HOUSE OF LORDS

Communications and Digital Committee

Corrected oral evidence: BBC future funding

Tuesday 26 April 2022

2.35 pm

Watch the meeting

Members present: Baroness Stowell of Beeston (The Chair); Baroness Bull; Baroness Buscombe; Baroness Featherstone; Lord Foster of Bath; Baroness Harding of Winscombe; Lord Lipsey; Baroness Rebuck; Lord Vaizey of Didcot; The Lord Bishop of Worcester; Lord Young of Norwood Green.

Evidence Session No. 10 Heard in Public Questions 81 - 85

Witnesses

I: Magnus Brooke, Director of Policy and Regulatory Affairs, ITV; Khalid Hayat, Director of Strategy and Consumer Insight, Channel 4; Mitchell Simmons, Vice-President, Public Policy & Government Affairs EMEA, Paramount Global.

USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Examination of witnesses

Magnus Brooke, Khalid Hayat and Mitchell Simmons.

Q81 **The Chair**: Welcome to another hearing of the Communications and Digital Committee in our inquiry into BBC future funding.

I am very grateful to today's panel. Before I invite you to introduce yourselves, I should remind everybody that we are broadcasting live on the internet. A transcript will be taken and subsequently published.

Will you introduce yourselves briefly and give the position that you hold in the organisations that you represent? We will start with Magnus.

Magnus Brooke: I am director of policy and regulation at ITV.

Khalid Hayat: I am director of strategy and consumer insight at Channel 4.

Mitchell Simmons: I am vice-president for policy and government affairs at Paramount, which is the owner-operator of Channel 5.

Q82 **The Chair:** Thank you all for making time to be with us this afternoon. I probably should declare that I am a former colleague of Magnus Brooke from when we both worked at the BBC, although it is now about 15 years ago.

We have heard a lot over the last few weeks in conducting this inquiry about the various challenges that the BBC faces with technological change, competition and decline in audiences for linear television. I am interested to know how you at ITV, Channel 4 and Channel 5, as commercially funded public service broadcasters, are meeting these challenges.

Magnus Brooke: We certainly recognise those challenges. A combination of internet distribution of television and globalisation has created an explosion of choice for viewers and, obviously, a massive intensification of competition for revenue and for eyeballs.

It is not just TV programmes and SVODs; it is about immersive video gaming and social media. It is also about films, which are increasingly being released in parallel in the cinema and on SVOD and, in other ways, direct into people's homes. We also face very intense advertising competition. So it is a very different market, I think.

What is our answer? There are three elements to it. The first is that we have to offer something distinctive. We believe that our offer needs to be very distinctively British and reflect the whole country, in all its variety, which is what audiences say they still want. Alongside the SVOD services, they want distinctively British services. For us, it is particularly about investing in live content, in event television, in sport, in news, in drama premieres and in live entertainment.

We still get very big audiences. Last year we had 35 million people a week watching the ITV main channel.

We have competitive advantages over the SVODs. The SVODs have not sent anybody to report on the news in Ukraine, for example, and that is a very important point of difference for us as a PSB.

The second thing is that we have to offer audiences the ability to get the content how, when and where they want it. It is why we have announced a very big investment in our ITVX streaming service, which will be one of the largest free streaming services in Europe, with over 9,000 hours of free content, along with streamed versions of our channels. We are in the course of developing that for launch later this year. Of course, personalisation and curation are a very important part of that service.

It makes sense to use other platforms, too. We use Snapchat, YouTube and Instagram, particularly for The Rundown, our digital news service for young teenagers, which has been amazingly successful. We had 14 million views for that service in March and, indeed, I noticed the other day that the BBC is proposing to copy that formula and launch its own version of that service.

The third part of our response is around IP ownership. We are a very big international TV content producer. We are in 12 territories around the world, making content for all sorts of other broadcasters, both in the UK and more broadly across Europe and America. Ownership of IP in a world of streamers is really very important. That has obviously been quite a significant growth market for us. Clearly, that is an opportunity for the BBC as much as it is for ITV, given that it is now free to make programmes for other people.

That is a summary of our response to what we see as the competitive challenge.

The Chair: Thank you. I may come back to a couple of points you have made, but let me move on to Mr Hayat. What is happening at Channel 4?

Khalid Hayat: Thank you for having me here today. Like Magnus, we recognise the market challenges that have been described by others who have given evidence to the committee over the past month or two. We think about the market challenges from the perspectives of viewing and competition. Again, in line with Magnus's point, linear viewing is clearly declining, particularly among younger audiences. At Channel 4, we skew younger in our audience than our fellow PSBs, and, therefore, we have a particularly acute need to make sure that we are addressing the needs of younger audiences given that change in behaviour. So it is about viewing behaviour and there is a second point around competition from global streamers.

