Submission to the Lords Select Committee inquiry on Public Service Broadcasting in the age of video on demand

Summary

- Embedded in the ethos and provision of Public Service Broadcasting (PSB) are multiple forms of value, not least in supporting the commissioning of original content from the independent production (indie) sector across the UK.

- Public service broadcasters have the responsibility and burden of delivering both high-quality linear services and user-friendly on-demand services. This represents a substantial challenge when there is ongoing pressure on funding.

- Changes to the models for commissioning and financing content may destabilise the long-term sustainability of public service broadcasting.

- Prominence and discoverability are key issues for public service broadcasters, regulators and policy-makers in order to ensure the principle of universality remains a feature of the UK television landscape.

- Britbox may be a positive step towards competing with international services but its success will depend on its ability to secure and retain rights for content and on its access to capital for infrastructure and market development.

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 Is the concept becoming outdated?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?**

1.1 Value is derived from public service broadcasting both through the content that this system supports and the institutions that deliver that value. Over the course of this inquiry, the committee will hear evidence of the range of values that PSB delivers. Here I focus on a number which are pertinent to the aims of the inquiry.
1.2 **Economic value**: Local commissioning, content quotas from the independent sector, public accountability, along with structured training and development opportunities are just some of the ways that PSBs contribute economic value to the television industry. There is no obvious single alternative source of these interventions and so PSBs fulfil a key role in the UK’s production ecology. It has been long-term investment in the independent sector by PSBs which has enabled the sector to grow and mature.

1.3 Economic value is derived directly through their commissioning strategies. Whilst large scale productions certainly deliver value to cities, regions and nations across the UK (e.g. *Doctor Who* in Cardiff), research also points to the considerable value of mid-sized, returning series to the production ecology and this is content largely supported by PSBs (e.g. soaps, *Holby City*, *Casualty*). These are more likely to be for a domestic audience, but they play a vital role in up-skilling workers and giving financial stability to production companies, thereby supporting the long-term sustainability of the labour market and the independent sector. Therefore, any changes in the provision and funding of PSBs will have a significant and direct impact on the sustainability of the indie sector, in particular smaller and regional independent production companies.

1.4 **Cultural and civic value**: Addressing the public values of PSB, Allan points to ‘its daily reaffirmation of common civic values in a time of ‘fake news’ and ‘filter bubbles’’ and underscores its vital contribution ‘to enhancing mutual understanding and dialogue in public life’. PSBs remain a trusted source of news in the digital age, a value borne out in Ofcom research. The public continue to value PSB with 75% of viewers claiming to be either very or quite satisfied (77% in 2016). This in turn is seen in audience share which remains relatively unchanged despite growing competition and more fragmented audiences. Half (51%) of all broadcast viewing on the TV is to the main five PSB channels (unchanged since 2016).

1.5 **Value to the Nations and Regions**: 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. For example, research by McElroy and Noonan highlights the positive contribution of BBC Wales, the relaunch of *Doctor Who* and the investment in Roath Lock studios to the production sector in Wales, though they also point to

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3 Allan, Stuart (2019) *The public values of public service broadcasting*. Blog. 25 March. Available at [https://pec.ac.uk/research/arts-culture](https://pec.ac.uk/research/arts-culture)
5 ibid
6 ibid
areas where PSB commissioning is inadequate. On this latter point Ofcom notes that while the PSBs are allocating more of their content budgets to network programmes made outside London, spend on programmes made in the nations specifically for the nations declined by 3% in real terms to £275m in 2017. However, broadcasters connected to the regions are accountable to that nation/region and have an ability to bring change.

1.6 Support for minority language: As Elin Gruffydd Jones argues, “television enables a language community to speak to itself [...] it can build and strengthen that community’s sense of collective identity”. The UK’s minority-language PSBs, S4C and BBC Alba, sustain linguistic vitality and cultural diversity. They do this while also needing to retain political and public support, maintain viewing figures, support indigenous production and compete in international markets. Technological infrastructure renders many non-anglophone languages invisible, for instance at the moment amongst voice activated devices Siri speaks 21 languages, Microsoft’s Cortana speaks 8 languages, Google Assistant speaks 4 and Amazon’s Alexa is only fluent in English and German. Therefore, PSBs become a central way to ensure that Welsh, Scottish Gaelic and their associated cultural identities are not susceptible to ‘digital extinction’.

