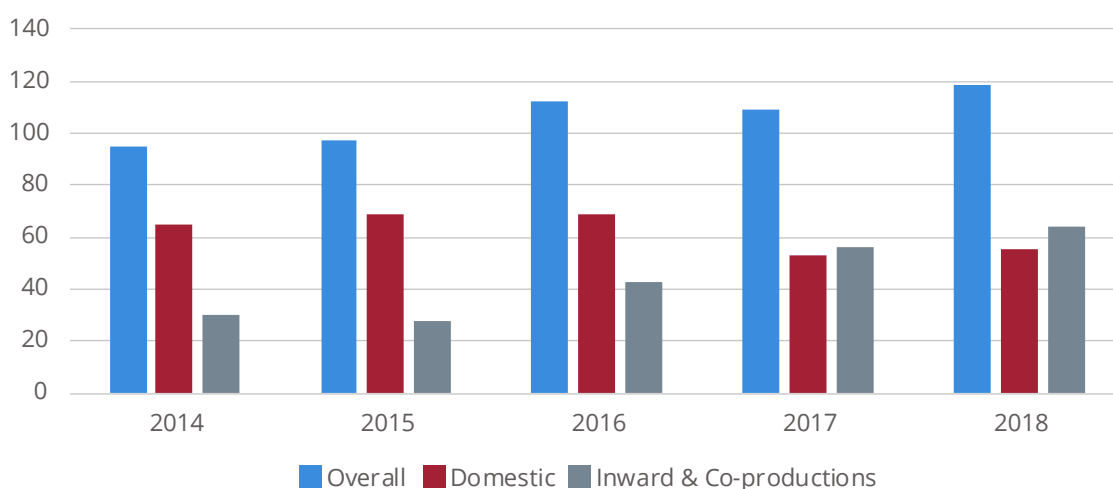
jobs and a further 13,580 jobs indirectly.¹²⁷ Since 2013 485 programmes have claimed HETR, spending £4.3 billion in the UK.¹²⁸ The graphs below show the increase in spending on high-end TV and in the number of hours produced.

Figure 6: Total spending per year of production (£ million)



Source: COBA, *UK drama production 2014–2019* (June 2019): <https://www.coba.org.uk/wp-content/uploads/2019/06/UK-drama-COBA-FINAL-2.pptx> [accessed 4 November 2019]

Figure 7: Total hours of HETV production per year



Source: COBA, *UK drama production 2014–2019* (June 2019): <https://www.coba.org.uk/wp-content/uploads/2019/06/UK-drama-COBA-FINAL-2.pptx> [accessed 4 November 2019]

99. We found universal agreement that High-end TV Tax Relief had incentivised investment in the UK. High-profile examples included HBO's *Game of Thrones* and Netflix's *The Crown*. The market is fast moving and prone to change but spending by SVODs has been a major contributor to growth. In 2018 independent production companies received £280 million in

127 BFI, *Screen Business: How screen sector tax reliefs power economic growth across the UK* (October 2018) p 3: <https://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/screen-business-full-report-2018-10-08.pdf> [accessed 6 August 2019]

128 UK Screen Alliance, *Tax reliefs provided £1.1 billion boost to creative sectors* (7 August 2019): <https://www.ukscreenalliance.co.uk/news/tax-reliefs-provided-1-1-billion-boost-to-creative-sectors/> [accessed 4 November 2019]

commissions from SVODs in the UK, an increase of 88 per cent since 2017.¹²⁹ Netflix told us that the UK was one of its top three production locations worldwide and that it had around 50 projects under way here, at a cost of over £400 million in 2019.¹³⁰

100. Some witnesses were concerned that SVODs did not make distinctively British programmes. Dr Maria Michalis, Reader in Communication Policy at the University of Westminster, told us: “SVOD players target the global market and prioritise content that lacks national specificities.”¹³¹
101. Similarly, Sir Colin Callender CBE, Chairman of Playground LLC, a TV production company, told us: “the SVODs are not interested in making British programming. The SVODs are interested in using British talent to make American programming”.¹³² He gave Netflix’s *Sex Education* as an example of a programme which looked “entirely like an American show.”¹³³ However, Dan Cheesbrough, former Managing Director at Eleven Film, which made *Sex Education*, explained: “A lot of people watched it and, understandably, suggested that this was the strange mysterious hand of the American executive demanding that we made our British show look American by putting English students in baseball jackets. It was a creative decision made out of an office in London that existed here and was imagined by the British creative team.”¹³⁴
102. It is difficult to gather data on how much SVOD programming made in the UK can be considered authentically British as the issue is largely subjective. However, Jane Turton, Chief Executive of All3Media, said that Netflix had moved towards commissioning more local content.¹³⁵ Netflix gave examples of “fundamentally British programming” it produced, including a series about east London gang culture called *Top Boy* and *The English Game*, a drama about the origins of football filmed in Manchester.¹³⁶
103. Amazon, Apple and Netflix said that programmes which reflect the UK, including programmes from public service broadcasters, had global appeal because viewers around the world were interested in stories from different cultures. Georgia Brown, Director of European Originals at Amazon, explained: “UK content is hugely exportable, obviously. We are commissioning on a local basis, but naturally these shows will travel across the world very well.”¹³⁷ Jay Hunt, Creative Director, Europe and Worldwide Video at Apple, told us that two of her first commissions at Apple had been to BBC Studios.¹³⁸

129 Oliver & Ohlbaum, *UK Television Production Survey: Financial Census 2019* (September 2019) p 3: <https://touchbase.parliamentonline.co.uk/uploads/Pact%20Census%202019%20FINAL.pdf> [accessed 9 September 2019]

130 Written evidence from Netflix (PSB0041), Q 186 and Mark Sweney and Tara Conlan, ‘Netflix to spend \$500 m on British TV shows and films’ *The Guardian* (20 September 2019): <https://www.theguardian.com/media/2019/sep/20/netflix-spend-500m-british-made-tv-shows-films> [accessed 16 October 2019]

131 Written evidence from Dr Maria Machalis (PSB0037)

132 Q 47

133 Q 51

134 Q 111

135 Q 60

136 Q 188

137 Q 180

138 Q 180

104. It is notable that each of the commissioners we met from Apple, Amazon and Netflix had recent experience working at a public service broadcaster. We also heard during the inquiry that Netflix had agreed a new deal with Shepperton Studios for a UK hub consisting of 14 sound stages, workshops and office space.¹³⁹
105. Sky is also spending more on UK content. Ali Law, Head of Policy for the UK & Ireland at Sky, told us that investing in content which reflected the experiences of people in the UK made sense because it was commercially successful.¹⁴⁰
106. **TV which reflects UK culture is in demand at home and abroad. However, changes in the market may make the future of individual SVODs and TV services uncertain. New entrants complement but cannot replace public service broadcasters, which guarantee continued investment in a wide range of original UK content no matter the state of the global market.**

BFI National Archive

107. To preserve UK programmes for future generations, the Copyright Designs & Patent Act 1980 allows the British Film Institute (BFI) to record programmes for archival purposes. The BFI archives approximately 300 programmes each year which contribute to UK culture and form a part of our screen history. This includes recent series such as *Broadchurch* and *The Great British Bake Off*.¹⁴¹
108. Public service broadcasters are obliged to provide programmes to the archive and to contribute to its running costs at a level set by Ofcom. However, other commercial broadcasters and SVODs which produce programmes in the UK are not under these obligations. The BFI said that there were approximately 100 more programmes each year it would like to archive and told us: “a gap is rapidly widening in the BFI National Archive, including extremely important titles such as *The Crown*, *Black Mirror*, *The Grand Tour* and *Patrick Melrose*.”¹⁴²
109. ***It is important that UK TV programmes of cultural significance are preserved for future generations irrespective of whether they are made by a public service broadcaster. The Government should broaden the requirement to provide programmes to and fund the BFI National Archive to non-public service broadcasters and SVODs which produce content in the UK.***

Cost inflation

110. We heard that the boom in high-end TV production presents risks for the sector. Although part of the increase in production spending can be accounted for by some top-end productions seeking film-style production values, there has also been inflation in costs.
111. There was a consensus that there was significant cost inflation and that it was concentrated at the high-end of the drama and documentary market.

139 Supplementary written evidence from Netflix ([PSB0069](#))

140 [Q 85](#)

141 Written evidence from the British Film Institute ([PSB0028](#))

142 *Ibid.*

The explanation by Kevin Lygo, Director of Television at ITV, was typical of the evidence we received. He described: “a simple supply and demand issue. There is more money going into drama. People therefore come at a premium. As we have heard, there are not enough good people to go round, so good people can charge good money and the whole thing inflates.”¹⁴³

112. Adam Minns, Executive Director of the Commercial Broadcasters’ Association, warned that the sector was at full capacity and there was now a danger of “overheating”.¹⁴⁴ Mr Minns cited pressure on studio space as another dimension of this, a point made by several witnesses.¹⁴⁵
113. Andrew Chowns, Chief Executive of Directors UK, explained that mid-budget dramas, which are more expensive than soaps but cost less than £1 million per hour, were an essential stepping stone in training to allow creatives to move to high-budget drama such as *Bodyguard*. He said that there were now fewer mid-budget dramas and that this had contributed to the skills shortage.¹⁴⁶ This was consistent with Screenskills’ finding that crew members were progressing before they had enough experience.¹⁴⁷
114. Most witnesses agreed that the High-end TV Tax Relief had been inflationary. In addition to increasing demand at the top of the market it has created an incentive for mid-budget productions to spend more to reach the threshold. Jane Turton, Chief Executive of All3Media, told us: “Some location costs have gone up, because people know that, if it is part-subsidised by a tax credit, we have to reach the £1 million threshold. Therefore they will tend to price accordingly.”¹⁴⁸ Andrew Chowns, Chief Executive of Directors UK, agreed that production companies sometimes spent more than they otherwise would have to reach £1 million per hour.¹⁴⁹
115. Ms Turton suggested lowering the threshold to around £750,000.¹⁵⁰ However, Mr Chowns believed that this would make the situation worse and shift inflation further down the market.¹⁵¹
116. ***High-end TV Tax Relief has benefited the UK production sector and encouraged high levels of inward investment. However, there is a serious risk of the sector reaching full capacity and overheating. The health of the independent production sector depends on maintaining the supply of production crews to meet demand. The £1 million threshold for tax relief creates an incentive for productions with a budget over £800,000 to spend more to receive up to £200,000 in tax relief. This makes it less attractive to produce mid-budget drama, which is crucial to the development of skills in the production sector. High-end TV Tax Relief should be tapered in from £800,000 to remove the incentive to spend more to reach a cost of £1 million per hour.***

143 [Q 203](#)

144 [Q 85](#)

145 Written evidence from Clintons Solicitors ([PSB0029](#)), written evidence from techUK ([PSB0003](#)) and [Q 56](#)

146 [Q 76](#)

147 ScreenSkills, *High-end television UK workforce in 2018 research report* (March 2019) p 10: <https://www.screenskills.com/media/2332/2019-03-14-hetv-research.pdf> [accessed 20 August 2019]

148 [Q 61](#)

149 [Q 80](#)

150 [Q 69](#)

151 [Q 80](#)

Skills

117. Public service broadcasters play a key role in training and nurturing talent which underpin the success of the TV sector. Independent production companies benefit from their investment as they rely on a broad pool of skilled workers for the range of roles involved in production. Philippa Childs, Head of Bectu, noted: “it is the PSBs that are providing the training and skills that the likes of Netflix and others are then happily accepting.”¹⁵²
118. Training is essential to tackling skills shortages and cost inflation in the sector. Productions in receipt of the High-end TV Tax Relief can voluntarily contribute 0.5 per cent of their UK production budget, up to a cap of £55,000, to the High-end TV Skills Fund.¹⁵³ The fund, which is administered by ScreenSkills, has reached £3.3 million a year and has a high level of compliance.¹⁵⁴ This money supports training and development across a range of roles and levels. We heard about schemes run by new entrants such as Netflix and Amazon.¹⁵⁵
119. Although the High-end TV Skills Fund has been successful, we encountered widespread dissatisfaction with the Apprenticeship Levy. This is the Government’s scheme to raise a levy on businesses which they can use to support apprenticeships. In our reports on the theatre and advertising sectors we found that, although the levy has great potential to provide a route into the creative sector and to improve social mobility, the way that it is currently constituted means that it is not suitable for the creative sector as it comprises small businesses, highly specialised roles and short-term jobs.¹⁵⁶ The levy was introduced in 2017 and applies to businesses with an annual pay bill over £3 million. Witnesses drew attention to an estimate by ScreenSkills that £55 million of the £75 million the creative industries have paid into the Apprenticeship Levy would not come back into the industry.¹⁵⁷ Adam Minns, Executive Director of COBA, estimated that £15 million of the £75 million had been lost from the television sector specifically.¹⁵⁸ ITV told us that it had paid £2.2 million and received only 11 per cent of that back.¹⁵⁹
120. The main complaint with the levy was that it is inflexible. Apprenticeships must last a minimum of 12 months, which is often too long a commitment for businesses in the creative industries.¹⁶⁰ The Government said that it had responded to concerns by raising the percentage of funding which one business can transfer to another from 10 to 25 per cent. The Government undertook to consider enabling businesses to pool vouchers and share apprenticeships through a specialist agency.¹⁶¹ Seetha Kumar, Chief Executive

152 [Q 76](#)

153 ScreenSkills, *High-End TV Skills Fund* (July 2019): <https://www.screenskills.com/media/2827/2019-07-19-hetv-booklet.pdf> [accessed 20 August 2019]

154 [Q 85](#), [Q 132](#)

155 [Q 176](#) and written evidence from Netflix ([PSB0041](#))

156 Select Committee on Communications, *UK advertising in a digital age* (1st Report, Session 2017–19, HL Paper 116) p 42, Select Committee on Communications, *Skills for theatre: Developing the pipeline of talent* (3rd Report, Session 2016–17, HL Paper 170) pp 17–19 and Select Committee on Communications, *UK advertising in a digital age* (1st Report, Session 2017–19, HL Paper 116) p 42

157 ScreenSkills, ‘£55 million a year wasted in creative apprenticeship levy payments’ (26 October 2018): <https://www.screenskills.com/insight/news/55-million-a-year-wasted-in-creative-apprenticeship-levy-payments/> [accessed 20 August 2019]

158 [Q 85](#)

159 Supplementary written evidence from ITV ([PSB000073](#))

160 [Q 85](#)

161 HL Deb, 4 June 2019, [col 5](#)

of ScreenSkills, said that pooling vouchers through training agencies would be the best use of the levy and that it would be preferable if the funds could be spent on training at all levels. She felt the levy could be improved if funds could be used to pay apprentices' wages.¹⁶²

121. The Government and Screenskills announced a pilot scheme in July 2019 to support 25 apprentices through a training agency.¹⁶³ Margot James MP, then Minister for Digital and the Creative Industries, told us:

“Our intention is to prove that the concept works and delivers value. We hope not only that it will prove all that but that it will act as an example that will bring forth a great deal more such apprenticeship activity in the broadcast sector, and indeed in other parts of the creative industries.”¹⁶⁴

122. The Apprenticeship Levy's flaws are not limited to the creative industries. The average number of people starting an apprenticeship fell by 31 per cent between the two years prior to its introduction and the following two years.¹⁶⁵ The CBI concluded: “Without urgent action, the Apprenticeship Levy risks becoming a roadblock to the Government's wider and welcome efforts to modernise the skills system.”¹⁶⁶

123. *The Apprenticeship Levy has failed the creative industries. Its inflexibility leaves significant amounts of money unspent which could otherwise help to address skills shortages in the production sector. We welcome the Government's pilot with Screenskills but fundamental reform of the Apprenticeship Levy is necessary and urgent. The Government should introduce greater flexibility such as allowing businesses to use the levy to fund training programmes at work and apprentices' wages, and to pool vouchers through training agencies.*

124. *The Government should make contributing to the ScreenSkills High-end TV Skills Fund a condition of receiving High-end TV Tax Relief. The Government should consult ScreenSkills on increasing productions' per centage contribution to the fund.*

Terms of Trade

125. Many witnesses told us that the Terms of Trade were one of the main reasons they work with the public service broadcasters.