In late 2020, we launched our Future4 strategy, which is designed precisely to address these market challenges. Through Future4 we are planning to drive digital growth in our business and prioritise digital growth over linear ratings. We have set ourselves targets to double the size of our All 4 free streaming service, from 1 billion views to 2 billion views by 2025, and to grow digital advertising as a larger proportion of our revenue base such that by 2025 we have at least 30% of our revenue from digital advertising and at least 10% of our revenue from non-advertising sources.

That strategy is delivering success. We are a year or so in, and in 2021 we achieved 1.5 billion streaming views on All 4, so we are about half way towards our target. In 2021, 19% of our total revenue base was digital advertising and 2021 was our best year ever for revenues and financial surplus.

We have also diversified the way we offer content to viewers on social platforms. We have 4Studio, which is our Leeds-based digital content studio. This is a trusted source of public service content on social platforms including Facebook, YouTube, Snapchat, et cetera. In its first full year of operation, 4Studio achieved 11.5 billion views, overtaking the likes of LADbible and Liverpool FC as branded content partners for viewers.

We do all that in the interests of delivering on our remit. That is essentially everything we do at Channel 4. We are a publicly owned but entirely commercially funded corporation, focused on delivering the remit that we have been set by Parliament; therefore, what we bring to bear is Channel 4’s focus on representing the entire UK and serving unheard voices.

Mitchell Simmons: Thank you for having me today to give evidence.

First, I echo what Khalid and Magnus said. It is clear that audiences are changing, and it is important that we address those changes. It is worth noting that Channel 5 is the smallest of the public service broadcasters, which puts us in a slightly unique position. We are also the youngest of the public service broadcasters and our heartland is very much outside London. Consequently, we view everything at Channel 5 as being the alternative voice.

What that has meant for us is a transformation of the channel over the last few years, with significant investment particularly in factual content and a move into drama. We felt that factual content had historically been neglected in the market, and we have programmes such as “Warship: Life at Sea”, which regularly has 2 million viewers of an evening.

We are moving into drama and we have a focus on kids as well. Last year, 18 million people tuned into Milkshake! Milkshake! remains the only kids’ service on a primary linear service, on Channel 5, which I think is fundamental.

That creates a difference for Channel 5 compared with the rest of the market. We are smaller than the others, so it is not always possible for Channel 5 to compete. If on a Saturday evening there are two shows on BBC and ITV and something else—perhaps a drama—on Channel 4, it is not possible for Channel 5 to compete head to head, so we try to find an alternative. What would somebody want to be to watching if they were not watching one of those shows? Often that might be a factual piece of content or a piece of factual entertainment or drama. That is what we have really pushed.

With that regional focus and being nimble and smaller than the others, we work with smaller independent producers, and with that comes finding new and innovative stories. We have seen this as a way of addressing the challenges. Primarily, that has brought people back to Channel 5 over the past few years. It has increased audiences and has driven traffic to My5, which is our streaming service.

The Chair: Thank you. May I come back to you, Mr Brooke, on ITVX and the way in which ITV approaches the challenges you have described? Would you describe what is happening now at ITV as moving to a hybrid funding model that includes subscription? Is that how you would describe what you are doing there?

Magnus Brooke: ITVX is going to be driven by the free, advertising-funded content. That is the core of the service. It is very much an advertising-funded model. We will have an opportunity for people, if they want, to get access to probably 5,000 or 6,000 hours of additional content, advertising free, if they want to make relatively modest subscription payments to go up to another tier, if you like.

So the core ITVX service is going to be a mass-market, free streaming service, open for everybody, in return for no fee at all, but with the option of trading up to an ad-free version, with additional content if you want to pay an amount.

At the moment we have BritBox, an SVOD service, which has BBC, ITV and Channel 4 content. That will be part of that higher tier alongside what we call ITV Hub+, which is an advertising-free version of ITV Hub.

We are putting those things together in a paid-for tier that you can subscribe to if you want to as an ITVX viewer, if you prefer to have that additional content and the ad-free version.

The Chair: That would consolidate all the other things such as BritBox.

Magnus Brooke: Precisely, that becomes a single service.

The Chair: As part of your long-term strategy, do you see ITVX—with, increasingly, the option for people to subscribe without ads—being a growing source of your own income?

Magnus Brooke: Yes, in the sense that BritBox, in particular, has been growing very satisfactorily and completely consistently with our plan over the last two or three years. So, yes, it is an integral part of the model, if you like, but I come back to the point that the scale play here will be the advertising-funded service, in conjunction with the advertising-driven linear business, which we by no means regard as being dead. In fact, quite the opposite. We think that there is a compelling case for that linear business, but refocused to live content, to news, to sport, to live entertainment—all the things that you really want to watch in the moment with other people, and where you want to be part of that national debate and conversation. I think there is going to be more focus on and investment in those areas on our linear channel and quite a lot of the other content will find its way on to ITVX.