1.7 Development of the labour market: PSBs are a major contributor to the training, development and diversity of the television labour market in the UK by providing training schemes such as apprenticeships, leading on diversity initiatives (e.g. Project Diamond) and being accountable to maintain standards of work. There is little requirement on global corporations to do the same, though some do contribute to the High-end TV Skills Fund managed by ScreenSkills and some small-scale labour interventions have emerged (e.g. during filming for Sex Education Netflix, Eleven Films and the University of South Wales collaborated to offer training and paid work placements to students across production, finance and location departments). Without the intervention of PSBs, there would be a much-diminished television labour market in the UK.

1.8 Content provision: It is clear from research that certain forms of content will not be delivered by companies with a profit-making remit solely. Content such as arts content and children’s news have traditionally not offered the large-scale audience needed to satisfy

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11 High-end TV productions (i.e. over £1m per hour) in receipt of UK high-end TV tax relief contribute to a skills levy fund. Given the spend thresholds this tends to be drama productions.
advertisers or provide the potential for international sales. It is the range and depth of content that PSBs provide which distinguishes it from other market players.

1.9 Commercial entities may on occasion deliver content that has a public service ethos, for example David Attenborough’s series *Our Planet* on Netflix or the service provided by Sky Arts. But these are often isolated and narrow investments designed to attract subscribers within a specific lucrative demographic. Public service broadcasting, in contrast, is distinguishable by its range, depth and consistency. Strategic commissioning and marketing by commercial entities should not be mistaken for public service broadcasting.

1.10 Therefore, as a way to deliver these diverse forms of value, the concept and unique structure of PSB is not redundant and continues to have a significant role in creating a pluralistic, diverse and accessible service. The changing political landscape in the form of devolution and Brexit alters the policy contexts in which PSB takes place. The commercial marketplace is also changing with the arrival of new players such as Netflix and Amazon, and Disney and Apple in the near future. Their different terms of trade and global reach distinguish these providers. However, a healthy range of broadcasters is needed for sustainability of the sector. Public service broadcasters should be encouraged and empowered to provide a mixed portfolio of content where ambitious international dramas and natural history pieces rub shoulders with local language and niche pieces. They should also be enabled to provide this diverse content through multiple platforms.

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?**

2.1 The greater choice afforded to consumers in a digital age is often assumed to equate to a more democratic media landscape and to the production of more content. However, a number of factors impact on the current provision of on-demand and linear services.

2.2 The majority of television viewing is to live television.**14** While it is declining and there is uneven consumption amongst audience demographics, many viewers still rely on linear services. Full engagement with the expanded television ecosystem requires consumers with deep pockets and access to appropriate infrastructure (such as reliable broadband). Those requirements can represent a barrier for many to the range of original UK content available to audiences.

2.3 Public service broadcasters are amongst the most popular on-demand services in the UK. Therefore, care needs to be taken not to conceptualise on-demand providers as just commercial platforms like Netflix and Amazon Prime Video. PSBs are also providers of on-demand

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content. A more substantial impact on the production of original UK content is the tension between detached global companies seeking subscribers and profits, and those with a responsibility to UK licence fee-payers and who often need to simultaneously compete in international markets to ensure their sustainability.

2.4 Furthermore, developing an effective on-demand service is not cost neutral. It requires the skills and infrastructure of online media. Therefore, PSBs have the responsibility and burden of delivering both high-quality linear and user-friendly on-demand services. They will likely have to deliver both services for a considerable period of time. This is despite declining budgets and represents a substantial challenge to ‘do even more with less’.

2.5 The shift to the on-demand availability of content and the platforms which support this, have led to new formats and experimentation. As Grainge and Johnson highlight, the BBC’s iPlayer offers an important space for experimentation with style and format and additional content for engaged audiences (e.g. much of the recent season of dance on the BBC was available through the iPlayer). It also becomes a crucial space for talent development (as seen with the development and success of Fleabag writer Phoebe Waller Bridge). However, budgets tend to be lower when commissioning for online distribution and this can have an impact on the supply chain for this content. For instance, there has been a marked decline in the number of independent production companies working in the genre of arts as budgets have declined.