162 [Q 134](#)

163 Jonathan Moules, 'UK relaxes apprenticeship levy rules to help film industry', *Financial Times* (4 July 2019): <https://www.ft.com/content/7077a9b6-9e42-11e9-b8ce-8b459ed04726> [accessed 20 August 2019]

164 [Q 215](#)

165 CBI, *Learning on the job: improving the apprenticeship levy* (September 2019) p 15: <https://www.cbi.org.uk/media/3419/learning-on-the-job-improving-the-apprenticeship-levy.pdf> [accessed 17 September 2019]

166 CBI, *Further reform urgently needed for effective apprenticeship levy* (17 September 2019): <https://www.cbi.org.uk/media-centre/articles/further-reform-urgently-needed-for-effective-apprenticeship-levy/> [accessed 17 September 2019]

Box 4: Terms of Trade

Ofcom requires PSBs to draw up codes of practice setting out principles for agreeing terms for the commissioning of independent productions in accordance with the Communications Act 2003. In line with these codes Pact negotiated standard ‘Terms of Trade’ with the PSBs.

The Terms of Trade require separate negotiations for primary and secondary and international rights. This means that public service broadcasters cannot make acquiring the secondary and international rights a precondition of buying the primary rights to a programme. Independent production companies can therefore negotiate a better deal for secondary and international distribution with another broadcaster or SVOD if they do not wish to sell those rights to the primary rights-holder. For example, series 1 of *Derry Girls* was made by Hat Trick Productions which sold the primary rights to Channel 4 and the secondary and international rights to Netflix.

126. Dan Cheesbrough, Commercial Director of Hartswood Films, said:

“I will die in a ditch for the Terms of Trade. They need to be protected. Anything that is going to compromise or erode or challenge them needs to be resisted desperately. Ironically, there is a large voice within the BBC that would love to see the Terms of Trade overturned. I do not think it is in its own interests to see the Terms of Trade overturned, now more so than ever.”¹⁶⁷

127. Flexibility is crucial to ensure that the Terms of Trade continue to work in the interests of public service broadcasters and independent producers. In its 2015 review of the production sector Ofcom concluded that negotiation between broadcasters and producers continued to be the best way to reach a balance between both parties’ interests.¹⁶⁸ In June 2019, Pact and Channel 4 agreed revised Terms of Trade which expanded the broadcaster’s on-demand rights.¹⁶⁹ Clintons Solicitors suggested that the Terms of Trade could be revisited to ensure that programmes for which public service broadcasters hold primary rights are attributed to them in secondary and international media.¹⁷⁰

128. John McVay, Chief Executive of Pact, argued that the independent production sector would “collapse” without the Terms of Trade because independent producers relied on intellectual property rights for asset value to grow their businesses.¹⁷¹ However, whereas the Terms of Trade were originally intended to protect smaller independent production companies they also benefit larger companies. There are now ‘super-indies’ such as All3Media, which comprises 28 production and distribution companies and is jointly owned by two multibillion dollar global companies: Liberty Global and Discovery. Inc. In 2018, 41 per cent of revenue in the independent production sector was for

167 [Q 112](#)

168 Ofcom, *Review of the operation of the television production sector* (December 2015) p 31: https://www.ofcom.org.uk/data/assets/pdf_file/0028/82684/tv_production_sector_review.pdf [accessed 9 October 2019]

169 Channel 4, *Channel 4 and Pact agree landmark Terms of Trade deal for new digital era* (11 June 2019): <https://www.channel4.com/press/news/channel-4-and-pact-agree-landmark-terms-trade-deal-new-digital-era> [accessed 20 August 2019]

170 Written evidence from Clintons Solicitors ([PSB0029](#))

171 [Q 97](#)

companies with a turnover in excess of £70 million, while only 15 per cent was for companies with a turnover of less than £10 million.¹⁷²

129. Andy Harries, Chief Executive of Left Bank Pictures, warned that if independent producers had no choice but to sell all intellectual property up front they would effectively become on the payroll of global studios.¹⁷³ However, Mr McVay noted that independent producers sometimes preferred to receive a premium on the cost of production up front in exchange for all rights.¹⁷⁴ This model had the benefit of removing risk for the independent producer.¹⁷⁵
130. Apple, Amazon and Netflix told us that they were willing to be flexible when negotiating different rights agreements.¹⁷⁶ Georgia Brown said that Amazon had bought the global rights to only three of its co-productions in 2018.
131. **Public service broadcasters are essential to the independent production sector and the Terms of Trade encourage independent production companies to work with them. Their success relies on both PSBs and the production sector being willing to update the Terms of Trade as the market changes.**
132. *As part of its review of public service broadcasting, Ofcom should consider whether the Terms of Trade unfairly disadvantage public service broadcasters in a competitive market. The Terms of Trade were originally introduced to protect independent production companies from the dominance of public service broadcasters. Given the degree of consolidation in the market, in order to uphold their original purpose of protecting small and medium sized independent production companies, Ofcom should review whether the Terms of Trade should still to apply to larger companies.*

Affordability of high-end drama

133. We heard concern that in the changing market public service broadcasters had been crowded out and were no longer able to make high-end drama. The amount of first-run original drama programming on PSB channels fell from 627 hours in 2008 to 338 hours in 2018.¹⁷⁷ Peter Kosminsky, Director of Stonehenge Films, told us: “if, as producers like us, you have a highly commercial programme idea, you don’t bother with the PSBs anymore; you just take it straight to Netflix, Amazon or Apple.”¹⁷⁸
134. However, Jane Turton, Chief Executive of All3 Media, said: “We value those relationships [with public service broadcasters] enormously. We will trot to see Piers Wenger, Polly Hill or the guys at Channel 4 first every time. It is because of the British storytelling and the British talent”.¹⁷⁹

172 Oliver & Ohlbaum, UK Television Production Survey Financial Census 2019 (September 2019) p 13: <http://www.pact.co.uk/asset/07D6C878-DDC9-439D-95E86185F4CD32AF/> [accessed 16 October 2019]

173 [Q 111](#)

174 [Q 97](#)

175 [Q 189](#)

176 [Q 189](#), [Q 180](#)

177 Ofcom, *Media Nations: UK 2019* (7 August 2019) p 44: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 9 August 2019]

178 [Q 47](#)

179 [Q 61](#)

135. We asked Ms Turton whether she was concerned that public service broadcasters would no longer be able to make high-end programmes. She said: “No, because as long as they come in to develop early, to partner with us early, to commission and to work up these shows, we will always go to them first”.¹⁸⁰
136. Mr Kosminsky believed that public service broadcasters could no longer afford to make high-end drama. He said:
- “A programme that would have cost about £1.2 million an hour three years ago will now cost about £2 million an hour or more. Of course, PSB drama tariffs cannot keep pace with that. Of that £2 million an hour cost, the PSBs can only contribute about £800,000. If you add the Government’s tax breaks—what we call the soft money—that will take it up to about £1 million an hour. If costs are £2 million an hour and input £1 million an hour, the shortfall is £1 million an hour—half the budget.”¹⁸¹
137. We found that production budgets for public service broadcasters’ drama series had risen along with the rest of the sector. The budget per hour of Channel 4’s commissioned drama rose from £750,000 to £1.5 million between 2013 and 2017, while the BBC told us that the budgets of its high-end dramas had risen by 60 per cent over the last five years.¹⁸² However, Ofcom found that between 2016 and 2018 the amount of money public service broadcasters contributed rose only marginally: from £764,000 per hour to £771,000.¹⁸³ The rest of the production cost came from third-party funding.
138. In addition to tax credits, the two main forms of third-party funding are co-production and deficit financing. Co-production involves two or more broadcasters or SVODs partnering to fund a production in development. Recent co-productions have included *Victoria* (ITV/PBS) and *Good Omens* (BBC/Amazon). Deficit financing involves a broadcaster commissioning a programme and paying less than the cost of production for the primary rights. The production company makes up the rest of the production cost, such as through a bank loan, and pays off the deficit by selling the secondary and international rights when the programme is finished. An example of this is *Bodyguard*, for which ITV Studios sold the primary rights to the BBC and the secondary and international rights to Netflix.
139. There was a consensus that public service broadcasters were now reliant on third-party funding for the most expensive drama series. Alistair Law, Head of Policy for the UK & Ireland at Sky, described a new category of “super-premium” drama such as *The Night Manager*, a co-production between the BBC and HBO.¹⁸⁴ The cost of these can be driven by location shoots and visual effects.¹⁸⁵

180 [Q 61](#)

181 [Q 47](#)

182 Written evidence from Channel 4 ([PSB0048](#)) and [Q 141](#)

183 Ofcom, *Media Nations: UK 2019* (7 August 2019) p 58: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 19 August 2019]

184 [Q 85](#)

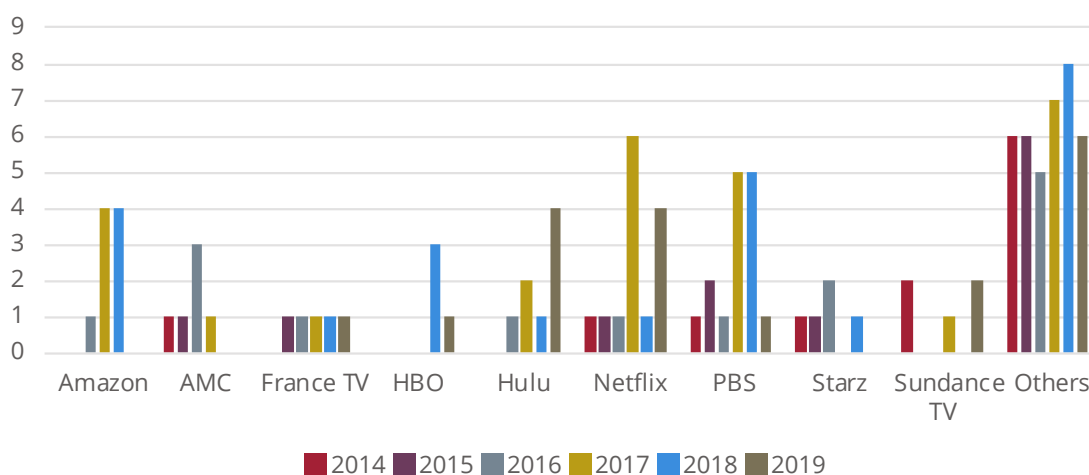
185 [Q 6](#) and ScreenSkills, *High-end television UK workforce in 2018 research report* (March 2019) p 11: <https://www.screenskills.com/media/2332/2019-03-14-hetv-research.pdf> [accessed 20 August 2019]

140. Last year third-party funding contributed a record £455 million to PSB productions, which took total expenditure on PSB programmes to its highest since 2010: £3.041 billion. The majority of third-party funding, £311 million, was for high-end drama.¹⁸⁶ Ofcom noted that third-party funding had allowed public service broadcasters to spend less on drama and more on other genres.¹⁸⁷
141. However, Peter Kosminsky argued that the co-production model was under threat:

“PSBs have been closing the gap with co-productions with the SVODs, shows such as ITV’s *Vanity Fair*, Channel 4’s *Kiss Me First* and BBC’s *Collateral*, but in the last few months that situation has started to change. There is evidence both here and from the agents in Los Angeles that the SVODs are less and less interested in co-productions with our PSBs.”¹⁸⁸

142. Figure 8 uses data from the BFI to show trends in PSBs’ co-production of high-end drama over the last five years, up until June 2019, with both SVODs and non-SVODs.¹⁸⁹

Figure 8: Public service broadcasters’ co-production partners: Most active PSB partners by year of production



Source: COBA, *UK drama production 2014–2019* (June 2019): <https://www.coba.org.uk/wp-content/uploads/2019/06/UK-drama-COBA-FINAL-2.pptx> [accessed 4 November 2019]

143. Apple told us that it was “not averse to co-production”. Netflix said that co-production:

“works extremely well for us as a model and it seems to work extremely well for the rest of the industry as well. If you look at the BFI data on this, the indications are that the volume of co-commissions up to this point in 2019 is already the same as it was for the entirety of 2018. Netflix is a major partner in that story, as is the BBC by and large. Co-commissioning as a model seems to be alive and well.”¹⁹⁰

186 Ofcom, *Media Nations: UK 2019* (7 August 2019) pp 54–55: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 19 August 2019]

187 Ofcom, *Media Nations: UK 2019* (7 August 2019) p 57: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 19 August 2019]

188 Q 47

189 Supplementary written evidence from COBA (PSB0055)

190 Q 180, Q 188

144. Dan Cheesbrough, Commercial Director of Hartswood Films, also thought that co-production would continue, although he foresaw a small overall decline and suggested that some SVODs would co-produce more than others. He said: “There is always going to be a need for innovative deal-making, which essentially means co-production.”¹⁹¹ In September 2019 the BBC and Netflix announced their first natural history co-production, *Life in Colour*.¹⁹²
145. Jane Turton, Chief Executive of All3Media, said that the co-production model works well for independent producers too: “we have the benefit of a UK relationship and the UK editorial input, which is very valuable and not something that one should underestimate; you have a commissioning editor at ITV who sends notes, is involved and understands the market, casting, writing and so on. We make it as a British programme but for a combination of different funders.”¹⁹³
146. Several witnesses noted that SVODs were not the only co-production partners for PSBs. Adam Minns, Executive Director of the Commercial Broadcasters’ Association, cited AMC, which co-produced *McMafia*, and HBO, which co-produced *His Dark Materials*, as examples of “companies queuing up to co-produce with the PSBs.”¹⁹⁴ Ampere Analysis forecast that co-production would increase but that public service broadcasters would co-produce more with other broadcasters.¹⁹⁵
147. Alastair Fothergill, Company Director of Silverback Films, explained that deficit financing allowed the BBC to contribute as little as 20 per cent of the production cost for series such as *Blue Planet II*, with the rest of the funding coming from international rights.¹⁹⁶ Ali Law, Head of Policy for the UK & Ireland at Sky, said that big budget programmes had a strong potential for deficit financing as they sell well abroad.¹⁹⁷
148. We encountered a widespread view that it was not a problem if public service broadcasters could not match the per-hour budgets of some SVOD programmes. Most witnesses felt that public service broadcasters could still produce high-quality and distinctively British programmes. John McVay, Chief Executive of Pact, said that his advice to public service broadcasters was that they should focus on being more distinctive and more British than SVODs. He cautioned: “It should not all be pegged on this idea that because Netflix can spend £6 million an episode, we must be able to spend £6 million an episode.”¹⁹⁸
149. Andy Harries, Chief Executive of Left Bank Pictures, which makes *The Crown* for Netflix, told us:

“on the whole the BBC is doing a pretty good job. Much of its successful drama, such as *Line of Duty*, is not expensive to produce. It is about £1.5

191 [Q 113](#)

192 Jake Kanter, ‘BBC and Netflix team up for natural history first with David Attenborough series “Life in Colour”’, *Deadline* (27 September 2019): <https://deadline.com/2019/09/bbc-and-netflix-team-david-attenborough-life-in-colour-1202746331/> [accessed 9 October 2019]

193 [Q 60](#)

194 [Q 86](#)

195 Ampere Analysis, *The UK VoD market* (2019) p 14: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/149075/ampere-analysis-current-status-future-development.pdf [accessed 20 August 2019]

196 [Q 59](#)

197 [Q 85](#)

198 [Q 97](#)

million, which is pretty low. If you want a comparison with *The Crown*, *The Crown* is between £5 million and £10 million an hour. It is one of the most expensive shows in the world and we would probably never have got it made had we not sold it to Netflix.”¹⁹⁹

150. Kevin Lygo, Director of Television at ITV, said that ITV was still able to fully fund 84 per cent of its programmes and he was “amazed” by the amount the BBC spent on co-productions. He warned: “Some producers love to have a budget of £4 million an hour or something like that. We do not do very much of that. You can get seduced into chasing after a look that is closer to a movie experience ... we make the sorts of programmes I cannot imagine anyone but a PSB making”. He cited *Butterfly* and *Little Boy Blue* as examples of “completely affordable productions”.²⁰⁰
151. Andrew Chowns, Chief Executive of Directors UK, also dismissed the idea of an existential threat to public service broadcasters’ ability to produce high-end programmes and suggested that there was “a danger of people overreacting”.²⁰¹
152. *Three Girls*, the BBC’s 2017 drama about child sexual abuse in Rotherham, was cited by both sides of the argument. Peter Kosminsky said: “If it was commissioned today, it would struggle to get made.”²⁰² However, the BBC and Pact said that *Three Girls* exemplified what public service broadcasters could afford.²⁰³
153. Some expressed concern about the ability of public service broadcasters to attract the biggest stars to their productions. Jane Turton, Chief Executive of All3Media, envisaged a threat from an “arms race for talent”.²⁰⁴ However, Claire Enders and Kevin Lygo said that a benefit of top talent being engaged by SVODs was that public service broadcasters were forced to nurture new talent.²⁰⁵ Ms Enders added that the large audiences public service broadcasters can reach made them appealing to actors.²⁰⁶
154. In 2018 public service broadcasters spent £2.58 billion on original UK content, excluding third-party funding. This is considerably more than SVODs. However, Figure 9 shows that this figure has declined in real terms.