Indeed, part of the plan when we launch dramas, for example, is to launch them on the linear channel and then effectively drop all the episodes on to ITVX. That is a fairly standard practice now, and we have started doing some of that already on ITV Hub. It is very much putting the content where it makes most sense to drive these two different audiences.

Q83 **Lord Lipsey:** When I am watching a good programme on television I tend to assume that it is the BBC, because my parents brought me up to think that way: BBC good, ITV bad. A serious point lies behind this. In abstract terms, it is possible to distinguish between the remits of all the PSBs, but when it comes to actual programmes, not so much. It is very hard to think of any programme that I watch, other than Racing TV, that could not be on any one of the three organisations represented here.

So it would help the committee if you could expand a bit on what you see as your distinctive features so far as viewers, in particular, are concerned. Perhaps I could start with Khalid.

Khalid Hayat: I am happy to kick off. The way in which we think about it is that UK viewers benefit from a plurality of PSBs. That is really where it starts. As you say, there are similarities across PSBs, because we are all there to serve UK viewers, but each has distinctive characteristics. We have a range of business models, a range of purposes and a range of remits.

I would draw on my background here. I spent seven years at ITV and I have spent a long time in the consulting world, working with colleagues at the BBC, for example. They are all quite different organisations. For us at Channel 4, as I said, we have a remit through which we seek to create change through entertainment. We seek to represent, challenge and reinvent in what we do. What we find is that we are all serving slightly different and complementary audiences. As I said earlier, Channel 4 is the youngest profiling of PSBs in the UK from an audience perspective. We have double the young audience profile of the BBC when it comes to linear channels.

When it comes to the streaming service, All 4 is the UK's biggest free streaming service in volume of content. We have over 14,000 hours of content on All 4. Again, it is the youngest skewing of the PSB VOD services as regards the audience profile. That focus drives a degree of differentiation, I would argue.

Although we are serving similar genres—drama, entertainment or comedy—we bring different characteristics to bear in the way we deliver that content. I will call on some Channel 4 examples here. "It's a Sin" is a drama programme that was considered by other broadcasters but found its home on Channel 4. It portrays the 1980s and a generation in the AIDS crisis. It has had a positive impact on society in driving greater AIDS testing, for example. "We Are Lady Parts" is very Channel 4—a comedy about an all-Muslim female punk band. These programmes have received a number of awards at recent RTS Awards, the BAFTA Craft

Awards last night and so on and so forth. I think there is differentiation and that is the Channel 4 perspective on the issue.

Lord Lipsey: That is helpful. Do the other two witnesses want to add to that?

Mitchell Simmons: I agree with much of what Khalid said.

I would make two points. The first is that remits are important. The commissioners and the teams in the businesses will each look at their remit, and the culture will come from that remit. Remits remain important as regards setting priorities. In many cases, we have the same things in our remits, whether that is about regional production or about news and current affairs, but we have different levels, and that leads to different obligations.

There are a couple of areas on Channel 5 that you probably would not see on other channels. The first is the point that I made about kids' TV and the role that Milkshake! plays. Every single morning it has good favourites, modern favourites I guess you would call them—"Peppa Pig", "Fireman Sam", "Ben & Holly's Little Kingdom"—and alongside that it is about investment in UK-originated content, and a lot of diverse originated content that we have done recently, in many instances using the Young Audiences Content Fund.

The other area of difference that it is worth pointing out is that each of the PSBs—I include the BBC—has a different approach to news and current affairs. Channel 5's primary current affairs show is Jeremy Vine, which is a very relaxed environment for current affairs. It has an element of audience participation. During lockdown and the Covid crisis, the Jeremy Vine show became very much a place where people would look every morning to find out what the latest information was. It is a very approachable way to do current affairs.

We are the first news operator in the day at 5 pm. For our first bulletin at 5 pm our audience will be very different from the Channel 4 audience at 7 pm, so we have to cater accordingly.

So, while you are right that to an extent we are all doing the same genres of programming, there are some differences between the way we do those genres. Our goal in all that is to deliver for the different demands of the audiences we serve.

The Chair: Before you respond, Magnus, it would be helpful to understand not just how you see yourselves as being distinctive from the BBC but what your view is of whether the BBC is distinctive from the rest of you.