2.6 Linear platforms still play a role in the current ecology. Live content has considerable economic and cultural value – the final episodes of popular series such as Bake Off and Love Island draw viewers (and therefore advertisers). Linear also has a role in bringing people together and speaks to the cultural and civic value outlined above. It can give prominence to quality content that otherwise might get missed. The success of the Welsh drama Un Bore Mercher/Keeping Faith (2017–present) demonstrates a successful collaboration between S4C and BBC Wales Cymru achieving record viewing figures for a non-network drama on BBC iPlayer with more than 9.5 million downloads. In light of this success, the BBC aired the series on linear services, transmitting it on BBC One in summer 2018.

2.7 Growth of on-demand services has also increased the need to have a substantial library of content. Both C4 and BBC push the classic ‘box sets’ of previously transmitted dramas for audiences to ‘binge’. This means that content which is popular may retain its value in the domestic market beyond the window of linear transmission. However, here the issue of rights is crucial, a point returned to later.

2.8 Therefore, the consequences of the rise of on-demand viewing and the decline of linear viewing for the production of original UK content for UK audiences is mixed. On the one hand it has meant space for risk-taking, experimentation and talent development. However, on the other it has changed the financing of content and led to changes in the budgets available for production, particularly in niche genres.

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?

3.1 A major concern for public service broadcasters and some local producers is how new funding agreements are affecting rights ownership, and therefore the ability of producers to fully exploit the economic value of content.\(^{17}\) On the one hand, the arrival of new buyers offers a broader market for indies with content to sell with research from PACT announcing this as an ‘opportunity for growth’.\(^ {18}\) Companies like Netflix and Amazon Prime provide the possibility of global distribution. They have access to more financial resources and so are often able to pay significantly more than their rivals for content, especially publicly funded broadcasters. There is also prestige and brand value for indies in producing a Netflix original series for example which will sit alongside successful series such as The Crown.

3.2 On the other hand, the patterns for exploiting intellectual property through secondary rights are constrained. Most PSBs currently operate on a ‘deficit model’ offering funding in multiple tiered stages – in drama production this can be close to two-thirds of production costs. The remainder of the funding comes from a mixture of external sources, including co-production finance. In contrast SVoDs generally commission on a ‘cost-plus system’. This means that while they meet all production costs, they also retain all rights. This has significant impact on territoriality (licensing content in different geographic territories) and windowing (licensing content for distribution on different platforms often with staggered timescales) – two strategies which have been the cornerstones of the business model of television distribution.

3.3 Under the terms of the arrangement with a company like Netflix, the producer will have to wait a certain period of time before it licenses the show elsewhere (sometimes up to 10 years). On top of this, the global expansion of Netflix into more than 190 countries means that few local broadcasters would be prepared to pay large amounts for content that is available on the Netflix service. This can present a conundrum for independent producers and as they balance the cost of exclusivity and the loss of ancillary revenue streams from licensing and merchandising. Therefore, while Netflix, Amazon Prime and Apple may bring substantial new opportunities for production in the present, their use of the cost-

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plus finance model may inhibit indies in exploiting their intellectual property in the longer term.

3.4 Further changes are likely to happen in the UK market if we look at the strategies adopted by these companies in other territories. Netflix has begun a strategy of entering into exclusivity deals with key talent (e.g. showrunners Ryan Murphy and Shonda Rhimes in the US). If this is adopted in the UK, PSBs are likely to find it difficult to compete with the sums paid to secure exclusivity and so may lose out on key talent. In addition, there has been a shift away from co-productions between commercial companies and PSBs. PSBs have enjoyed some co-production arrangements with Netflix in the past but will need to look to other partnerships as these groups increasingly seek global exclusivity. Apple has already announced it will not seek any immediate co-production arrangements when it launches. This will have an impact on the ability of PSBs to deliver content of scale such as high-end drama.

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?

6.1 The public service funding model has been adjusted considerably over the last decade. Portions of the licence fee have been re-directed in support of government priorities including digital switchover, local reporting, and free licences for the over 75s. As the School for Journalism, Media and Culture argued in its submission to the BBC’s consultation on the over 75s free licence fees, ‘bearing the full cost of the current concession is untenable and there are strong arguments for restoring the direct link of the licence fee being for the sole purposes of supporting BBC programming’.