199 [Q 109](#)

200 [Q 203](#)

201 [Q 76](#)

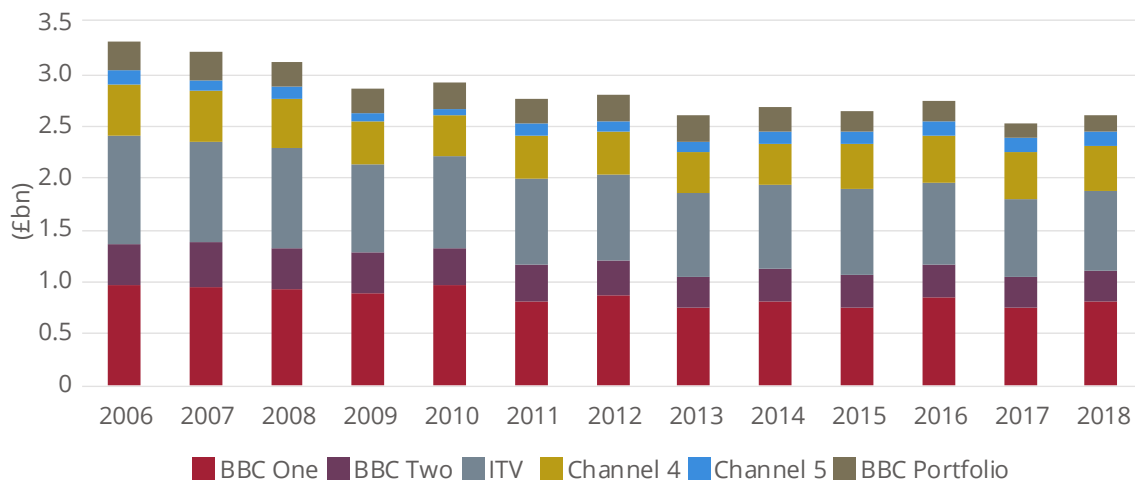
202 [Q 47](#)

203 [Q 141](#), [Q 97](#)

204 [Q 61](#)

205 [Q 6](#), [Q 203](#)

206 [Q 12](#)

Figure 9: Spending on original content by public service broadcasters

Note: Spend figures are in 2018 prices. BBC portfolio figures include BBC Three, BBC Four, CBBC, CBeebies, BBC News and BBC Parliament. Figures do not include S4C, BBC Alba, BBC HD or nations'/regions' programming.

Source: Ofcom, Communications Market Report 2019 (July 2019): <https://www.ofcom.org.uk/research-and-data/multi-sector-research/cmr/interactive-data> [accessed 4 November 2019]

155. Declining spending is not necessarily a bad thing if broadcasters are getting more for their money, as Margot James MP, the then Minister for Digital and the Creative Industries, noted.²⁰⁷ The BBC spent as much on 18 series, which were seen by 74 per cent of the population, as Netflix did on two series of *The Crown*.²⁰⁸ Nevertheless, public service broadcasters' ability to produce high-quality programmes depends on their funding. We discuss this in Chapter 4.

156. Peter Kosminsky, Director of Stonehenge Films, advocated a new levy on SVODs. He said:

“If the SVODs wish to broadcast to the UK audience of 60 million-plus, they should be obligated to pay a levy per head on all their UK subscribers. That would create a pot of money available exclusively to UK PSBs to compete for, programme idea by programme idea, to replace the shortfall caused by the SVOD decision to withdraw from co-productions with the PSBs.”²⁰⁹

157. Several witnesses supported imposing a levy but disagreed on how best to spend it.²¹⁰ Others argued that there was no need for a new levy and it could undermine the success of the production sector.²¹¹ Adam Minns, Executive Director of the Commercial Broadcasters' Association, warned: “If I were brainstorming ways to deter investment in the UK post Brexit, a levy would probably be right at the top of the list. It would go straight to companies' margins.”²¹² He said that a levy would force SVODs to cut their content

207 Q 214

208 Written evidence from HM Government (PSB0045)

209 Q 47

210 Written evidence from Clintons Solicitors (PSB0029), written evidence from Professor Diane Coyle (PSB0005) and Q 56

211 Q 101, Q 77, Q 90

212 Q 90

budgets, meaning that they would have less money with which to co-produce programmes with public service broadcasters.

158. ***Public service broadcasters are vulnerable to cost inflation if skills shortages are not addressed, but they can still afford to make high-quality, distinctive British programmes. Public service broadcasters have benefitted from record levels of third-party funding: from co-productions with SVODs, co-productions with non-SVODs and deficit financing. However, we heard concerns from industry figures that third-party funding could decline in future once broadcasters have become dependent on it. Losing this funding would pose a serious danger to public service broadcasters and impair their ability to produce high-quality programmes. It would also damage the independent production sector. In a fast-changing market public service broadcasters' access to third-party funding for programmes for UK audiences should be kept under review. We do not support proposals for a levy on SVOD subscriptions at this time, but we would expect Ofcom to assess the merits of a levy if the situation changes and to make recommendations accordingly. With the support of the Government, Ofcom should closely monitor emerging data and the impact of similar measures in other jurisdictions.***

Regional production

159. Public policy on the production sector must consider all the regions and nations of the UK. TV production brings great benefits to the economy and it is important that these are spread across the whole of the country.
160. In 2017, 90 per cent of independent production revenue was generated in London.²¹³ With expertise concentrated in the capital and the south east, Deborah Williams, Chief Executive of the Creative Diversity Network, said that it was necessary to develop a “critical mass” in a given region to act as a sustainable skills base.²¹⁴
161. Two-thirds of productions made outside London are made by companies based in London.²¹⁵ STV explained: “In recent years, investment in “nations and regions” programming has been frustrated by the practice of “lift and shift” production—where, for example, a London-based producer will temporarily re-locate a production team in the nations to make a show rather than investing in local talent.”²¹⁶
162. Different types of programmes have different effects on local skills bases. John McVay, Chief Executive of Pact, argued:
- “the way you drive production economies in centres such as Newcastle and Birmingham, which used to have thriving production economies, is through returning series—long-running work in which you can retain talent and develop the high-level skills needed. Short runs and singles do not do that”.²¹⁷

213 [Q 95](#)

214 [Q 105](#)

215 [Q 136](#)

216 Written evidence from STV ([PSB0027](#))

217 [Q 95](#)

163. Mr McVay suggested that the Treasury should make it easier for local authorities to use capital investment funds to support the creative industries by introducing greater flexibility.²¹⁸ Margot James MP, the then Minister for Digital and the Creative Industries, said:

“Some of the things we are doing include encouraging the development of studio space outside London and the south-east. That is a big opportunity and ties into [the] suggestion about local authorities and their flexibility over capital allowances. The mayor of the West Midlands, in trying to support the need for greater studio space, is looking at the potential of a piece of land.”²¹⁹

164. It is unclear how much of the production spending by new entrants is being spent outside London. However, Benjamin King, Director of Public Policy for the UK at Netflix, told us that Netflix had productions under way “not only in and around London but in Wales, Manchester and other areas. We are also currently filming in Norwich and have been in Bristol and Scotland recently. Our ambition is to make a meaningful and measurable contribution not only to the continuing success but to the longer-term sustainability of the creative industries here.”²²⁰ John McVay, CEO of Pact, added: “*Sunderland ‘Til I Die* was Netflix’s top documentary last year, a brilliant piece of work about a very special local football team, and all that money was spent in Sunderland.”²²¹
165. Public service broadcasters play a crucial role supporting regional production. They are obliged by Ofcom to do so. Table 2 shows the requirements on public service broadcasters for programming from the nations and regions. However, the effectiveness of these quotas has been questioned. Campaigners noted that one third of ITV’s qualifying regional hours in 2017 were ‘Nightscreen’—which shows still images of ITV programmes—as it is produced by a small team in the midlands.²²²

Table 2: Quotas for regions and nations programmes on PSBs

		BBC	ITV	Channel 4	Channel 5
Production in the UK outside the M25	% of network programme hours	50% (62.3%)	35% (47.6%)	35% (59.3%)	10% (18.8%)
	% of production spend	50% (50.7%)	35% (38.3%)	35% (45.2%)	10% (22.8%)

218 [Q 95](#)

219 [Q 216](#)

220 [Q 186](#)

221 [Q 95](#)

222 David Collins, ‘Up next for our regional viewers—the ITV test card’ *The Sunday Times* (20 October 2019): <https://www.thetimes.co.uk/article/a5b14be2-f297-11e9-9bda-2323db083a05> [accessed 24 October 2019]

		BBC	ITV	Channel 4	Channel 5
Production in the Nations outside of England	% of network programme hours	England outside M25: 30% (37.1%) Scotland: 8% (16.7%) Wales: 4% (4.6%) Northern Ireland: 2% (2.4%)	N/A	3% (10%)	N/A
	% of production spend	England outside M25: 28% (28.4%) Scotland: 8% (10.4%) Wales: 5% (6.3%) Northern Ireland: 3% (3.1%)	N/A	3% (7.8%)	N/A

Actual 2018 figures in brackets

Source: Ofcom PSB Annual Compliance report 2019: <https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/public-service-broadcasting/public-service-broadcasting-annual-report-2019> [accessed 4 November 2019]

166. Dr Caitriona Noonan argued: “TV production in the nations and regions has been driven by investment from PSBs. In the last decade, the production sector in the nations and regions has increased its share of PSB programming with more active local production companies in the nations making network programmes for the PSBs.”²²³

167. Ofcom noted that the BBC had made progress, due particularly to its investment in Salford:

“While 62 per cent of the BBC’s qualifying hours were made in London in 2010, this was down to 40 per cent in 2017. The north of England—driven by the relocation of departments such as BBC Sport and Children’s to Salford in 2012—has been the main beneficiary, producing nearly a quarter (24 per cent) of the BBC’s qualifying hours in 2017 compared to 5 per cent in 2010.”²²⁴

168. We also heard support for ITV’s presence in Salford and Channel 4’s decision to move its headquarters to Leeds, with new hubs in Bristol and Glasgow.²²⁵ Channel 4 said that over half of its existing nations and regions suppliers

223 Written evidence from Dr Caitriona Noonan (PSB0032)

224 Written evidence from Ofcom (PSB0051)

225 Written evidence from HM Government (PSB0045)

would be within a one-hour train journey of one of its offices.²²⁶ However, Faisal Qureshi, Chair of the Black Members' Committee at Bectu, argued that more must be done to devolve commissioning power to a regional level.²²⁷

169. Only 47 per cent of people believe that public service broadcasters portray their region or nation fairly to the rest of the UK.²²⁸ Charles Lauder, Chief Executive Officer, Indie Club, told us: “audiences value content that reflects their experiences. That will not happen if they are not made by the people who actually have lived those experiences and understand them. One thing that would help that ... is about where the commissioners are based.”²²⁹
170. Research for Ofcom by Kantar Media found that audiences believe that TV often focuses too much on London and the South-East and, where it does not, ‘hub’ locations such as Glasgow and Cardiff are over-represented.²³⁰ This view was echoed by witnesses. The Institute for Practitioners in Advertising stated that a survey they conducted last year found that those in Yorkshire and the north west expressed more negative views towards the BBC whereas those in London and the south east were more positive.²³¹ Equity were concerned about declining PSB investment in the West Midlands, East Midlands and east of England. Ofcom data from 2015 showed that these regions accounted for only 2 per cent of production spending between them.²³² Lord Hall of Birkenhead told the Committee that better serving the regions of England was a priority for the BBC; he gave the example of programmes such as *Question Time* and *Springwatch* which move around the country.²³³
171. **Producing programmes across the UK spreads the economic benefits of TV production and helps to ensure that viewers feel represented. Public service broadcasters have a crucial role in supporting regional production. Progress has been made and centres such as Salford, Cardiff and Glasgow have been highly successful. However, it is important to develop further production beyond metropolitan hubs. Regional production must support production companies whose main office is not in London and involve commissioning decisions being made in the regions and nations themselves.**
172. *Ofcom should ensure that public service broadcasters uphold the spirit of regional production quotas to aid the development of regional skills and production companies based in different nations and regions.*
173. *The Government should review regional investment funds to determine how they could be made more flexible to work better for the creative industries. This must be part of a comprehensive strategy to include all regions and nations in the success of the TV production sector and make sure the benefits of growth are spread across the country.*

226 Written evidence from Channel 4 (PSB0048)

227 Q 73

228 Ofcom, *Media Nations: UK 2019* (7 August 2019) p 36: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 19 August 2019]

229 Q 95

230 Kantar Media, *Representation and portrayal of audiences on BBC television* (25 October 2018) p 52: https://www.ofcom.org.uk/_data/assets/pdf_file/0016/124252/kantar-bbc-qualitative-research.pdf [accessed 19 August 2019]

231 Written evidence from the Institute for Practitioners in Advertising (PSB0009)

232 Written evidence from Equity (PSB0043)

233 Q 144

CHAPTER 4: TOWARDS A NEW PSB COMPACT

Challenges

174. Public service broadcasting underpins the success of TV production in the UK, but it faces unprecedented competition from global giants. In general, this competition has raised the standard of TV production and has been accompanied by significant investment into the UK. Nonetheless, the relevance of public service broadcasting is being challenged at a time when they are needed ever more to ensure the provision of trustworthy news and information and to guarantee a reliable supply of diverse, high quality programmes for UK audiences, available to all. There is also a longer-term risk that the boom in TV production cannot last forever. Andy Harries, Chief Executive of Left Bank Pictures which made *The Crown* for Netflix, asked: “How quickly do you think Netflix or, indeed, Amazon will roll back the spend in the UK if the world changes ... ? We have no idea.”²³⁴
175. The context of the wider media environment is also challenging. PSBs have faced headwinds from declining spending on TV advertising and general economic uncertainty. At the same time PSBs must spend more to ensure that their content is available on all major distribution platforms.²³⁵ As we discussed in Chapter 2, the BBC needs to do more to serve the full range of the public. However, some of our witnesses were concerned that it has been targeted for political reasons. Mr Harries, Chief Executive of Left Bank Pictures argued that certain newspapers had waged a “war”, which included scrutinising staff salaries. He said that this had had a detrimental effect on the BBC as it could no longer retain the best talent, who would “get more money if they are working in independent companies or in commercial television.”²³⁶ The BBC has been criticised for paying stars as much as £1.75 million a year.²³⁷
176. Fragmentation also makes the media environment difficult to navigate. To some extent, emerging technology has been designed to help users by personalising content to their preferences. However, there is concern that such design locks consumers into filter bubbles and makes it harder to find PSB content, undermining the PSBs’ traditional privileges. In this chapter we consider ways to support public service broadcasting. Sustainable funding models are key to this but some policies risk undermining them. It is also necessary to consider the broader PSB compact of duties and privileges. Finally, we consider ways to level the playing field between PSBs and other content providers.
177. ***While the arrival of SVODs has created exciting opportunities for the creative sector and for audiences, particularly in drama, we are concerned by the unpredictability of future developments. PSBs provide a stable investment platform for a diverse range of content, made for UK audiences, and freely available on a reliable over the air platform. While ensuring that they are properly held to account for***

234 Q 110

235 Written evidence from BT (PSB0047)

236 Q 110

237 ‘BBC’s highest-paid presenter Gary Lineker who earns £1.75m a year is slammed for joking he “must be due a pay rise” as he celebrates 20 years fronting Match Of The Day’, *Daily Mail* (5 August 2019): <https://www.dailymail.co.uk/news/article-7323273/Gary-Lineker-slammed-joking-pay-rise.html> [accessed 1 November 2019]

delivering PSB purposes, the Government should support PSBs in the new technological environment, and think very carefully before imposing any further regulatory or financial burdens which might impinge on their ability to fulfil their public service obligations to viewers.