Magnus Brooke: I am very happy to do that. If we start with ITV for a second, in a sense our PSB channel, our main channel, is probably the closest competitor to BBC1, and certainly we would look at BBC1 as being our nearest rival. We are trying to reach the whole of the UK. It is pretty simple. We had 97% of the whole UK TV population watching ITV at some point last year, and we would absolutely seek to provide entertainment and information for the whole of the UK, regardless of where you are, in a way that reflects your life. That is reflected in our recent drama, “The Thief, His Wife and the Canoe”, set in Hartlepool. We have “Grace” launching later this week, set in Brighton. In entertainment, we would absolutely look to get a selection of the whole of British life in our entertainment programmes, most famously “Britain’s Got Talent”, which is classic, end-of-the-pier entertainment, in many ways, in the great British tradition.

In news, we seek to do something slightly different from the BBC. We are seeking to have a warmer, more personal news programme that uses human stories to help portray the news in a way that we hope is slightly different from the BBC and attracts a complementary audience to some extent.

We have our nations and regions news, which is the only other competitor in nations and regions news to the BBC. Again, what we are trying to do is apply a slightly different lens to BBC news to attract a slightly complementary audience.

On your second point, Baroness Stowell, about the BBC, ITV has been engaged with this in the past. We agreed with the Government’s proposal that distinctiveness ought to be the key to the BBC’s remit, in return for public funding. It is the idea that you do something different from the market. It is not that you only cover market failure genres; we do not think that. We think that the BBC ought to be popular and ought to have a broad reach, because that is what you should expect in return for the licence fee. But as to the way you do that, and the way you achieve a mass audience, do you do it by derivative programmes, by buying in formats and programmes, or do you do it by inventing new formats and inventing new programmes, and by using new British talent rather than the tried and tested? Do you take more risks, because, ultimately, that is what the licence fee enables you to do?

That is what we think the BBC should do, and, of course, it is easy in a very competitive market not to do that. In fact, it is easier not to do that, so there is a constant need for challenge and pressure to make sure that the BBC is kept honest. It is easier to order the 20th series of whatever format it is as opposed to saying, “Actually, we’re going to order series one of something completely new”.

There are lots of examples of the BBC doing lots of those things—I am not here to be critical of the BBC, but the one area where we have concern is around acquisitions. That really is a lazy thing to do from a BBC publicly funded point of view, because you are literally buying US content off the shelf. Over the last few years we have seen a significant increase in spend on acquired US content. In that context the BBC is just competing with the three of us for content that is going to appear on terrestrial television in the UK, but spending the licence fee on that—at the last glance £150 million or so in the last financial year for which the numbers are available. That seems an odd use of the licence fee to us.

Mitchell Simmons: I would echo Magnus’s comments. We would agree with that, but I would add some quick points.

Of course it is important that we have Ofcom as a check and balance to make sure that it helps to keep the BBC honest.

On Magnus's point about moving towards acquisitions, certainly we feel that there is an issue around the current BBC strategy on kids to move more into animation and more into acquisition, where the BBC is acquiring content that is available on other free services and commercial services. We would question whether a better use of BBC money as regards kids' content, which is a really challenging genre, would be in trying to create new programmes in new formats as well.

The Chair: Before I move on, may I ask a further supplementary on that? In the time since the 2016 charter, when the distinctiveness of the BBC was very much an issue, how much do you think the change in that being an issue is down to change by the BBC—acquisitions to one side—versus a change in technology and, therefore, more competition from everybody else, so the fact that there may be similar types of programming on the BBC is less of a problem for you?

Magnus Brooke: As the market gets more competitive, the danger of taking risks becomes more acute. The risk of risk, as it were, becomes more significant. There is more and more pressure in a competitive market, arguably, to stick with slightly safer things. The risk of commissioning something completely new and big and spending more and more money on it is obviously greater. Of course, the licence fee, as the BBC itself has said, is venture capital for the UK's creative industries, and venture capital, by definition, involves risk.

Our perspective in 2016 was that these pressures on the commercial sector would only get worse. We have to think very hard before we spend tens of millions of pounds on new programmes. The one thing the licence fee does is give you a bit of freedom to say, "We can take more risks, because in the end our company is not going to go under if these risks do not pay off. We are therefore going to carry on taking more risks on new talent and new formats". That was our perspective then, and it continues to be our perspective today.

To be fair to the BBC, we are a significant programme supplier to the BBC, and so to Lord Lipsey's point about content appearing interchangeable, we make quite a lot of drama for BBC1, and we benefit ultimately from the BBC being able to take risks and to commission high-impact drama that might not otherwise have been commissioned.

Q84 **The Lord Bishop of Worcester:** Thank you for coming today to give evidence. More importantly, I thank you and your colleagues for all that you do for public service broadcasting, which seems to me to be a crucial component of civil society.