6.2 In 2017 the Department for Digital, Culture, Media and Sport (DCMS) announced a pilot Young Audience Content Fund (also known as the contestable fund), which will commit up to £60 million to stimulate the provision and plurality of public service-original UK content. The scheme proposed is expected to last three years. In the evidence to the DCMS’s consultation, substantial concerns were raised about how it will be maintained if successful. The allocation of future BBC budget to fund this scheme was roundly rejected as this is seen as further undermining the capacity of publicly funded broadcasters like the BBC and S4C. Therefore, the fund needs to be an additional commitment to the provision of public service content, rather than a redirection of the licence fee.

6.3 One of the priorities of the fund is to support content that reflects UK cultural identity and the nations and regions – both on screen and off screen – along with the provision of content in UK indigenous languages. In due course it will be important to assess the effectiveness of the fund in terms of whether it has opened new avenues for creators of original content and brought new voices to the market.
6.4 As the Public Media Alliance report in response to increased competition and constrained public funding, PSBs across Europe are increasingly engaged in strategically important partnerships and collaboration both in terms of content production and platform distribution. In the UK S4C programmes are available on BBC iPlayer joining the Welsh-language programmes created by BBC Cymru that are already available on iPlayer. More collaboration is also likely around certain genres. For example, Atrium TV is a Pan-European co-financing ‘club’ amongst commercial broadcasters for drama content (http://atrium.tv/) and in Ireland the PSB RTÉ and European culture channel ARTE have agreed a co-production partnership to make and distribute arts, culture, factual, history and natural history programming on their respective platforms.

6.5 This collaboration extends beyond content to include talent development and there is scope for alliances in building long-term sustainability. For example, in 2019 BBC Wales, Channel 4 and S4C committed to a new training partnership to support the development and growth of factual television production in Wales, thereby directly supporting the capacity of the local creative sector and its labour market.

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?

7.1 Universal access and availability of public service content remain integral to the public good. As stated above in 2.2 there are financial and structural barriers to audiences accessing the totality of television services and in this context PSBs offer distinct value. However, in a digital world as routes to content change and there is more choice and competition for attention, prominence and discoverability become important for all broadcasters, but especially PSBs.

7.2 One way in which prominence is an issue is in terms of electronic programme guides (EPGs) – a key way in which consumer navigate to content and providers. Ofcom’s scrutiny of the issue is to be welcomed and its reporting on the prominence of linear and video-on-demand PSB services on EPGs will be an important lead in the discussions.

7.3 Prominence, however, is an issue beyond the EPG, with services like Netflix and Apple embedded in the infrastructure of our viewership through deals with global television manufacturers and mobile devices. Having a dedicated button on viewers’ remote controls, or an app that automatically appears on the home screen of viewers’ smart TVs or mobile phone, allows services like Netflix and Apple an unprecedented opportunity for controlling the viewing experience and one that is unlikely to be within the financial reach of many other providers, including PSBs. It also especially critical for a non-anglophone public

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service broadcaster like S4C as this technological infrastructure is predominantly in the English language.

7.4 Therefore, agile policy-making and regulation which encourages PSBs to adapt and thrive, and which leverages additional value from international players in return for access to the market will be essential over the coming decade. In terms of the sustainability of PSBs their on-demand services are increasingly a destination rather than a catch-up service. As outlined by Sir David Clementi at the Oxford Media Convention for the BBC there are specific issues relating to the public value derived from the iPlayer in the current policy landscape. This inquiry is an opportunity for the committee to encourage and support legislators and regulators to adopt a more agile and responsive approach to interventions in the television landscape.

7.5 In return for this support, PSBs will need to maintain the visibility of content which is in the public interest. One of the consequences of a shift to on-demand viewing is the automated curation that takes place. In on-demand platforms algorithms promote content that is either new or popular, or often both. Therefore, PSBs will need to ensure that on-demand services continue to make public service content prominent through editorial interventions in the digital infrastructure and through creative marketing and distribution.

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?