A new approach to regulation

178. Much of the regulation affecting the broadcasting and TV production dates from a time when the public service broadcasters were dominant. They remain the largest producers in the UK and regulation has enabled smaller players in the ecosystem to thrive. However, the sector is facing major changes because of the rising popularity of US-based SVODs, which are themselves likely to become consolidated. As we found, in our report *Regulating in a digital world*,²³⁸ regulation needs to become faster at reacting to changes in the digital economy.
179. An example of this was in the Competition Commission’s decision in 2009 to block the creation of Kangaroo, a joint venture of the PSBs to aggregate content from BBC Worldwide, ITV and Channel 4. In a report at the time, we strongly regretted the Government’s failure to intervene on public interest grounds and recommended that “if other similar UK-based video on demand projects are proposed, the Government will ensure that the implications for the British television industry are properly taken into account”.²³⁹ In 2018 Sharon White, the Chief Executive of Ofcom, said that the PSBs “will need to collaborate to compete” the new environment.²⁴⁰ We consider the development of BritBox, a new SVOD for BBC and ITV content, later in this chapter. It is notable, however, that the new service will face an enormous challenge in competing in the streaming market, and that Kangaroo can be regarded as a missed opportunity.
180. The BBC has called for greater deployment of ‘step-in’ powers—that is, regulators should only use their powers to intervene in the actions of PSBs “when there is actual evidence of harm, rather than based on hypothetical competition risk”.²⁴¹ Sir David Clementi, Chairman of the BBC, criticised Ofcom for taking too long to approve the BBC’s proposals to extend the length of time programmes are available on BBC iPlayer to 12 months.²⁴²
181. However, Kevin Bakhurst, Group Director for Content and Media Policy at Ofcom, told us:
- “When the BBC came to us originally with their [iPlayer] proposal, we said, ‘Okay. That’s for 12 months. Can you show us a longer-term strategy?’ The answer was no. We said: ‘Can you tell us what the impact will be on the other UK public service broadcasters?’ The answer was ‘No, because we haven’t discussed it with them.’ ... There needs to be transparency in what the BBC is doing here and the impact it will have on Channel 4, ITV and others. We feel that the process has given that.”²⁴³

238 Select Committee on Communications, *Regulating in a digital world* (2nd Report, Session 2017–19, HL Paper 299)

239 Select Committee on Communications, *The British film and television industries—decline or opportunity?* (1st Report, Session 2009–10, HL Paper 37)

240 Ofcom, *British TV can collaborate to compete in the digital age* (8 March 2018): <https://www.ofcom.org.uk/about-ofcom/latest/features-and-news/british-tv-digital-age> [accessed 1 November 2019]

241 Written evidence from the BBC (PSB0052)

242 Q 150

243 Q 211

182. The Commercial Broadcasters Association also disputed the notion that regulation was overburdening the BBC: “Contrary to claims by the BBC Board, the BBC is perfectly able to carry out minor changes to the iPlayer or other services without delay or intervention by Ofcom.”²⁴⁴
183. ***The BBC needs to have the power to innovate at speed without undue regulatory burdens or it risks becoming a minor player in the face of dynamic, well-resourced global competitors. Ofcom should ensure that regulation is sufficiently fast-paced while also protecting the rights of other broadcasters. In return, the BBC should be upfront and open with Ofcom about any proposed changes.***

The financial sustainability of PSBs

The BBC

184. The BBC has a unique funding model based on the licence fee which is intended to safeguard its independence from the Government and the market.²⁴⁵ On 16 October 2019, Nicky Morgan MP, the newly appointed Secretary of State for Digital, Culture, Media and Sport, said that she would “listen to the evidence on all sides” about the BBC becoming a subscription service.²⁴⁶ However, in our inquiry we found very little support for this model. Sir David Clementi, Chairman of the BBC, told us that “the BBC might do very well under a subscription model, but it would not be the BBC that you and I know”.²⁴⁷
185. He explained why the licence fee is essential to the BBC:
- “The licence fee is at the heart of what we do. It establishes a direct relationship between us and the public and makes absolutely clear that our job is to serve them ... We are independent of government, independent of any commercial interference and we are there to serve the public. The direct link with the licence fee is very fundamental to us at the BBC.”²⁴⁸
186. The value of the licence fee has been disputed. One participant at the roundtable that we held in Glasgow felt that the licence fee should be abolished and that the BBC should be funded entirely by commercial means. Professor Patrick Barwise estimated that around 30 per cent of the public would say that it is not value for money. He argued, however, that there was a disconnect between perception and reality: in an experiment that he conducted, two-thirds of participants who had previously felt that the licence fee was poor value changed their minds after they were deprived of BBC services for nine days.²⁴⁹
187. The Government and the BBC agree a ‘licence fee settlement’ to set the level of the licence fee for a specified period. Several witnesses felt that negotiations between the Government and BBC to agree settlements in 2010 and 2015 had not been conducted transparently or appropriately. The BBC

244 Written evidence from COBA ([PSB0044](#))

245 As noted in the previous chapter, it also receives income from the licensing of intellectual property internationally and other commercial means.

246 Oral evidence taken before the Digital, Culture, Media and Sport Committee, 16 October 2019 (Session 2019), [Q 507](#) (Rt Hon Nicky Morgan MP)

247 [Q 141](#)

248 *Ibid.*

249 [Q 14](#)

told us that its funding for UK services was 24 per cent lower than if the licence had risen with inflation since 2010.²⁵⁰ Meanwhile, so-called ‘top-slicing’ had diverted about £250 million of licence fee funding “to a range of non-BBC activities, including broadband infrastructure and local TV”.²⁵¹ The 2015 licence fee settlement made the BBC responsible for determining what concession there should be, if any, for TV licences for people over 75.²⁵² Previously the Government had paid for free licences for this age group. The settlement also provided for the licence fee to rise in line with inflation each year until 2022.

188. Professor Patrick Barwise commented: “The 2015 BBC funding deal, like the previous funding deal in 2010, was based on no public or parliamentary consultation and no published analysis of the BBC’s funding needs or the likely impact on services ... It puts the BBC in the invidious position of choosing between [options which are] likely to be unpopular, divisive, and exploited by its enemies”.²⁵³
189. The full cost of funding free TV licences for over-75s would be £745 million per year, approximately 20 per cent of the BBC’s budget. The BBC said: “Were we to meet these costs, it would in practice mean the closures of BBC Two, BBC Four, the BBC News Channel, the BBC Scotland Channel and Radio 5live—in addition to a number of local radio stations and other cuts and reductions.”²⁵⁴
190. Age UK noted the importance of public service broadcasting as a source of trusted news and information, and as a source of entertainment for older people. It argued:
- “Removing or limiting the concession would have a major impact on the lives of many of our oldest citizens, particularly the most vulnerable who are living with some combination of disability, low income and loneliness.”²⁵⁵
191. Age UK stressed that means-testing would not be a solution as it would be unfair on those with incomes just above the threshold. Moreover, 41 per cent of over-75s who are entitled to pension credit (currently for individuals with an income of less than £167.25 a week and couples less than £255.25) do not claim it.
192. After a consultation, the BBC decided to retain free TV licences only for those who receive pension credit from June 2020. A spokesperson for Theresa May MP, the then Prime Minister, said: “We are very disappointed with this decision. We have been clear that we expected the BBC to continue this concession.”²⁵⁶

250 Written evidence from the BBC ([PSB0052](#))

251 *Ibid.*

252 Digital Economy Act 2017, [section 89](#).

253 Written evidence from Professor Patrick Barwise ([PSB0072](#))

254 Lord Hall of Birkenhead and Sir David Clement, ‘The future of free television licences for over 75s’, *About the BBC Blog* (10 June 2019): <https://www.bbc.co.uk/blogs/aboutthebbc/entries/556b8a03-fa5a-4ffb-8859-e6b6c175cfc1> [accessed 9 August 2019]

255 Written evidence from Age UK ([PSB0019](#))

256 Digital TV Europe, *BBC to start charging over-75s for licence fee* (11 June 2019): <https://www.digitaltveurope.com/2019/06/11/bbc-to-start-charging-over-75s-for-licence-fee/> [accessed 9 August 2019]

193. Nonetheless the reduced concession will cost the BBC £250 million a year, over 5 per cent of its annual income. The BBC said: “This will mean we have to continue to find significant savings, but we are confident that we will be able to protect the funding for services the public tell us that they enjoy.”²⁵⁷
194. Notwithstanding the eventual determination of the concession, many witnesses felt that it was inappropriate in the first instance for the BBC to have been given the responsibility. Age UK wrote:

“It is not appropriate for a public service broadcaster to be involved in what are, in effect, tax and benefit decisions ... We believe there are continuing strong arguments for keeping the free licence but that it is the role of Government to provide this support for our oldest citizens—not the BBC.”²⁵⁸

195. Sir David Clementi, Chairman of the BBC, criticised the 2010 and 2015 negotiations: “It was done behind closed doors with very little input from the BBC and none at all from the public ... We think in future it must be evidence based with proper consultation.”²⁵⁹
196. In our report *BBC Charter Review: Reith not Revolution*, published shortly after the 2015 negotiations, we found that:

“it was inappropriate for the Government to propose, and for the BBC to accept, that the cost of funding free television licences for the over-75s should fall on a broadcasting organisation. In future there should be a transparent process in place which allows for consultation before such decisions are made.”²⁶⁰

We proposed a process whereby a regulatory body would make a reasoned and evidence-based recommendation about the licence fee settlement, and the Secretary of State would have to give reasons if they declined to follow the recommendation.

197. The BBC said that this proposal merited further debate “to ensure we have no repeat of the settlements of 2010 and 2015”.²⁶¹ Professor Jeanette Steemers, Professor of Culture, Media and Creative Industries, King’s College London, also suggested that the licence fee could be set by an independent body in future, as it is in Germany.²⁶²
198. In 2017 Lord Best, the then chairman of our committee, moved amendments to the Digital Economy Bill (now the Digital Economy Act 2017) which would have created a BBC Licence Fee Commission to make the process of setting the licence fee more transparent. The Government opposed the amendments on the ground that the licence fee was a tax and as a matter of principle the Government did not consult on taxation. The House agreed the amendments at report stage, but they were rejected during wash-up.²⁶³

257 Tony Hall and David Clementi, ‘The future of free television licences for over 75s’, *About the BBC Blog* (10 June 2019) <https://www.bbc.co.uk/blogs/aboutthebbc/entries/556b8a03-fa5a-4ffb-8859-e6b6c175cfc1> [accessed 1 November 2019]

258 Written evidence from Age UK (PSB0019)

259 Q 150

260 Select Committee on Communications, *BBC Charter Review—Reith not revolution* (1st Report, Session 2015–16, HL Paper 96)

261 Written evidence from the BBC (PSB0052)

262 Written evidence from Professor Jeanette Steemers (PSB0039)

263 HL Deb, 29 March 2017, cols 616–670; Digital Economy Act 2017

Some have questioned whether the licence fee should be defined as a tax as it is specifically intended to be a distinct form of income to ensure the BBC's impartiality. During the debate Lord Inglewood (another former chairman of the committee) pointed out that, even if this definition was accepted, it was a unique hypothecated tax and so unique rules might apply. We also note that, while the Government does not consult on taxes, it does consult on spending reviews, such as the Strategic Defence and Security Review, funding for which comes from the Treasury. It would seem odd if the Government could use the licence fee to justify having a less transparent and more coercive process for funding the BBC than other areas of spending.

199. Margot James MP, the then Minister for Digital and the Creative Industries, agreed that there was “clearly a case for greater transparency and the BBC should of course be a fundamental partner in the process”.²⁶⁴
200. In October 2019, the Commons Select Committee on Digital, Culture, Media and Sport found that there were serious failings in governance at the BBC which allowed the funding settlement to be agreed without significant scrutiny.
201. **The licence fee is the guarantor of the BBC’s financial independence and underpins its unique quality. A subscription model would undermine the fundamental principle of universality that the BBC should be free-to-air.**
202. *We are concerned that the integrity of the licence fee has been undermined by a succession of settlements which were carried out in secret and which have tended to disadvantage the BBC. The decision on whether to provide free licences to the over-75s is a matter of welfare policy. The BBC should not have been asked to take on this decision, and the BBC should not have accepted it. Responsibility for licences for over-75s should be off the table in future licence fee negotiations.*
203. *We reaffirm our recommendation that there should be an independent and transparent process for setting the licence fee. To this end, we recommend that the Government should establish an independent body, which we would call the BBC Funding Commission, to oversee the process for setting the licence fee. In the current competitive and fast-moving environment the BBC needs to be properly funded. The BBC Funding Commission should consult widely on the BBC’s role and functions, taking account of all its duties and privileges, and public expectations, before making a recommendation to the Secretary of State.²⁶⁵ The BBC’s responsibilities to serve both young and old audiences, to compete with big tech and to remain a source of soft power, require a generous settlement.*
204. *This should be implemented by 2021, in time for the mid-Charter review and the next round of negotiations on the licence fee. We do not propose any changes to the current settlement in the meantime, but we expect that any deficits incurred would be considered by the Funding Commission as part of its review.*

264 [Q 219](#)

265 See Select Committee on Communications, *BBC Charter Review: Reith not revolution* (1st Report, Session 2015–16, HL Paper 96) p 56.

Commercial PSBs

205. Commercial PSBs, such as ITV, STV and Channel 4, rely on advertising for funding. TV advertising declined following the EU referendum. In 2018 net broadcast advertising revenue declined 4.4 per cent across PSB channels.²⁶⁶ However, the advertising market is cyclical and it is not clear to what extent this decline can be expected to continue. The Producers Alliance for Cinema and Television (Pact) argued that overall TV advertising has proved resilient: Pact cited a 2018 report from the Advertising Association and WARC which forecast growth of 5.8 per cent in 2018 and 2019.²⁶⁷
206. Online advertising has taken a growing share of advertising spending in the UK for several years. This is attributed more to the growth of online advertising than the decline of TV. Yet, fragmentation of the media means that commercial broadcasters do not enjoy the same extensive reach, particularly for the most popular programmes, that they used to. Pact argued that reach remained high for commercial PSBs at 94.9 per cent of the population and 92.5 per cent of 16–34-year-olds. However, as the trend away from linear TV continues, the value of advertising decreases. Ebiquity, an analyst, predicted that broadcast advertising would lose its current advantage in return on investment (estimated to be approximately 40 per cent greater than for other forms of advertising) by 2024. The cost of advertising to 16–34-year-olds is at the forefront of this trend. Ebiquity said that to run a TV advertising campaign seen by half of 16–34-year-olds cost £560,000 in 2013. This increased to £1.07 million in 2018 and it predicted that the cost would rise to over £2.6 million by 2022.²⁶⁸
207. Dame Carolyn McCall, Chief Executive Officer of ITV, acknowledged concerns that advertising was moving online.²⁶⁹ ITV has addressed this challenge by investing more in on-demand service. PSB on-demand services are responsible for much of the growth in advertising income accruing to PSBs. ITV and Channel 4 are investing in developing addressable advertising to compete with global tech companies. They are also diversifying their revenue sources. Dame Carolyn told us that ITV was relying more on ITV Studios to develop intellectual property.²⁷⁰ ITV Studios accounted for 30 per cent of ITV's profits in 2018.²⁷¹
208. Several witnesses argued that commercial PSBs were disadvantaged by the lack of a 'level playing field' in advertising regulation. It is not accurate, however, to say that there is no regulation of online advertising. The Advertising Standards Authority (ASA) regulates all advertising in the UK to ensure that it is "legal, decent, honest and truthful".²⁷² However, broadcast advertising is subject to special rules (see Box 5). According to the ASA, the Broadcasting Code (BCAP) has only a few additional prohibitions which are

266 Ofcom, *Media nations: UK 2019* (7 August 2019) p 43: https://www.ofcom.org.uk/_data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf [accessed 31 October 2019]

267 Written evidence from Pact ([PSB0030](#)). This included revenue for commercial broadcasters and on-demand services.

268 Ebiquity, *Looking forward: TV in 2022—TV at the Tipping Point* (February 2019): <https://www.ebiquity.com/news-insights/blog/is-tv-approaching-a-tipping-point-for-reach/> [accessed 4 November 2019]

269 [Q 201](#)

270 *Ibid.*

271 Enders Analysis, *Britbox's muted arrival: ITV FY 2018 results* (18 March 2019): <https://www.endersanalysis.com/content/publication/britbox%E2%80%99s-muted-arrival-itv-fy-2018-results> [accessed 4 November 2019]

272 Written evidence from the Advertising Standards Authority ([PSB0046](#))

not found in CAP Code, notably on political advertising, but also prohibitions against advertising gun clubs and escort agencies. Dame Carolyn McCall told us that this prohibition on political advertising had cost ITV money, for example, when an ad for the supermarket Iceland was not allowed to be shown on ITV but went viral online.²⁷³

Box 5: Advertising regulation

The Advertising Standards Authority (ASA) is the UK's independent advertising regulator. It has administered the non-broadcast Advertising Code (written and maintained by CAP) for 56 years and the broadcast Advertising Code (written and maintained by BCAP) for 14. Its remit was extended in 2011 to include companies' advertising claims on their own websites and in social media spaces under their control.