The answers that you have given so far make it clear what a delicate ecosystem public service broadcasting is with regard to programming, and the same is true, of course, of funding. As Channel 4 said in its written submission, "The current PSB system is finely balanced and complementary, with a mix of public and commercial funding. Any change to one part of the ecosystem is likely to have an impact on others. This should be carefully assessed as part of the analysis of the impact of any changes to the BBC's funding model".

With that in mind, will you say a bit more about the impacts you feel that any changes in the BBC's funding model would have for you? Perhaps I should start with you, Khalid, as I have just quoted the Channel 4 submission.

Khalid Hayat: I am happy to expand on that point. Thank you for that. I want to reiterate that point to a degree, if I may. The system matters. We use the term "ecosystem" quite a lot, and perhaps we use it too much, but it is a valid analogy, because, as I said earlier, we have a plurality of PSB in the UK. Society benefits from that and UK viewers benefit from that plurality. It is entirely right that this committee, the Government and Parliament in due course consider approaches to funding of the BBC, but what should be thought about is what is the right strategy and vision for PSB as a whole in the UK, because it is all so interconnected, and risks to one part of the PSB ecology will create risks to plurality writ large, and that becomes problematic, potentially, for viewers.

Underpinning all that is the idea of competition for quality. Going back a very long time, I was in Ofcom when Ofcom did its first PSB review and referred to the PSB system and the benefits of the competition for quality. That is one where we keep each other honest. A strong BBC keeps the commercial players honest, and vice versa.

We think about future funding of the BBC through three key principles. For any model that is considered, these are the criteria, as it were, that we think should apply. First, we think the BBC should be sufficiently well funded to deliver on its mission and purposes. To be clear, we do not think that cutting BBC funding is a good idea, because if there were to be a material reduction in funding to the BBC, that would reduce PSB provision by the BBC and have an adverse impact on UK viewers and the ecology as I have just described. So principle number 1 is that it should be properly funded.

Principle number 2 is that the BBC should be funded in a way that is fair and transparent to those who are paying for it.

The third point is that any changes to the BBC funding model should not have an adverse impact on its suppliers, or on other PSBs.

Above all, what we mean by that is that introducing an element of advertising into the BBC funding model would damage the PSB ecology. I think that it is worth explaining what I mean by that. We compete in what is a finite pool of TV advertising revenues. Were the BBC to enter into that advertising market and make its services ad-funded, yes, it is possible to envisage that the overall market size of TV advertising could increase a bit, but I suspect that what we would find is that, were that change to take place, it would not be in the interests of the BBC, nor in the interests of commercial PSBs, nor in the interests of viewers.

Others who have given evidence to this committee have spoken eloquently about this. Mark Oliver talked about this and Ampere Analysis talked about it. What you would likely see is a shortfall in BBC funding relative to the £3.75 billion of licence fee revenue you see today. That would lead to a shortfall for the BBC and a reduction in provision. Much of that money, if not all of it, would come from a transfer from commercially funded players into the BBC. That therefore leaves players around this table with less money to spend on UK-originated content. Again, all that means that there is a reduction in PSB provision, which is not in the interests of viewers.

Mitchell Simmons: I do not have anything significant to add. I think Khalid has outlined the issue very eloquently. It is perhaps worth adding—I know you are speaking to commercial broadcasters after us and I am sure they will say this—that the knock-on effects on the wider ecology would affect all other broadcasters who have advertising as their primary source of revenue; it would hit the entire market. Commercially funded PSB exists in its own bubble but that is in the bigger bubble of a commercial advertising market. It is worth bearing that in mind.

We share the same view as Channel 4. We would be very concerned if the BBC was to move to some form of advertising-funded model, which would undermine our ability to invest in content. Consequently, of course, we are the smallest PSB, as noted before, so we would feel particularly vulnerable if that were to happen.

The Lord Bishop of Worcester: May I alter the emphasis slightly? There is general agreement, I think, that advertising would not be the right way forward, not only because it would adversely affect you but because it would not solve the financing problems of the BBC. As you will be aware, some witnesses have suggested that a hybrid model, rather similar to the one you adumbrated at the beginning of this hearing, Magnus, might be a possible way forward. The problem is that at the moment your first principle, Khalid, was that there should not be a real-terms reduction in the funding of the BBC but, actually, that has been happening over quite a few years. Might that be a way forward?

Magnus Brooke: In a sense, like the other two witnesses, we certainly regard continued public funding at scale as being in the interests of viewers, and the BBC, and indeed, the broader UK creative economy. One of the reasons why we punch above our weight globally as a TV ecology is the mixed sources of funding. We maximise the amount of money going into the system, which, ultimately, is to everybody’s benefit.