8.1 PSBs are subject to more regulatory obligations than commercial broadcasters. The Public Interest Test, national and regional quotas and public accountability for content commissioned ensure PSBs deliver on their complex and wide objectives. On-demand services do not currently have the same obligations and remain relatively free from regulation by Ofcom.

8.2 In a blog setting out research priorities for the PEC, Kretschmer and Schlesinger point to the key tensions between bringing platforms into the regulatory sphere and delegating regulatory functions to companies such as Youtube (e.g. through policing and filtering). A number of those who have given evidence to the inquiry spoke to the importance and challenge of protecting children and vulnerable people in the current media landscape.

8.3 Public funding is already allocated directly and indirectly to international platform services to produce content in the UK. Through their use of the high-end tax relief schemes for instance, these companies are the

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21 Kretschmer, Martin and Philip Schlesinger (2019) Regulating a platform economy. 25 March. Available at: https://pec.ac.uk/blog/regulated-a-platform-economy
recipients of public funding. In addition, they benefit from the scale and quality of the UK’s independent sector which has been supported by the PSBs. For instance, Eleven Film, the independent producer of the Netflix series *Sex Education* has in the past received backing from Channel 4’s Growth Fund. International platforms are also beneficiaries of substantial public investment in digital infrastructure in the form of broadband, 4G and, soon, 5G, and have not had to invest directly in these services for the benefit of the public in the way that the BBC, for example, did in leading ‘digital switchover’. Therefore, caution should be exercised when incentivising on-demand services further to produce content in the UK without associated obligations on them.

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?**

9.1 The relationship between PSBs and on-demand platforms is complex, fluctuating between competition and collaboration. For Netflix and Amazon locally relevant (or localised) original content is an important commodity to secure new subscribers. Collaborating with local players like PSBs has enabled the streaming companies to produce internationally mobile ‘Originals’ which complement their existing slates and reduce funding costs. It also allows these companies to leverage the PSBs reputation for delivering quality content.

9.2 To date collaboration, in the form of co-productions, has been mainly in the area of high-end drama. For instance, series two of the historical drama *The Last Kingdom* is co-produced by the BBC and Netflix with the production company Carnival Films. The series will premiere on BBC One in the UK and on Netflix outside of the UK. Collaboration through co-production enables PSBs to meet the high costs of production and the expectations of scale, talent and location shooting associated with such content. This is balanced with the reputational and financial risk to PSBs if the content is not successful. It can also dilute the Britishness of the content as such co-productions will usually be intended for a global audience to be made available across multiple territories.

9.3 While a number of successful co-productions have been realised by the PSBs and SVODs, the trend in the future is likely towards SVODs not engaging in co-pros as they seek to secure global rights for content. As above, Apple has announced that it will not seek any immediate co-production arrangements when it launches. In addition, the current strategy for distributing content on Netflix blurs the distinction between commissioning and acquisition. For example, *Chewing Gum*, a comedy commissioned by Channel 4 for E4 and made by Retort (now Hare and Tortoise), is marketed as a ‘Netflix Original’ outside of the UK as the streaming service bought the global rights despite it not being directly involved in the initial commissioning or the making of the show. An example like this means that PSBs are taking the risk of production and not getting the credit for the shows they helped create, at the same time as providing SVOD platforms with important brand assets as their own market share is eroded.
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?**

10.1 Television’s history tells us that new services prosper on the basis of their content strategy – ITV in the 1950s with their light entertainment, Sky in the 1990s with sports and movie rights, and now Netflix with drama. For Britbox to compete in what is a crowded market, it will need compelling and exclusive content, both of which require investment. Britbox will need to be a platform that is easy to use, agile and interactive. It will also need to consider what makes it distinctive in a crowded marketplace. In order to lure UK subscribers there will need to be a distinction with services already funded through licence fee so as not to erode public support for this model.

10.2 Arguably Britbox may in due course become an international service. British content already travels globally, and British producers have a reputation for quality content in different genres. Here, again Britbox will be competing with the content and marketing budgets of major international firms (a number like Amazon Prime and Apple who have access to cash not related to their broadcasting business). Therefore, while Britbox may be a positive step towards competing with international services its success will depend on its ability to secure and retain rights for content and on its access to capital for infrastructure and market development.

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