Ofcom regulates the volume of TV advertising through its Code on the Scheduling of TV Advertising. The ASA is a self-regulatory industry-funded body. Ofcom is the backstop regulator for all broadcast and video on demand advertising.

Source: Written evidence from ASA ([PSB0046](#))

209. We noted in our report *UK advertising in a digital age* that regardless of regulation, in practice online advertising often side-stepped the normal rules.²⁷⁴ Viacom explained that broadcasters maintain control and responsibility for the adverts they offer to ensure compliance with the rules. By contrast online platforms such as YouTube are not responsible for ensuring compliance, which rests primarily with the advertiser. Viacom added that there was “an effective system of pre-transmission compliance of broadcast advertising through Clearcast, but the open nature of online platforms means that video content tends to go live the instant it is uploaded with no pre-clearance scrutiny.”²⁷⁵
210. The revised Audio-visual Media Services Directive (AVMSD) will extend rules on ‘TV-like’ content to video-sharing platforms such as YouTube. Member states must transpose the provisions of the revised directive into national law by 19 September 2020. Under the Withdrawal Agreement, the UK would be required to do so, as that date is within the Implementation Period. If the UK leaves the European Union without a deal, however, it will not be bound to transpose the AVMSD into UK law. Both the ASA and Viacom note that the AVMSD will not change advertising regulation as the CAP Code will continue to apply to YouTube and on-demand services.
211. ***We recommend that Ofcom should review the adequacy of the broadcast and non-broadcast codes in respect of video advertising with a view to making recommendations to reduce the difference of regulatory burdens between broadcasters and on-demand services. Following the UK's departure from the EU, the Government should implement provisions of the Audio-visual Media Services Directive on advertising to ensure a level playing field. In doing so, it should make video-sharing platforms responsible for the advertising that they display.***

273 [Q 201](#)

274 Select Committee on Communications, *UK advertising in a digital age* (1st Report, Session 2017–19, HL Paper 116)

275 Written evidence from Viacom International Media Networks ([PSB0053](#))

High in fat, salt and sugar advertising

212. Concerns around the sustainability of TV advertising and the lack of a level playing field have converged around the Government's proposal to impose a 9pm watershed for advertising junk food—known as products which are high in fat, salt and sugar (HFSS).²⁷⁶ Between March and June 2019 the Department of Health and Social Care ran a consultation on restricting advertising of HFSS foods and drinks. At the time of writing the Government has not responded to the consultation.
213. Reducing childhood obesity is a priority for public health policy. Cancer Research UK told us: “Around a third (34 per cent) of children aged 2–15 in the UK are overweight or obese and, if trends continue, it is predicted that half of all children will be obese or overweight by 2020.”²⁷⁷ Obese children are five times more likely to be obese in adulthood. Preventing childhood obesity can therefore prevent a lifetime of ill-health. Obesity is linked to 13 types of cancer and is the biggest preventable cause of cancer after smoking. The Government has set itself the ambition to halve childhood obesity by 2030 and to reduce the gap in obesity between children from the most and least deprived areas.
214. Campaigners argue that advertising is a major factor in the prevalence of childhood obesity. It has the short-term effect of ‘pester power’—children pester parents to buy unhealthy foods—and in the long-term tastes acquired in childhood endure in adulthood. Advertising HFSS products during children's TV programmes, and programmes with a high proportion of children viewers, has been banned since 2007. The Government's current proposal is to ban all HFSS advertising before 9pm regardless of the content of programming. This follows evidence that children often watch TV with their family.
215. All our witnesses agreed that tackling childhood obesity was an important policy objective. However, many witnesses (including several directly affected by the proposal) argued that it would be disproportionate: (1) there was no evidence that a ban on showing HFSS advertising before 9pm would have any more than a marginal impact on childhood obesity; and (2) the cost to broadcasters would be significant. Channel 4 told us:

“The Government's own figures suggest a 9pm ban would result in a reduction of just 1.7 calories each day for children—less than one Tic Tac. This is because, as Ofcom concluded in its 2007 review “advertising has modest direct effect on children's food choices” and because children's exposure to HFSS advertising on TV has declined dramatically—analysis from O&O commissioned by the broadcasters measured a 62 per cent decrease in the amount of advertising for HFSS products seen by children before 9pm and found that children now see less than 1 HFSS ad per day pre 9pm.”²⁷⁸

Meanwhile the cost to commercial broadcasters was estimated to be to £200 million per year which would have a significant impact on programming budgets.²⁷⁹

276 The scope of foods which fall within this term has not been defined.

277 Written evidence from Cancer Research UK ([PSB0040](#))

278 Written evidence from Channel 4 ([PSB0048](#))

279 *Ibid.*

216. The proposed watershed is intending to be part of a ‘whole system’ approach including bans on price promotions, the regulation of HFSS products within stores and other measures. In particular, the Government consulted on analogous advertising restrictions for online content. However, there is no obvious analogue to a watershed online. Many witnesses therefore argued that a 9pm HFSS watershed would lead food and drink companies to divert advertising spending to “less regulated advertising mediums, including online where children are increasingly spending more of their screen time, and importantly to price promotions—making HFSS food and drink cheaper.”²⁸⁰
217. ITV said that it was “spurious”²⁸¹ to suggest that the ban should be accepted as part of a package. Magnus Brooke, Director of Policy and Regulatory Affairs, suggested that every intervention needed considered on its own merits: “You need to ask whether each intervention will work, and whether the benefits of doing it outweigh any disbenefit”. Dame Carolyn McCall, Chief Executive Officer of ITV, agreed:
- “It sounds great to say that there are eight or nine things that we can do, but they do not have to live with the consequences of what that would mean for a programme budget that is already under pressure for all the reasons you know—we would have to cut into something we do that is highly valuable to us as a PSB.”
218. We wrote to the Department of Health and Social Care expressing concern about the evidence base for the consultation. Margot James MP, the then Minister for Digital and the Creative Industries, assured us that the Department for Digital, Culture, Media and Sport had fed into the consultation. She said that she had taken a position along with Matt Hancock MP, the Secretary of State for Health and Social Care, that the review should be led by evidence, adding: “We have not yet seen the evidence for a direct link between advertising and obesity levels. If evidence is provided, we would act equally in the online and offline environments.”²⁸²
219. *Children’s health is of the utmost importance and we share concerns that more needs to be done to reduce childhood obesity. We note the role public service broadcasters play in promoting healthy living and feel that consideration should be given to enhancing this role, including looking at evidence from other countries. However, we do not think that there is sufficient evidence that the proposed ban on high in fat, salt and sugar advertising before the 9pm watershed would significantly reduce childhood obesity. We are concerned that such a blanket ban could undermine the funding model of commercial broadcasting in the UK without delivering significant benefits to children’s health. A ban might also be counterproductive if manufacturers divert advertising spending to fund price promotions. There would be a further risk if the ban is not sufficiently targeted at what would normally be considered ‘junk food’ but it indiscriminately includes products such as olive oil that are part of a healthy diet.*
220. *However, if evidence emerges to the contrary, the Government should act quickly to implement a ban. In doing so, it should ensure*

280 Written evidence from Channel 4 ([PSB0048](#))

281 [Q 202](#) (Dame Carolyn McCall)

282 [Q 217](#)

a level playing field between broadcast and online advertising. Any broadcast ban must be matched by measures which have equivalent effect online and the Department for Digital, Culture, Media and Sport should be consulted at all stages of policy development on this issue.

BritBox

221. The PSBs are also seeking to increase their revenue from their existing intellectual property. The BBC and ITV have announced that they will launch an SVOD, BritBox. The service will include archive series from both broadcasters as well as exclusive original content. It is expected to launch by the end of 2019 and cost £5.99 a month.²⁸³
222. Lord Hall of Birkenhead, the Director General of the BBC, that while the terms of the BritBox are yet to be fully settled, this would be an extension of work that the PSBs are already doing in the United States:
- “We have 600,000 people and we would like to take it elsewhere around the world. If others join us, I think this is a great way in a secondary market. In a way, BritBox is what the DVD was before, and we paid for DVDs and now is a chance to pay in a secondary market and give value back to people in that way.”²⁸⁴
223. Several witnesses were equivocal about BritBox’s prospects for success, feeling that it was unlikely to become a major player in the SVOD market although it would do no harm to the BBC and ITV.²⁸⁵ Claire Enders, founder of Enders Analysis described it as “whistling while Rome burns”.²⁸⁶ Ampere Analysis forecast that the service would have around 1.5 million subscribers by 2023.²⁸⁷
224. Clintons Solicitors suggested that BritBox would struggle to acquire content as the Terms of Trade give independent production companies the right to sell secondary rights to another service.²⁸⁸ We also heard that viewers might not be willing to ‘pay again’ for content, particularly if it had been on BBC iPlayer for 12 months.²⁸⁹
225. Several witnesses said that BritBox was incompatible with the current public service broadcasting regime Catherine Johnson, Professor of Media and Communications at the University of Huddersfield, worried that it would undermine “the fundamental public service value that broadcasting should be universally available.”²⁹⁰
226. The Institute for Practitioners in Advertising predicted that BritBox could give rise to renewed scrutiny of the licence fee model and could give broadcasters an incentive to make less content available free to air. It said: “If BritBox is showing archived material from the BBC and ITV this may

283 BBC, ‘BritBox: ITV and BBC set out plans for new streaming service’ (19 July 2019): <https://www.bbc.co.uk/news/entertainment-arts-49037855> [accessed 7 October 2019]

284 [Q 149](#)

285 For example, [Q 26](#) (Professor Patrick Barwise)

286 [Q 11](#)

287 Ampere Analysis, *The UK VoD market* (2019) p 25: https://www.ofcom.org.uk/_data/assets/pdf_file/0026/149075/ampere-analysis-current-status-future-development.pdf [accessed 31 October 2019]

288 Written evidence from Clintons Solicitors ([PSB0029](#))

289 [Q 121](#)

290 Written evidence from Professor Catherine Johnson ([PSB0018](#))

impact programme content available for ITV2, ITV4, ITV Be etc. Can those channels survive alongside BritBox?”²⁹¹ Directors UK predicted that BritBox could be a precursor to a split model whereby the most popular content would be available via subscription.²⁹²

Reviewing the PSB compact

227. In Chapters 2 and 3 we considered some of the duties of PSBs with respect to the production and provision of content, which are part of the PSB compact. In addition to the content obligations, the compact comprises the following rights and obligations that relate to distribution:

- Public services broadcasters are entitled to prominence in electronic programme guides for linear TV
- Public services broadcasters must provide their services for free across all TV platforms, including pay TV (in turn, TV platforms must make those services available—so-called ‘must offer, must carry’ principle)
- Public service broadcasters are entitled to free access to spectrum for digital terrestrial television.

228. ITV warned that: “Policy makers increasingly appear to want more from PSB—more investment out of London, more children’s content, more comprehensive access services etc. Paradoxically, in the case of the commercial PSBs in particular, these requests for a bigger contribution come at a time when the value of the PSB licences which pay for otherwise uneconomic PSB obligations is declining”.²⁹³

229. The value of prominence and free spectrum are declining as technology develops. Many witnesses believed that this compact needed updating. BT argued that this could be best achieved by looking at the whole package of benefits and obligations. It argued that the Government’s piecemeal approach risked “extending support for PSBs in one area which end up having a negative impact on another area of the ecosystem”.²⁹⁴

Prominence

230. A central limb of the PSB compact is that the PSBs should be listed in a prominent position on any TV platform. The current regime is entirely based around linear TV, for which channels are listed in an electronic programme guides (EPG). The intention is that it should be easy to find PSBs, which raises their profile and makes viewers more likely to watch them. The BBC noted that nearly all viewers wanted and expected the main channels to be in the top slots of the EPG.²⁹⁵ However, the emergence of non-linear TV means that an increasing proportion of viewing falls outside the scope of the prominence rules.

231. Connected TVs allow viewers to access content through different user interfaces, including EPG, digital video recorders (such as TiVo), video on-demand players (such as Netflix or BBC iPlayer) or TV platforms²⁹⁶

291 Written evidence from the Institute for Practitioners in Advertising ([PSB0009](#))

292 Written evidence from Directors UK ([PSB0021](#))

293 Written evidence from ITV ([PSB0060](#))

294 Written evidence from BT ([PSB0047](#))

295 Written evidence from the BBC ([PSB0052](#))

296 Platforms might be provided through Smart TV sets, streaming sticks or pay-TV services.

which display programming from different channels according to genre, personalisation preferences or other curation processes. In this report, we refer to the latter process as ‘disaggregation’ as the programming is separated from source (though it is sometimes considered a form of ‘aggregation’ as it brings programming together). Hardware has evolved, such as buttons on remote controls which direct users to certain interfaces. Search functions are expected to develop further, for example with greater voice controls. These developments raise different challenges for prominence. Yet Age UK argued that prominence “becomes more important, not less, in the face of greater personalisation”.²⁹⁷

232. All the PSBs recommended that the prominence regime should be updated to ensure that PSB content was prominent across platforms. Witnesses who operated TV platforms, commercial broadcasters and hardware developers argued that transposing the principle of prominence to non-linear contexts was overly complicated and unnecessary and that it would stifle innovation. Craig Melson, Programme Manager at techUK, said that PSB catch-up players were already prominent on smart TV interfaces in the UK: “They will be front and centre, because they are so important to UK viewers. It is just that if you try to mandate regulation or prominence in those environments, you remove the flexibility to innovate in those areas.”²⁹⁸
233. Professor Patrick Barwise of the London School for Business suggested that the UK should work with other countries “to force set manufacturers to have EPGs with rankings specified by national regulators rather than determined by whichever of the FAANGs has paid them the most”.²⁹⁹
234. Ofcom published a statutory review on PSB prominence in July 2019.³⁰⁰ It called for new legislation to keep PSB content prominent on both linear and on-demand. It suggested a new regulatory framework which should be flexible so that the new rules could be adapted as technology and behaviour changed. Ofcom’s initial focus was on connected TVs. It recommended that PSB players should receive prominence if they were “clearly delivering PSB content”. Ofcom also proposed that disaggregated PSB programming should be prominent in recommendations and search results.
235. Sir David Clementi, Chairman of the BBC, welcomed Ofcom’s recommendation that PSB prominence rules should be updated for the digital and on-demand world.³⁰¹
236. Disaggregation of PSB content has raised several additional concerns. The PSBs currently have different agreements with TV platforms about how their content should be disaggregated.³⁰² The BBC has not allowed its catch-up content to be disaggregated on TV platforms, requiring that such content be accessed only through its iPlayer. David Bouchier, Chief Entertainment Officer at Virgin Media, criticised this decision, saying that the BBC was

297 Written evidence from Age UK (PSB0019)

298 Q 118

299 Written evidence from Professor Patrick Barwise (PSB0072)

300 Ofcom, *Review of prominence for public service broadcasting: Recommendations to Government for a new framework to keep PSB TV prominent in an online world* (4 July 2019): https://www.ofcom.org.uk/_data/assets/pdf_file/0021/154461/recommendations-for-new-legislative-framework-for-psb-prominence.pdf [accessed 7 August 2019]

301 Supplementary written evidence from Sir David Clementi (PSB0063)

302 Q 206 (Kevin Bakhurst)

forgoing prominence among catch-up content for “immersion”.³⁰³ This worsened the experience of users who could not find BBC content without entering iPlayer and made the BBC less competitive against the FAANGs.