I can see why a hybrid option might be attractive. However, we need to start by saying what sort of hybrid. If you are talking about a publicly funded and advertising-funded hybrid, some of the same problems occur in terms of money coming out of commercial PSB. I would also say, and I will come on to subscription in a second—

The Lord Bishop of Worcester: That I think is what has been suggested.

Magnus Brooke: It is worth making the point that there are plenty of examples of where mixed public and advertising funding of commercial

PSB is a bit of a disaster, because you end up with a pooling of money and a distortion of competition with the commercial sector. So not only does the commercial sector lose money and lose revenue but we are never able to say whether we are competing fairly with an organisation that is both publicly and commercially funded, because there is a single pot in which all this money is mixed up and no one quite knows whether it is public money or commercial money. At the moment, one of the advantages of the system is that the commercial is very clearly separate from the publicly funded.

On subscription, it is interesting to look at some of the evidence you have had already. There are a couple of issues. The first is whether you are going to raise enough money. If the BBC was wholly subscription funded, there are some interesting numbers. If you assume it got the same level of subscription as Netflix in the UK, with the current level of licence fee, which is about as high as you could go, you would still be well under from the BBC's point of view in terms of funding. Of course, that is wholly subscription.

If you are into a hybrid, there is, first, the amount of money you are going to raise and, secondly, and most importantly, what the hybrid will be. Are the linear channels not funded by subscription but some form of online service is funded by subscription, at which point you have some really interesting questions about, "Hang on, where is the balance of content?" Do you force the BBC to premiere all the content on the linear channel and then put it on to an on-demand service? Obviously, there would be a massive impact on people's willingness to subscribe to that service. Or do you say that somehow there is some ring-fencing of the subscription service and there is a basic linear service, or is it just the news that is funded on the linear service? If so, how do you stop people watching other programmes on the linear service, which you cannot currently do on Freeview, the biggest platform in the UK? There are some quite significant practical issues on what the subscription service is.

The Lord Bishop of Worcester: It is interesting that the advocacy of the hybrid came before Netflix announced its recent difficulties. Mitchell and Khalid, do you have a comment on that?

Mitchell Simmons: I would echo Magnus's comments on delivery of viewer expectations. What would the viewer expect from a hybrid model? Where would they expect their sport to be? Would they expect to have to pay for their sport but not to have to pay for their news, or would they expect to not have to pay for their news? It raises all these sorts of complications as to what the viewer expectation would be and what the BBC's expectation would be. At the moment, it is very clear that it is there to inform and entertain, and it has a single pot of money with which it aims to deliver its purpose.

As soon as you start to muddy that, not only would it be unclear what the corporate expectations are within the BBC, but what the viewer expects. I think there needs to be a very clear line about that, especially to your original comment about it being a public good and a social good and the whole broadcasting sector having an important value to society at large, but to say, "The thing that you pay for right now you do not pay as much, or you are going to have to pay a bit more for this bit, but not that bit—I know you did not want that bit", where does it end? That, I guess, is the point I want to make.

Khalid Hayat: I only have a brief addition to that. I agree with all the points raised by Mitchell and Magnus about the complexities for viewers and the complexities from the content perspective, but there are also a whole load of complexities around governance and regulation. Magnus alludes to the fact that at the moment all commercial activities for the BBC have to be separate from public service activity; so would the commercial criteria that the BBC has to stick to apply to the subscription service, or would they not?

That raises the higher-order question of what we as UK plc want the BBC to be. Do we want the BBC to be the cornerstone of public service broadcasting, delivering free-to-view content, universally available, et cetera? If so, how does a subscription model fit within that, and how does that subscription model fit with the commercial activities the BBC is already doing? Indeed, do you see BBC subscription crowding out BBC commercial activities, and where does that leave total funding of the BBC?

There is a whole host of complex things that are entirely legitimate and sensible questions for this committee and for the Government and Parliament to be considering as we look to the next charter period, but they are pretty big and challenging questions that would have to be worked through in quite a lot of detail.

The Lord Bishop of Worcester: That is really helpful, thank you.

Q85 **Lord Vaizey of Didcot:** I thought that was fascinating. It is a very good argument against the hybrid system. At the moment, politicians think it is trendy and fashionable to talk about a hybrid system.

About 15 years ago, I said to Claire Enders that I thought that ITV, Channel 4 and Channel 5 should merge to provide a commercial competitor to the BBC, and she told me that I was a complete idiot for suggesting it. It makes me think about better collaboration between the public service broadcasters. Although, Magnus, you took on the hybrid model, there is a hybrid model in BritBox outside the UK, although you brought the BBC out of BritBox inside the UK. So I am just wondering whether there are other areas where you think you could co-operate. It must be quite irritating, in some ways, although good for the politicians, to see the BBC become more commercial. BBC Studios, for example, has just announced BBC Venture, and there is UKTV, which I think is again advertising funded and BBC owned. This sounds a bit silly, but could the BBC start to advertise your programmes as a public service?