237. However, the BBC argued that this was essential to maintaining a direct relationship with viewers. The BBC told us that it was exploring how to deliver public value by personalising services through a ‘public service algorithm’:

“On some other major online destinations, personalisation means proceeding down an ever-narrowing range of choice, as algorithms hone the choices available based on what audiences have just watched, or actions (such as searches) they have performed elsewhere online. The rationale for this is commercial. The BBC, driven by its public service values, aspires to broaden, not narrow, our audience’s horizons. The BBC is exploring how to develop systems that are, like their commercial counterparts, shaped by audience interest, but which do not create filter bubbles or echo chambers. This could involve designing content recommendation algorithms to offer both logical next steps through the BBC’s output, but also provide recommendations that challenge, represent a diverse range of views and ideas, and which occasionally surprise.”³⁰⁴

238. *The right to be displayed prominently is a key privilege of public service broadcasters. The current regime is centred on linear TV, which will increasingly devalue over time. We believe that it is more important that PSBs are easy to find in a fragmented media environment, not less. We welcome and endorse Ofcom’s recommendation that the prominence regime be updated for the digital age to reflect new ways of accessing content. The Government should introduce legislation to implement a new prominence framework in line with Ofcom’s recommendations. The regime should be based on principles so that it can adapt as technology changes.*
239. *PSBs must be enabled to maintain a direct relationship with viewers in an on-demand world. PSBs should not be forced to disaggregate programmes if they do not consider it a useful way to reach viewers and their content is not clearly attributed to them. We welcome the BBC’s interest in using artificial intelligence for its public service algorithm.*
240. *In line with Ofcom’s recommendation, PSB content hubs should be given prominence on platforms provided that PSBs ensure that public value content, such as news, current affairs, and children’s content, are given prominence within their hubs. This reflects the current situation in which PSBs are required to broadcast news during peak times.*

Retransmission fees

241. The ‘must offer, must carry’ regime requires public service broadcasters to make their channels available across all TV platforms, such as Sky and Virgin, and platforms to carry them at no charge. In a report published in

303 [Q 120](#)

304 Supplementary written evidence from Sir David Clementi ([PSB0063](#))

2013 the Government explained how the regime is founded on reciprocal benefit: “Platforms benefit from having must-see content distributed across their services, while broadcasters benefit from having access to mass market audiences.”³⁰⁵ At the time PSBs paid Sky to carry their content. The Government said that it wanted to see “zero net charges” such that “the fees for access to the main platforms and for PSB channels cancel each other out”. In the year following the report Sky agreed to drop the charge.³⁰⁶ However, some have argued that the regime still benefits platforms more than the PSBs. They argue that the platforms should pay ‘retransmission fees’.

242. Between 2015 and 2016 the Government consulted on whether the ‘must offer, must carry’ regime should be amended or removed to create freer negotiations between PSBs and platforms. ITV and Channel 4 submitted analysis which estimated if regulation were rebalanced in their favour ITV could expect to receive £121 million from Sky and Virgin, while Channel 4 could make £75 million.³⁰⁷ However, the Government considered these figures unrealistic as they did not take account of the “strong incentives for PSBs to negotiate carriage terms”. The Government therefore opted not to introduce retransmission fees.³⁰⁸
243. However, Professor Des Freedman of the Media Reform Coalition told us that the benefits for the PSBs were not equivalent to those for the platforms.³⁰⁹ He participated in an inquiry chaired by Lord Puttnam in 2016 which recommended that “Retransmission fees should be paid by pay-TV platforms to public service television operators to address the current undervaluation of public service content by these distributors”.³¹⁰
244. ITV presented two arguments that public service broadcasters should receive retransmission fees to compensate them for lost value: first, TV platforms were facilitating and encouraging viewers to skip adverts; and second, TV platforms were preventing the development of direct-to-consumer relationships (as discussed above).³¹¹ The first argument is that personal video recorder (PVR) technology is incorporated as standard in platform service packages. This encourages viewers to record programmes and then to skip adverts. Magnus Brooke, Director of Policy and Regulation at ITV, said that ITV had lost £1 million on ad-skipping for the three-part January 2019 drama *Manhunt*.
245. In a supplementary submission, Sky disputed these arguments.³¹² It noted that PVR has been a standard feature of the market for some time and is included on platforms in which ITV is itself a shareholder—Freeview, Freesat

305 DCMS, *Connectivity, Content and Consumers: Britain’s digital platform for growth* (July 2013) p 26: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/225783/Connectivity_Content_and_Consumers_2013.pdf [accessed 22 August 2019]

306 Written evidence from BT (PSB0047)

307 DCMS, *The balance of payments between television platforms and public service broadcasters consultation report: Government response* (5 July 2016) p 9: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/534872/The_balance_of_payments_between_television_platforms_and_public_service_broadcasters_consultation_report__1_.pdf [accessed 22 August 2019]

308 *Ibid.*

309 Q 58

310 Goldsmiths University of London, *A Future For Public Service Television: Content And Platforms In A Digital World* (June 2016) p 155: <http://futureoftv.org.uk/wp-content/uploads/2016/06/FOTV-Report-Online-SP.pdf> [accessed 22 August 2019]

311 Written evidence from ITV (PSB0060)

312 Supplementary written evidence from Sky (PSB0070)

and Youview. It disputed the calculation of a £1 million loss on *Manhunt* and stated that on this measure ITV would have lost £600,000 from ad-skipping on Freeview as 30 per cent of Freeview viewers did not watch the programme live. Sky added that even where TV is recorded, adverts are not always skipped and commercial impacts are close to half the level of live viewing. Regardless, live viewing remains the dominant way to watch TV—representing 80 per cent of weekly commercial TV viewing, leading Sky to conclude: “It is not apparent viewing habits are changing at such a rapid rate so as to make ad skipping a fundamental threat to ITV’s revenue streams”. Sky maintained that the PSBs derive value from the current regime which is based on a set of obligations, such as universal and free at the point of use availability, and privileges such as EPG prominence. It argued: “In seeking to charge for its main channel, ITV is effectively arguing that it be released from its PSB obligation of free universal availability”.³¹³

246. In our view, however, the universality principle is intended to benefit viewers, not private companies who apply a charge themselves. While linear TV remains resilient, the trend is clearly moving towards non-linear and in this context the balance of benefits between platforms and broadcasters must be reconsidered.
247. ***Free to air and free at the point of use are key attributes of public service broadcasting. PSBs should continue to be required to offer their content across all TV platforms. But we are concerned that the way in which technology can be used to deprive PSBs of advertising revenue suggests a lack of balance in the arrangement. To counter that imbalance, we recommend that Ofcom should be empowered to review the ‘must offer, must carry’ regime to ensure that it is adequate as TV moves online. In particular, it should consider whether TV platforms should be required to pay a reasonable retransmission fee to compensate commercial public service broadcasters. If so, the quantum of the fee should be determined by Ofcom on a periodic basis.***

Digital terrestrial television

248. Digital terrestrial television (DTT) is the distribution mechanism for linear television. Commercial PSBs have preferential access to spectrum capacity for DTT only until 2022. ITV and Professor Patrick Barwise stressed the importance of maintaining access to the spectrum in the long-term. Professor Barwise argued that DTT is especially important for poorer households.³¹⁴ He noted that the Government faced pressure to auction rights to spectrum and that mobile network operators had more money to buy this. This pressure should be resisted as it fails to take account of public value.
249. Magnus Brooke, Director of Policy and Regulation at ITV, told us: “It is important for the future of Freeview that we get long-term certainty about that spectrum.” He also warned: “There is still a proposal on the table to effectively charge the broadcasters for the use of that spectrum, even though the value of that spectrum is going down.”
250. Digital UK argued that DTT was necessary to safeguard the universal free availability of public service broadcasting. It noted that the future delivery of

313 *Ibid.*

314 Written evidence from Professor Patrick Barwise (PSB0072)

all TV through the internet was “conceivable” but it highlighted a number of challenges for this prospect. Broadband is still not universal: 13 per cent of adults do not have it. Broadband is associated with a monthly subscription contract which undermines the notion of ‘free TV’. It is also not as reliable or secure, and the internet TV industry is still developing.

251. ***Digital terrestrial television (DTT) will remain a major way for people to access linear television. The Government and Ofcom must ensure the continued provision of free spectrum for PSB output through DTT.***

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Public service broadcasting

1. Public service broadcasting remains essential to the UK media and losing it would leave UK society and democracy worse off. Public service broadcasting can bring the nation together in a way in which other media cannot and can ‘raise the level’ of quality, as well as ensuring continued investment in original UK content across a range of programming. An essential feature of public service broadcasting is its universality, free at the point of use after paying the licence fee: both the availability and affordability of public service broadcasters are unmatched by other services. In its forthcoming PSB review, Ofcom should also consider the contribution of content from non-public service broadcasters to public service objectives. (Paragraph 31)
2. Younger audiences are increasingly turning towards SVODs while spending less time watching public service broadcasting. Public service broadcasters face a difficult choice in dividing limited resources between appealing to older and younger viewers with different viewing habits and tastes. However, they must produce content which serves and reflects all audiences in the UK and the legitimacy of the licence fee depends on this. (Paragraph 76)
3. The subscription model incentivises SVODs to produce content which reaches a range of audiences. This is because their success depends on building a catalogue of programmes which—as a whole—appeals to the widest range of potential subscribers, rather than judging success on the size of the audience for a given programme. For this reason, they can take creative risks on individual programmes. They have also made effective use of personalisation. (Paragraph 77)
4. Some witnesses argued passionately that there was a problem with BAME representation in the TV sector, especially at the BBC. They cited employment data, reports of discriminatory practices and poor practices in the commissioning process. We note that the BBC and others are taking steps to address this. We believe that there is not enough data for us to opine on the substance of this issue. Nonetheless, perception is of paramount importance in this context and data show that BAME viewers spend less time watching PSBs than others. (Paragraph 78)
5. As with other areas of the creative sector, the uncertain nature of freelance work and lack of adequate careers guidance present barriers to people from less advantaged backgrounds and BAME people from entering the TV sector. PSBs have a special role to play in lowering such barriers. They should do more to involve people from diverse backgrounds in their commissioning processes and behind the camera. (Paragraph 79)
6. We recommend that Ofcom should report on the diversity of commissioning teams at public service broadcasters to ensure that under-served audiences are represented at all stages of programme development. The Government should empower Ofcom to collect data on the diversity of production crews making programmes for public service broadcasters, whether in-house or independent. (Paragraph 80)
7. An important way in which public service broadcasters can fulfil their remit of appealing to all audiences is through ‘event’ television such as sport, landmark drama and documentary series and live entertainment. At a time

of division, public service broadcasters play a role in unifying the country through shared experiences. (Paragraph 93)

8. The listed events regime provides important protection for the availability of major sports events. The Secretary of State for Digital, Culture, Media and Sport should consult sporting bodies, broadcasters and the public with a view to increasing modestly the number of listed events. This could include events such as The Ashes and The Open Golf Championship. We welcome the Government's plans to add equivalent women's events and the Paralympic Games to the list. (Paragraph 94)

TV production

9. TV which reflects UK culture is in demand at home and abroad. However, changes in the market may make the future of individual SVODs and TV services uncertain. New entrants complement but cannot replace public service broadcasters, which guarantee continued investment in a wide range of original UK content no matter the state of the global market. (Paragraph 106)
10. It is important that UK TV programmes of cultural significance are preserved for future generations irrespective of whether they are made by a public service broadcaster. The Government should broaden the requirement to provide programmes to and fund the BFI National Archive to non-public service broadcasters and SVODs which produce content in the UK. (Paragraph 109)
11. High-end TV Tax Relief has benefited the UK production sector and encouraged high levels of inward investment. However, there is a serious risk of the sector reaching full capacity and overheating. The health of the independent production sector depends on maintaining the supply of production crews to meet demand. The £1 million threshold for tax relief creates an incentive for productions with a budget over £800,000 to spend more to receive up to £200,000 in tax relief. This makes it less attractive to produce mid-budget drama, which is crucial to the development of skills in the production sector. High-end TV Tax Relief should be tapered in from £800,000 to remove the incentive to spend more to reach a cost of £1 million per hour. (Paragraph 116)
12. The Apprenticeship Levy has failed the creative industries. Its inflexibility leaves significant amounts of money unspent which could otherwise help to address skills shortages in the production sector. We welcome the Government's pilot with Screenskills but fundamental reform of the Apprenticeship Levy is necessary and urgent. The Government should introduce greater flexibility such as allowing businesses to use the levy to fund training programmes at work and apprentices' wages, and to pool vouchers through training agencies. (Paragraph 123)
13. The Government should make contributing to the ScreenSkills High-end TV Skills Fund a condition of receiving High-end TV Tax Relief. The Government should consult ScreenSkills on increasing productions' percentage contribution to the fund. (Paragraph 124)
14. Public service broadcasters are essential to the independent production sector and the Terms of Trade encourage independent production companies to work with them. Their success relies on both PSBs and the production sector being willing to update the Terms of Trade as the market changes. (Paragraph 131)

15. As part of its review of public service broadcasting, Ofcom should consider whether the Terms of Trade unfairly disadvantage public service broadcasters in a competitive market. The Terms of Trade were originally introduced to protect independent production companies from the dominance of public service broadcasters. Given the degree of consolidation in the market, in order to uphold their original purpose of protecting small and medium sized independent production companies, Ofcom should review whether the Terms of Trade should still to apply to larger companies. (Paragraph 132)
16. Public service broadcasters are vulnerable to cost inflation if skills shortages are not addressed, but they can still afford to make high-quality, distinctive British programmes. Public service broadcasters have benefitted from record levels of third-party funding: from co-productions with SVODs, co-productions with non-SVODs and deficit financing. However, we heard concerns from industry figures that third-party funding could decline in future once broadcasters have become dependent on it. Losing this funding would pose a serious danger to public service broadcasters and impair their ability to produce high-quality programmes. It would also damage the independent production sector. In a fast-changing market public service broadcasters' access to third-party funding for programmes for UK audiences should be kept under review. We do not support proposals for a levy on SVOD subscriptions at this time, but we would expect Ofcom to assess the merits of a levy if the situation changes and to make recommendations accordingly. With the support of the Government, Ofcom should closely monitor emerging data and the impact of similar measures in other jurisdictions. (Paragraph 158)
17. Producing programmes across the UK spreads the economic benefits of TV production and helps to ensure that viewers feel represented. Public service broadcasters have a crucial role in supporting regional production. Progress has been made and centres such as Salford, Cardiff and Glasgow have been highly successful. However, it is important to develop further production beyond metropolitan hubs. Regional production must support production companies whose main office is not in London and involve commissioning decisions being made in the regions and nations themselves. (Paragraph 171)
18. Ofcom should ensure that public service broadcasters uphold the spirit of regional production quotas to aid the development of regional skills and production companies based in different nations and regions. (Paragraph 172)
19. The Government should review regional investment funds to determine how they could be made more flexible to work better for the creative industries. This must be part of a comprehensive strategy to include all regions and nations in the success of the TV production sector and make sure the benefits of growth are spread across the country. (Paragraph 173)

Towards a new PSB compact

20. While the arrival of SVODs has created exciting opportunities for the creative sector and for audiences, particularly in drama, we are concerned by the unpredictability of future developments. PSBs provide a stable investment platform for a diverse range of content, made for UK audiences, and freely available on a reliable over the air platform. While ensuring that they are properly held to account for delivering PSB purposes, the Government should support PSBs in the new technological environment, and think very carefully before imposing any further regulatory or financial burdens which

might impinge on their ability to fulfil their public service obligations to viewers. (Paragraph 177)

21. The BBC needs to have the power to innovate at speed without undue regulatory burdens or it risks becoming a minor player in the face of dynamic, well-resourced global competitors. Ofcom should ensure that regulation is sufficiently fast-paced while also protecting the rights of other broadcasters. In return, the BBC should be upfront and open with Ofcom about any proposed changes. (Paragraph 183)
22. The licence fee is the guarantor of the BBC's financial independence and underpins its unique quality. A subscription model would undermine the fundamental principle of universality that the BBC should be free-to-air. (Paragraph 201)
23. We are concerned that the integrity of the licence fee has been undermined by a succession of settlements which were carried out in secret and which have tended to disadvantage the BBC. The decision on whether to provide free licences to the over-75s is a matter of welfare policy. The BBC should not have been asked to take on this decision, and the BBC should not have accepted it. Responsibility for licences for over-75s should be off the table in future licence fee negotiations. (Paragraph 202)
24. We reaffirm our recommendation that there should be an independent and transparent process for setting the licence fee. To this end, we recommend that the Government should establish an independent body, which we would call the BBC Funding Commission, to oversee the process for setting the licence fee. In the current competitive and fast-moving environment the BBC needs to be properly funded. The BBC Funding Commission should consult widely on the BBC's role and functions, taking account of all its duties and privileges, and public expectations, before making a recommendation to the Secretary of State. The BBC's responsibilities to serve both young and old audiences, to compete with big tech and to remain a source of soft power, require a generous settlement. (Paragraph 203)
25. This should be implemented by 2021, in time for the mid-Charter review and the next round of negotiations on the licence fee. We do not propose any changes to the current settlement in the meantime, but we expect that any deficits incurred would be considered by the Funding Commission as part of its review. (Paragraph 204)
26. We recommend that Ofcom should review the adequacy of the broadcast and non-broadcast codes in respect of video advertising with a view to making recommendations to reduce the difference of regulatory burdens between broadcasters and on-demand services. Following the UK's departure from the EU, the Government should implement provisions of the Audio-visual Media Services Directive on advertising to ensure a level playing field. In doing so, it should make video-sharing platforms responsible for the advertising that they display. (Paragraph 211)
27. Children's health is of the utmost importance and we share concerns that more needs to be done to reduce childhood obesity. We note the role public service broadcasters play in promoting healthy living and feel that consideration should be given to enhancing this role, including looking at evidence from other countries. However, we do not think that there is sufficient evidence that the proposed ban on high in fat, salt and sugar advertising before

the 9pm watershed would significantly reduce childhood obesity. We are concerned that such a blanket ban could undermine the funding model of commercial broadcasting in the UK without delivering significant benefits to children's health. A ban might also be counterproductive if manufacturers divert advertising spending to fund price promotions. There would be a further risk if the ban is not sufficiently targeted at what would normally be considered 'junk food' but it indiscriminately includes products such as olive oil that are part of a healthy diet. (Paragraph 219)

28. However, if evidence emerges to the contrary, the Government should act quickly to implement a ban. In doing so, it should ensure a level playing field between broadcast and online advertising. Any broadcast ban must be matched by measures which have equivalent effect online and the Department for Digital, Culture, Media and Sport should be consulted at all stages of policy development on this issue. (Paragraph 220)
29. The right to be displayed prominently is a key privilege of public service broadcasters. The current regime is centred on linear TV, which will increasingly devalue over time. We believe that it is more important that PSBs are easy to find in a fragmented media environment, not less. We welcome and endorse Ofcom's recommendation that the prominence regime be updated for the digital age to reflect new ways of accessing content. The Government should introduce legislation to implement a new prominence framework in line with Ofcom's recommendations. The regime should be based on principles so that it can adapt as technology changes. (Paragraph 238)
30. PSBs must be enabled to maintain a direct relationship with viewers in an on-demand world. PSBs should not be forced to disaggregate programmes if they do not consider it a useful way to reach viewers and their content is not clearly attributed to them. We welcome the BBC's interest in using artificial intelligence for its public service algorithm. (Paragraph 239)
31. In line with Ofcom's recommendation, PSB content hubs should be given prominence on platforms provided that PSBs ensure that public value content, such as news, current affairs, and children's content, are given prominence within their hubs. This reflects the current situation in which PSBs are required to broadcast news during peak times. (Paragraph 240)
32. Free to air and free at the point of use are key attributes of public service broadcasting. PSBs should continue to be required to offer their content across all TV platforms. But we are concerned that the way in which technology can be used to deprive PSBs of advertising revenue suggests a lack of balance in the arrangement. To counter that imbalance, we recommend that Ofcom should be empowered to review the 'must offer, must carry' regime to ensure that it is adequate as TV moves online. In particular, it should consider whether TV platforms should be required to pay a reasonable retransmission fee to compensate commercial public service broadcasters. If so, the quantum of the fee should be determined by Ofcom on a periodic basis. (Paragraph 247)
33. Digital terrestrial television (DTT) will remain a major way for people to access linear television. The Government and Ofcom must ensure the continued provision of free spectrum for PSB output through DTT. (Paragraph 251)

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

Lord Allen of Kensington
 Baroness Benjamin (to July 2019)
 Lord Bethell (from April 2019 to July 2019)
 Baroness Bertin (to April 2019)
 Baroness Bonham-Carter of Yarnbury (to July 2019)
 Baroness Bull (from July 2019)
 The Lord Bishop of Chelmsford (to July 2019)
 Baroness Chisholm of Owlpen (to August 2019)
 Viscount Colville of Culross
 Lord Gilbert of Panteg (Chairman)
 Lord Goodlad (to July 2019)
 Lord Gordon of Strathblane
 Baroness Greender (from July 2019)
 Baroness Kidron (to July 2019)
 Lord McInnes of Kilwinning (from July 2019)
 Baroness McIntosh of Hudnall
 Baroness Meyer (from October 2019)
 Baroness Quin
 Baroness Scott of Bybrook (from October 2019)
 Lord Storey (from July 2019)
 The Lord Bishop of Worcester (from July 2019)

Declarations of interest

Lord Allen of Kensington
Chairman, Global Media & Entertainment (including Global Radio)
Chairman, Moelis & Company (an independent advisory bank which advises media companies)
Declarable shareholding, ITV plc

Baroness Benjamin
Actress and Independent Producer
Co-Chair, APPG Children's Media and the Arts
Presenter on children's television
Member, BBC Diversity Advisory Panel

Lord Bethell
My wife, Melissa Bethell, is a partner of Atairos which is a private equity company connected to Comcast which has broadcast interests including ownership of BskyB.

Baroness Bertin
Employee (part-time), BT

Baroness Bonham-Carter of Yarnbury
No relevant interests declared

Baroness Bull
Sole Director, No Bull Productions Ltd, a limited company that exists to provide services of Deborah Bull for media activity

The Lord Bishop of Chelmsford
No relevant interests declared

Baroness Chisholm of Owlpen

No relevant interests declared

Viscount Colville of Culross

Series Producer, Raw TV making content for CNN (April 2019-)

BBC Producer (1990–2015), Newsnight, specialist factual

Series Producer, ITN Productions (2016–2017)

Lord Gilbert of Panteg (Chairman)

Guest of ITV at National Television Awards, The O2 Arena, London, 22 January 2019

Guest of S4C at Wales v Ireland rugby match, Cardiff, 16 March 2019

Attended Royal Television Society Cambridge conference, Cambridge, 18–20 September 2019; hospitality and accommodation provided by ITV

Lord Goodlad

Member, Advisory Board of GovNet Communications Ltd

Lord Gordon of Strathblane

No relevant interests declared

Baroness Greender

No relevant interests declared

Baroness Kidron

Producer/Director who worked at PSBs over the years

Lord McInnes of Kilwinning

No relevant interests declared

Baroness McIntosh of Hudnall

No relevant interests declared

Baroness Meyer

My husband, Sir Christopher Meyer, was the Chairman of the Press Complaints Commission from 2003–2009

Baroness Quin

No relevant interests declared

Baroness Scott of Bybrook

No relevant interests declared

Lord Storey

No relevant interests declared

The Lord Bishop of Worcester

No relevant interests declared

A full list of Members' interests can be found in the Register of Lords' Interests: <http://www.publications.parliament.uk/pa/ld/ldreg.htm>

Specialist advisor

Professor Steven Barnett

No relevant interests declared

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at <https://www.parliament.uk/public-service-broadcasting-and-vod> and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with ** gave both oral evidence and written evidence. Those marked with * gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

**	Claire Enders, Founder, Enders Analysis	QQ 1–11
**	Professor Patrick Barwise, Emeritus Professor of Management and Marketing, London Business School	QQ 14–32
**	Professor Petros Iosifidis, Professor of Media Policy, City, University of London	
**	Professor Jeanette Steemers, Professor of Culture, Media and Creative Industries, King’s College London	
*	Incorporated Society of British Advertisers (ISBA)	QQ 33–40
*	Mark Oliver, Chairman and Co-Founder, Oliver & Ohlbaum Associates	QQ 41–46
*	Dr Cento Veljanovski, Founder and Managing Partner, Case Associates	
*	Sir Colin Callender CBE, Chairman, Playground LLC	QQ 47–52
*	Peter Kosminsky, Director, Stonehenge Films	
**	Colin Browne, Chairman, Voice of the Listener & Viewer	QQ 53–58
*	Media Reform Coalition	
*	Dr Tom Mills, Lecturer in Sociology and Policy, Aston University, and member of the Media Reform Coalition	
*	Alastair Fothergill, Company Director, Silverback Films	QQ 59–70
*	Jane Turton, Chief Executive Officer, all3media	
*	BECTU	QQ 71–83
**	Directors UK	
**	COBA	QQ 84–92
**	Sky	
*	Indie Club	QQ 93–101
**	Pact	
**	Creative Diversity Network	QQ 102–107

**	Jonathan Kaye, Disability Accessibility and Inclusion Consultant	
*	Media Trust	
*	Dan Cheesbrough, Commercial Director, Hartswood Films	QQ 108–114
*	Andy Harries, Chief Executive Officer, Left Bank Pictures	
**	Arqiva	QQ 115–123
**	techUK	
*	Virgin Media	
**	Campaign for Broadcasting Equality	QQ 124–130
**	Sir Lenny Henry	
**	Marcus Ryder, Chief International Editor, China Global Television Network	
**	ScreenSkills	QQ 131–139
*	Screen Yorkshire	
**	S4C	
**	BBC	QQ 140–150
**	Channel 4	QQ 151–159
*	YouTube	QQ 160–172
*	Amazon	QQ 173–185
*	Apple	
**	Netflix	QQ 186–195
**	ITV	QQ 196–204
**	Ofcom	QQ 205–212
**	Her Majesty’s Government	QQ 213–220

Alphabetical list of all witnesses

	Advertising Standards Authority	PSB0046
	Age UK	PSB0019
*	all3media (QQ 59–70)	
*	Amazon (QQ 173–185)	
*	Apple (QQ 173–185)	
**	Arqiva (QQ 115–123)	PSB0016
	AudioUK	PSB0015
**	Professor Patrick Barwise (QQ 14–32)	PSB0072
**	BBC (QQ 140–150)	PSB0052 PSB0063 PSB0066

* BECTU (QQ 71–83)	
Professor Robert Beveridge FRSA, University of Sassari, Sardinia	PSB0025
British Film Institute	PSB0028
BT	PSB0047
* Sir Colin Callender CBE (QQ 47–52)	
** Campaign for Broadcasting Equality CIO (QQ 124–130)	PSB0056 PSB0065 PSB0071
Cancer Research UK	PSB0040
* Case Associates (QQ 41–46)	
Centre for Competition Policy, University of East Anglia	PSB0033
** Channel 4 (QQ 151–159)	PSB0048
* Dan Cheesbrough (QQ 108–114)	
The Children’s Media Foundation	PSB0012
Clintons Solicitors	PSB0029
** Commercial Broadcasters Association (COBA) (QQ 84–92)	PSB0044 PSB0055
Cornwall Council	PSB0011
Diane Coyle, Bennett Professor of Public Policy, University of Cambridge	PSB0005
** Creative Diversity Network (QQ 102–107)	PSB0074
Digital Television Group	PSB0017
Digital UK	PSB0022 PSB0064
** Directors UK (QQ 71–83)	PSB0021
** Claire Enders, Enders Analysis (QQ 1–11)	PSB0059
Equity	PSB0043
European Broadcasting Union	PSB0020
Finecast	PSB0061
Dr Mike Flood Page, Royal Holloway, University of London	PSB0008
* Alastair Fothergill (QQ 59–70)	
* Andy Harries (QQ 108–114)	
** Sir Lenny Henry CBE (Actor, Producer and CEO of Douglas Road Productions) (QQ 115–123)	PSB0057
** Her Majesty’s Government—Department for Digital, Culture, Media and Sport (QQ 213–220)	PSB0045

- * Incorporated Society of British Advertisers ([QQ 33–40](#))
- * Indie Club ([QQ 93–101](#))
- Institute of Economic Affairs [PSB0001](#)
- Internews [PSB0026](#)
- ** Professor Petros Iosifidis, Professor of Media Policy, City, University of London ([QQ 14–32](#)) [PSB0004](#)
[PSB0049](#)
- IPA [PSB0009](#)
- ** ITV ([QQ 196–204](#)) [PSB0060](#)
[PSB0073](#)
- Dr Catherine Johnson, Professor of Media and Communications, University of Huddersfield [PSB0018](#)
- ** Jonathan Kaye, Disability Accessibility and Inclusion Consultant ([QQ 102–107](#)) [PSB0036](#)
- * Peter Kosminsky ([QQ 47–52](#))
- LG Electronics UK [PSB0014](#)
- * Media Reform Coalition ([QQ 53–58](#))
- * Media Trust ([QQ 102–107](#))
- MG ALBA [PSB0035](#)
- Dr Maria Michalis, Reader in Communication Policy, CAMRI (Communication and Media Research Institute), University of Westminster [PSB0037](#)
- * Dr Tom Mills ([QQ 53–58](#))
- Denzil Monk [PSB0024](#)
- Roger Mosey [PSB0038](#)
- Music Publishers Association [PSB0034](#)
- ** Netflix ([QQ 186–195](#)) [PSB0041](#)
[PSB0069](#)
- News Media Association [PSB0002](#)
- Dr Caitriona Noonan, Lecturer in Media and Communications, Cardiff University and Co-Investigator, Creative Industries Policy and Evidence Centre (PEC) [PSB0032](#)
- ** Ofcom ([QQ 205–212](#)) [PSB0051](#)
[PSB0068](#)
- * Oliver and Ohlbaum Associates ([QQ 41–46](#))
- ** Pact ([QQ 93–101](#)) [PSB0030](#)
- Public Media Alliance [PSB0031](#)
- ** Marcus Ryder, Chief International Editor CGTN Digital ([QQ 115–123](#)) [PSB0057](#)

**	S4C (QQ 131–139)	PSB0054
	Samsung Electronics UK	PSB0023
**	ScreenSkills (QQ 131–139)	PSB0062 PSB0067
*	Screen Yorkshire (QQ 131–139)	
**	Sky (QQ 84–92)	PSB0042 PSB0070
**	Professor Jeanette Steemers, Professor of Culture, Media & Creative Industries, King’s College London (QQ 14–32)	PSB0039
	STV Group	PSB0027
**	techUK (QQ 115–123)	PSB0003
	Teledwyr Annibynnol Cymru (TAC)	PSB0010
	Together TV (The Community Channel)	PSB0007
	The TV Collective	PSB0058
	UK Music	PSB0050
	UKTV	PSB0013
	Viacom International Media Networks	PSB0053
*	Virgin Media (QQ 115–123)	
**	Voice of the Listener & Viewer (QQ 53–58)	PSB0006
*	YouTube (QQ 160–172)	

APPENDIX 3: CALL FOR EVIDENCE

Public service broadcasting in the age of video on demand

The House of Lords Select Committee on Communications, under the chairmanship of Lord Gilbert of Panteg, is to hold an inquiry into the future of public service broadcasting in the context of the rising popularity of video on demand services. The Committee invites organisations and individuals to submit written evidence by Friday 26 April 2019.

The Committee expects to hear oral evidence from invited witnesses from March to July 2019 inclusive and intends to report in the autumn. The Government has undertaken to respond in writing to reports from select committees.

Background

Public service broadcasters, such as the BBC, ITV and Channel 4, face mounting challenges. In 2018 conventional TV viewing fell by 5 per cent. Annual reductions in viewing by the 16–24 and 24–35 year-old age groups were the steepest on record. Conventional TV viewing by under-25s has halved since 2010.³¹⁵

In recent years, video streaming services have emerged as powerful global distributors and producers, particularly ‘subscription video on demand’ services. Between 2015 and 2018 the number of UK homes with access to a subscription video on demand service doubled. Over 10 million households now have access to Netflix, the most used service. These services have made available thousands of hours of content for subscriptions which start at £5.99 per month—less than half the cost of a TV licence. Viewers can watch content at any time, either through a connected TV or on a portable device. Research for Ofcom suggested that Netflix had particular appeal to BAME groups, who saw it as more representative than the BBC.³¹⁶ YouTube, a video-sharing platform, is especially popular with younger children.³¹⁷

On-demand services are increasingly competing with public service broadcasters, especially in producing high-quality drama and factual content. Services such as Netflix and Amazon Prime can spend over £15 million per hour on original content. It has been suggested that these big budget productions are pricing public service broadcasters out of the market by inflating production costs and raising viewers’ expectations. There are also concerns that on-demand services have become less willing to co-produce programmes with public service broadcasters. Although 80 per cent of investment in UK production is from public service broadcasters, subscription video on demand services increasingly commission UK content, including high-profile programmes such as *The Crown* and *The Grand Tour*.