I would love to hear all your thoughts about where there could be more co-operation with the BBC, given the BBC's unique place in the system of not necessarily having to drive its commercial revenues too hard. You do not have to answer at all. These sessions are very long, so if you decide just to stop talking so we can go home earlier, I am happy with that approach as well.

The Chair: We cannot go home.

Magnus Brooke: I am very happy to answer, Lord Vaizey. In a sense, we are slightly back to where we started in the session, because for us self-help is the starting place. We are not sitting here waiting for someone to come to our rescue. ITVX and, as you say, BritBox International is going great guns. It is a 50:50 joint venture with the BBC.

Lord Vaizey of Didcot: Channel 4 is not part of it.

Magnus Brooke: It is not part of BritBox International, but that is doing very good business around the world. I think we are at 2.5 million subscriptions already just in the US, South Africa and Australia. We have just announced a launch in Scandinavia. That is a new model for exploiting content around the world. Whereas previously we were effectively wholesalers of content to other television channels around the world, as that wholesale model starts to creak a little, as linear viewing declines, we are going direct to the consumer around the world, jointly with the BBC in this joint venture. It is really exciting, and we have quite big growth plans for that and we have a model that we can roll out, we think, more broadly, as I say, starting with Scandinavia.

There is something around the legislative regime, and we have talked to this committee in the past about prominence, inclusion and fair value. I am pleased that the Government appear to be thinking very seriously about that as a development going forward.

We are always up for conversations with the other PSBs to collaborate and share costs. We are all investing in technology and operational costs for a single, relatively small market, and we are up against some competitors who are investing far bigger amounts and amortising that across every single market in the world.

That is a slightly frightening form of asymmetric competition. But we have lots of examples of areas where we already collaborate—Freeview, Freesat, Freeview Play, YouView—where we are absolutely sharing the technology and operational costs of establishing aggregated offers to consumers, where there is a degree of infrastructure and technology investment required, and we are always up for further conversations looking at that.

Of course, what you can see around the world increasingly is other broadcasters doing very similar things in national markets. You have a whole set of national players around the world trying to compete in national markets with global players who have massive economies of scale, which is tough.

Lord Vaizey of Didcot: Khalid, why did you not join BritBox?

Khalid Hayat: We are a content supplier to BritBox in the UK. Internationally, we as Channel 4 are a publisher—

Lord Vaizey of Didcot: It is a rights issue.

Khalid Hayat: Indeed: exactly. We do not own the rights to distribute that content on BritBox internationally, albeit we have said that we are thinking about how we could develop a version of All 4, a proposition to take internationally. That is work that we are scoping to think about how we might be able to make the necessary rights arrangements and commercial deals to enable international distribution. That is on our strategic agenda.

To the point about partnership and collaboration more generally, if I can add to Magnus's point, we at Channel 4 have partnership in our DNA. We were set up almost 40 years ago as a publisher-broadcaster, entirely sourcing all our content from the external production sector. Indeed, when we were first created, ITV sold our advertising. Essentially, we are a partnership-driven organisation.

The Digital UK and Freeview example Magnus cites is really instructive, because what that highlights is the long-term nature of relationships among UK PSBs, and the way those relationships can evolve in the interests of UK viewers and UK PSB. Digital UK was created back in whenever it was, 2006 or 2007,[1] as the programme management body for the analogue to digital TV switchover. The PSBs then evolved Digital UK into a platform management body for the digital terrestrial platform. Now, we are integrating Digital UK and Freesat to innovate free-to-view television as the market evolves. Channel 5 has recently joined Digital UK and the BBC has been a core collaborator in that system throughout. So that is quite a good case study of positive collaboration that, as Magnus says, applies in a number of different areas as well.

Lord Vaizey of Didcot: Those are all great examples. Mitchell, in a sense, you do not want to collaborate with them on children's television; you want to dominate the marketplace. I am still watching Milkshake! and my kids are 14 and 15. What other co-operation is there?

Mitchell Simmons: The first thing to say is that, similar to Channel 4, we are a content contributor to BritBox, but we do not necessarily have the international rights for the content. It a big decision for us to move into DUK. We think that was an important strategic move as regards collaboration with the PSBs. I think that is very important.

Looking to the future and to the policy agenda, Khalid touched on working together to help to inform government of what we want from a prominence regime and what we want to see in the White Paper, which has been very important to us.