The popularity of on-demand services has implications for commercial public service broadcasters’ revenue. Further decline in viewing figures threatens television advertising, which has traditionally been attractive because of the scale

315 Enders Analysis, *TV set viewing trends: linear audiences tumble in 2018* (7 February 2019): <http://www.endersanalysis.com/content/publication/tv-set-viewing-trends-linear-audiences-tumble-2018> [accessed 4 November 2019]

316 Kantar Media, *Representation and portrayal of audiences on BBC television* (25 October 2018) https://www.ofcom.org.uk/_data/assets/pdf_file/0016/124252/kantar-bbc-qualitative-research.pdf [accessed 6 March 2019]

317 Ofcom, *Children and parents: Media use and attitudes report 2018* (February 2019) https://www.ofcom.org.uk/_data/assets/pdf_file/0024/134907/Children-and-Parents-Media-Use-and-Attitudes-2018.pdf [accessed 6 March 2019]

of its ‘reach’. Public service broadcasters are concerned about maintaining visibility in a fragmented market operating across different platforms. For example, it is not always clear when content on video on demand services is produced by a public service broadcaster.

Public service broadcasters have a range of obligations, including on the volume and type of adverts they show, programming in specific genres, the commissioning of content, the audiences they serve, and the watershed. On-demand services do not have the same obligations. Although the European Parliament voted to impose a minimum quota of 30 per cent European content on these services, only 15 per cent of content on the UK version of Netflix is European. The remainder is mostly of US origin. There is also a debate on financial obligations. Despite an estimated gross annual revenue of over £800 million in the UK in 2017, Netflix’s UK subsidiary declared taxable profits of just £1.12 million.³¹⁸ France and Germany have introduced levies on on-demand services which are used to finance original locally produced content.

Public service broadcasters have launched their own on-demand services, including iPlayer, ITV Hub and All4. While these have focused on ‘catch-up’ services, in February 2019 the BBC and ITV announced ‘Britbox’, a new subscription service providing a range of archive and specially-commissioned content.³¹⁹ A similar initiative, known as Project Kangaroo, was blocked in 2009 by the Competition Commission.³²⁰

Aim of the inquiry

The Communications Committee wishes to investigate:

- whether the popularity of video on demand services has made the concept of public service broadcasting redundant, in whole or in part;
- if so, what form public service broadcasting should take in future and how it could remain financially viable; and
- what action policy-makers, regulators and public service broadcasters should take.

The Committee seeks written evidence which addresses the following questions. Witnesses need not answer every question; experts in a particular area are encouraged to focus on that area. Witnesses may address relevant issues that are not covered below provided that they explain the significance of the issues.

Questions

1. What is the value of public service broadcasting? Is the concept becoming outdated? Does public service broadcasting do enough to reflect and serve the demographics of the UK? In answering respondents may wish to consider characteristics such as:

- (a) age,

318 Simon Duke, ‘Tax chiefs have Netflix in their sights over profits declared in Britain’, *The Times* (3 December 2018) <https://www.thetimes.co.uk/article/tax-chiefs-have-netflix-in-their-sights-over-profits-declared-in-britain-mtrj20s6n> [accessed 6 March 2019]

319 BBC News, *BBC and ITV set to launch Netflix rival* (27 February 2019): <https://www.bbc.co.uk/news/business-47383559> [accessed 6 March 2019]

320 Mark Sweney, ‘Project Kangaroo blocked by Competition Commission’, *The Guardian* (4 February 2009) <https://www.theguardian.com/media/2009/feb/04/project-kangaroo-blocked-by-competition-commission> [accessed 6 March 2019]

- (b) gender,
 - (c) ethnic background,
 - (d) the nations and regions of the UK,
 - (e) mental and physical ability,
 - (f) ability to pay for services.
2. What are the consequences of the rise of on-demand providers and the decline of linear television viewing for the production of original UK content for UK audiences?
 3. What has been the effect of changes in the market on the UK television production sector more widely, including on training, job opportunities and the business models of independent producers?
 4. Are the obligations on public service broadcasters appropriate? Does the regulatory regime allow them to do so?
 5. Have public service broadcasters responded adequately to market changes?
 6. How can commercial public service broadcasters fund original productions for UK audiences at a time of declining advertising revenues? How might public service funding regimes—including the BBC licence fee—be adjusted?
 7. How important is prominence for public service broadcasters? Can it be maintained in the face of rapid technological development and greater personalisation of content?
 8. Should there be new regulation of on-demand services? Does the revised Audio-visual Media Services Directive provide appropriate measures to ‘level the playing field’? How could on-demand services be encouraged to produce more content in the UK?
 9. What should the relationship be between public service broadcasters and on-demand platforms? What are the risks and opportunities of collaboration, for example in co- production?
 10. What are the implications of ‘Britbox’? Is there scope for more collaboration amongst public service broadcasters? What more could PSBs do to compete with on demand services?

APPENDIX 4: MEETING WITH SCHOOL GROUP

On Wednesday 12 June, Baroness McIntosh of Hudnall, Baroness Bonham-Carter of Yarnbury and Lord Gordon of Strathblane met Year-12 students (aged 16–17) from Stockport Grammar School to discuss their viewing habits and views on the future of public service broadcasting. A summary of the discussion at the meeting follows.

Students said that they watched content on screens of different sizes but there was a preference for watching sporting events and programmes watched with the family on large screens and using mobile phones and computer screens for social media and video-sharing.

In general, students did not watch programmes at their scheduled time of broadcast. They preferred not to “move their day around” to watch television. Often linear viewing, unlike VOD viewing, would be with their family. Students said that they would only turn on linear TV for a specific programme, such as live entertainment, a landmark drama series, news or sports. They saw such ‘event television’ as a key strength of the BBC. However, they felt that too many sports events were only available on subscription channels such as Sky Sports and that these were prohibitively expensive. One student suggested that the BBC should launch its own sports channel.

The students said that when they wanted to watch TV they would go first to video on demand services. Students’ first port of call to watch PSB programmes would be VOD services such as BBC iPlayer and ITV Hub, however they did not watch much on the BBC or ITV—with Love Island a notable exception. Some watched Channel 4 for the news, *Gogglebox* and *First Dates*. No one watched Channel 5.

The students discussed the value of the licence fee. It was noted that the it allowed the BBC to be impartial. Most valued it, arguing that it allowed them to develop their opinions and become better informed. One felt that people should have the option not to pay. Another felt that people should not be imprisoned for failing to pay it. It was suggested that general taxation could be used to fund the BBC.

Most went first to Netflix, Amazon Prime or Now TV. Students felt that SVODs offered a wider choice of programmes, as well as offering perceptive recommendations for programmes they would enjoy. Students enjoyed watching the same programmes as their peer group and exchanged recommendations. They liked that Netflix did not have adverts and some said that they would prefer to pay a subscription than watch adverts. The students resented watching adverts and their repetitiveness, sometimes even seeing the same advert being played twice in a row.

Students valued the broad range of content on Netflix and felt that it offered something for everyone, although they noted that this included BBC content. One student suggested that it would not be feasible to require an international company such as Netflix to produce UK content just for the UK as this might lead them to leave the country. The students thought that Netflix’s international content, including foreign language programming, was a strength, as was its portrayal of BAME and LGBT groups. By contrast, one student described the BBC and ITV as “quite white British”.

A number of students first subscribed to Netflix, or other SVODs, because of a programme only available on that service and maintained their subscription to

watch other programmes. Netflix's strength was seen to be drama and comedy, whereas its original factual content could be unreliable. Popular programmes on Amazon Prime included *The Grand Tour* and *American Gods*. One student noted, however, that his class was from a more affluent background than others, and that access to multiple SVOD services might not be typical.

Regarding video-sharing platforms, the students felt that the Government should ensure that companies address illegal content. At the same time, it was argued that people of non-mainstream views should be allowed to express themselves unless they act illegally.

Students also discussed different sources of news. They trusted news from public service broadcasters, with many going to BBC News first. They felt that the BBC was more objective and trustworthy, however one student felt that this was undermined by 'analysis' articles which featured more opinion. There was widespread awareness of the effect of echo-chambers online and students were particularly wary of Facebook as a news source. They seldom used Facebook, preferring Instagram, Snapchat and, to a lesser extent, Twitter. Students cited Facebook's use of data as a major reason for not using it, as well as a generational divide between their cohort and those who were older.

APPENDIX 5: INQUIRY VISITS

Introduction

The Committee undertook two visits to inform this report. On 25 June 2019 the Committee visited Amazon's international headquarters in London. Lord Gilbert of Panteg, Lord Gordon of Strathblane, Baroness McIntosh of Hudnall and Baroness Quin. The Committee was given a tour of its offices with a focus on the technological aspects of delivering the Amazon Prime video on demand service. The Committee heard briefings executives and technicians, including Georgia Brown who gave oral evidence to the Committee later that day.

On 27 June the committee travelled Glasgow to visit BBC Scotland and STV (the Scottish public service broadcaster), and to hold a roundtable discussion with local people hosted by the University of Strathclyde. The aim of the roundtable was to hear about changing viewing preferences and to explore perceptions of public service broadcasting. Participation was open to anyone interested who had registered to attend through an event management website. Publicity about the event was targeted to local community groups.

Lord Gilbert of Panteg, Viscount Colville of Culross and Lord Gordon of Strathblane were in attendance. Each member sat at a table and facilitated discussion assisted by committee staff and staff from the engagement team. This was followed by a short plenary discussion. A summary of the discussion follows.

Summary of roundtable discussion with residents of Glasgow

Participants included retired people, local council workers and students, some of whom were studying communications. There was a diverse range of viewing habits and preferences and perceptions of broadcasting. Some held more positive views of the BBC and other PSBs than others.

A large proportion of participants subscribed to at least one SVOD. Netflix was the most popular, followed Amazon Prime, while only a few people had Now TV. One participant who subscribed to Netflix, Amazon Prime and Now TV noted that the combined cost was less than he had previously paid for Sky. Several participants had pay-TV but no access to SVODs. One participant stressed that not everyone can afford paid services. The free-to-air nature of PSB was fundamental for her.

Many participants said that they mainly watched video on demand services. For some watching Netflix was the default. However, many watched live TV news and sport and other 'event' TV. Some believed that such programmes unified the nation around 'watercooler moments'. One student said that the downside of not having a TV licence was not being able to watch live sport, but that she went to the pub to do so. The students tended to watch video on demand programmes on personal devices whereas they watched linear TV on a TV set with family. A retired participant expressed concern about this fragmentation of family viewing. He added that the BBC had lost sight of elderly people in its focus on iPlayer.

STV's soaps, the BBC's political programmes, and Channel 4's news, foreign language drama and All4 archive content were praised on one table. Some felt that the BBC was fundamentally not Scottish. Its reputation had been damaged during the Scottish Independence Referendum where it was seen as biased. The BBC also did a poor job of covering local sport: it was said that the BBC spent more on Gary Lineker than on Scottish sport. While some welcomed the launch of BBC Scotland, they felt that the content was not enjoyable.

Some felt that regional production was good for local economies but that having a good story was more important. Local productions could add authenticity and a sense of connection with a programme.

One participant was concerned about the risks of on-demand services for children. She noted news reports that a Netflix show had led to a rise in teenage suicides.

One of the students described the BBC's programmes for young people as "frankly awful" and a poor attempt to emulate YouTube. They said that the BBC had become a 'jack of all trades and master of none'. Another agreed. However, the students enjoyed watching programmes originally shown on the BBC, such as Louis Theroux documentaries and *Bodyguard*, on Netflix.

Some students recognised their provenance but said that Netflix had gathered some of the best BBC content in one place and was cheaper than a TV licence. There was disagreement about the legitimacy of the licence fee. One participant argued that it is unpopular with poorer people and with younger people, who have grown up used to the freedom to make their own choices. There was some support for a subscription model but most agreed that commercial pressures, particularly obtaining advertising, would undermine the BBC's impartiality.

One participant was highly critical of the licence fee and the BBC in general. He paid for pay-TV and so felt that he should not have to pay twice. He felt that the BBC had a lot of money but that it was not spent well. He conceded that he enjoyed BBC dramas such as *Line of Duty* and *EastEnders* and factual programmes such as David Attenborough documentaries. But he felt that the BBC was not accountable: it was more concerned with defending itself as an institution than on delivering on its original remit. He suggested that Ofcom should have a stronger role and that the BBC should become a largely commercial service.

The majority felt that public service broadcasting was necessary as a source of trustworthy news. Some felt that Channel 4 news was not balanced although it was responsible for good investigative journalism. One participant suggested that Al Jazeera provided better news coverage. Another believed that news could never be completely impartial but that PSBs were right to try. Several argued that PSBs should simply provide facts and a space for people from different perspectives to debate, rather than offering analysis. Some participants said that they liked to get partisan news from different sources, such as Fox News, before making up their own minds. Participants agreed that Twitter allowed people to hear different arguments, although there was some concern about echo chambers.

APPENDIX 6: ONLINE SURVEY

Introduction

The Committee conducted a survey of attitudes to public service broadcasting and subscription video on demand services. The survey was open from 9 June to 9 July 2019 and was promoted on social media.

The survey received 177 responses from people of a range of ages and backgrounds. This was essentially a qualitative exercise designed to elicit responses from a wider group than the Committee was able to see in person. The Committee recognises that participants were self-selecting and that its ability to conduct the survey with methodological rigour was limited as it could not survey a large and representative sample of the public.

Summary

A range of people took part in the survey. The age groups with the most respondents were 25–34-year-olds (48 respondents) and those aged 65 and over (41 respondents). Only 12 respondents were aged 14–24. Eighty-one per cent of respondents were white and 13 per cent identified as BAME. Forty-four per cent identified as male and 52 per cent female.

Respondents were asked how often they watched different services. Among all respondents, 75 out of 177 respondents watched the BBC every day. However, this fell to 15 out of 60 among 14–34-year-olds and 4 out of 23 among BAME respondents. The most popular service with both these groups was Netflix: 15 out of 23 BAME respondents and 44 out of 60 14–34-year-olds watched Netflix at least a few times a week, compared with 43 per cent for all respondents. ITV1 and Channel 4 were each viewed by approximately 40 per cent of all respondents at least a few times each week. This fell to approximately 20 per cent for Channel 4 among 14–34-year-olds and BAME viewers.

Respondents across different groups watched a television screen for most of their viewing. Forty-five per cent of all respondents watched more on demand content than linear television. This rose to 41 out of 60 14–34 year-old respondents and 15 out of 23 BAME respondents.

There was relatively little variation between different groups on whether PSBs made programmes relevant to them and reflected modern Britain. Most were positive.

Fifty per cent of respondents who subscribed to an SVOD felt that it offered better value than the licence fee, while 20 per cent said worse. Younger subscribers were more likely to feel that SVODs represented better value for money.

Question 10 asked respondents what they felt made PSBs distinctive. Most agreed that PSBs were distinctive and many cited news and current affairs as the reason for this. Live sport and documentaries were also mentioned by many, as was PSBs' commitment to representing the UK and its regions. Several respondents criticised reality TV such as *The Jeremy Kyle Show* and some felt that there were too many repeats on TV. Some criticised PSBs for a lack of diversity. One wrote: "BBC and ITV are incredibly pale and stale to me. It doesn't reflect my communities, both LGBT and mixed race. Everything reflects and is for white straight older or family audiences I feel." Another complained that PSBs were producing too much content for younger people which alienated older viewers.

Question 11 asked what programmes on SVODs were most appealing. The range of content, including international and diverse content, was praised, as was their ease of use. Films, drama and entertainment series were most commonly cited. One respondent mentioned drama series which “tend to take greater risks, and be of far greater quality, than original drama programming on the BBC/ITV/Channel 4.” Some felt that one of the strengths of Netflix and Amazon Prime was their programmes which had originally been shown by PSBs. Several said that the main reason they subscribed to an SVOD was that it was cheaper than the licence fee.