At the same time, we should say that we are commercial businesses and are competitors. We want to see the whole sector be successful, but we also want to make money and compete against each other and draw audiences, and come up with our own ideas that have a piece of content where everyone says, "I can't believe you did that". It is wonderful, especially at Channel 5, where there is a factual programme—"The

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1 <u>Amended by witness</u>: This should read "Digital UK was created back in 2005".

Yorkshire Vet" or "Warship: Life at Sea"—and suddenly it is all over the front page of the *Times* and the next day everybody says, "There were 2 million people watching a factual documentary". That is part of what we want to do as well. We want to be competing as much as we are collaborating, so I think it is worth not forgetting that.

Magnus Brooke: May I add one quick thing? One of the difficulties around collaboration has been a rather backward-looking approach by the competition authorities.

Lord Vaizey of Didcot: We all remember Kangaroo.

Magnus Brooke: Kangaroo is a very good example of a real missed opportunity for the UK. I think that has had a deterrent effect for the PSBs, and probably did dampen enthusiasm for a while for full-throttle online collaboration between all of us, because of the example of what could happen. We spent an awful lot of time and money getting exactly nowhere. It is unsurprising that, as a result, we had quite a few years of each deciding to do our own thing. It is unfortunate. I hope that the CMA can now see rather more clearly the extent of global disruption in the markets that we are operating in, and we have had more constructive conversations, most recently around the Freeview mergers that we put in place, but it is certainly always at the back of our minds that there is that risk.

The Chair: I think it is a fair point about Kangaroo and the CMA, but I want to put Magnus on the spot about some of the things he has said in the course of his testimony today. If you were still at the BBC and looking at the challenges that it is facing, as we described and discussed at the start of this hearing, what would you be advising? You have talked about the challenges and difficulties that you think there are with, say, a hybrid model that would involve some sort of top-up subscription, so what would be the alternative? Because, like it or not, the level of licence fee funding is not going up.

Magnus Brooke: This is obviously a difficult situation. Probably what I would be looking at is a more equitable and efficient method of raising a significant amount of public money that gave me a significant degree of independence but was more politically acceptable—and probably more equitable—as a means of funding what I would regard, if I was at the BBC, as a core public service. In other words, a core resource for the nation as a whole, but one that people should feel a degree of legitimacy towards funding, and I think that takes us down the road of a more equitable and possibly more efficient system of funding.

The BBC spends £120 million a year or so on collecting the licence fee. I would look very hard at whether there are more efficient ways of doing that—attaching it to something like the council tax, for example. I know there are evasion issues around council tax, so there is the question of whether it is more efficient, weirdly, to have a stand-alone tax of some sort. I would be looking at whether there are other ways of making the licence fee more equitable and more acceptable, ultimately.

The Chair: That has prompted Lord Foster to want to ask a supplementary.

Lord Foster of Bath: Magnus, you have used the phrase "core public service" three times so far. What do you mean by that?

Magnus Brooke: I am not speaking, by the way, as ITV, for the avoidance of doubt, but to Baroness Stowell's challenge having been at the BBC. In a sense, at ITV we would regard ourselves as delivering a core public service, because we are trying to reach the whole of the UK and everybody in it, and because of the way we are funded it is arguably a more equitable way of funding because it is genuinely free. Yes, of course if you buy goods that are advertised on television—

Lord Foster of Bath: I am very happy with your equitable funding. It is the core of public service. The implication in the way you keep repeating it is that somehow it is a slimmed-down definition—

Magnus Brooke: Sorry, when I say "core public service", I mean certain core public services in the UK—the NHS and the BBC for example—I mean core in that sense, not being core in the sense of there being a small bit of the BBC that I regard as being core and everything else being non-core. That is not what I meant at all.

Lord Foster of Bath: Thank you. I just wanted that for the record.

The Chair: Baroness Buscombe.

Baroness Buscombe: My apologies for being so late. Thanks to British Airways—again.

I was a bit concerned when I heard Khalid talking about complexities for viewers, because I think that viewers are smarter than we all think they are. Governance and regulation are our problem. I thought that on the last question all three of you were so much more optimistic as regards collaboration, economies of scale and so on. Would it be fair to say that your biggest concern is the share of advertising spend? In truth, all three of you, very quickly: yes or no? Is that your biggest concern?

Magnus Brooke: Do you mean in terms of future funding of the BBC?

Baroness Buscombe: Yes.

***Magnus Brooke*:** Yes.

Mitchell Simmons: Yes, absolutely.

Lord Vaizey of Didcot: Do you mean if it became an advertising funder?

Baroness Buscombe: If it had to take some form of advertising and become a bit commercial to support this.

Khalid Hayat: And what that means for the PSB ecology writ large.

Baroness Buscombe: Thank you.

Lord Vaizey of Didcot: A good slam-dunk question to end with.

The Chair: On that note, we will draw this session to a close.