HOUSE OF LORDS

Communications and Digital Committee

Corrected oral evidence: BBC future funding

Tuesday 26 April 2022

3.30 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. 11 Heard in Public Questions 86 - 89

Witnesses

I: Alistair Law, Director of Policy, Sky; Adam Minns, Executive Director, Association for Commercial Broadcasters and On-Demand Services (COBA); Sebastian Enser-Wight, Chief Strategy Officer, Global.

Examination of witnesses

Alistair Law, Adam Minns and Sebastian Enser-Wight.

Q86 **The Chair:** We are very pleased to welcome three new witnesses to our second panel this afternoon. May I ask each of you to introduce yourself and state the position that you hold in the organisation you represent, starting with Mr Law?

Alistair Law: Thank you for the invitation. I am director of policy for Sky.

Adam Minns: I am executive director of the Association for Commercial Broadcasters and On-Demand Services.

Sebastian Enser-Wight: I am chief strategy officer at Global, which is the leading commercial radio broadcaster in the UK.

The Chair: I thank all three of you for giving up your time to be with us this afternoon. For anybody just tuning in, this is an inquiry into the future funding of the BBC. I move quickly from me to Baroness Rebuck to put the first question.

Q87 **Baroness Rebuck:** I apologise for being a little late.

My question is a general scene-setting one. How do you see your organisations' purpose and programming in comparison with that of the BBC? Where do you compete? Where do you collaborate? How might that change in the future given market trends? I turn to Alistair first, because Sky has often stressed the public service element of Sky News, Sky Arts and Sky Nature. The floor is yours.

Alistair Law: You have already touched upon the key elements of my answer. The BBC has a mission and set of public purposes set out in statute. Clearly, as a commercial organisation that does not take regulatory subsidy and is not part of the framework, we do not have the same stated public purposes, but, if you look at several of them, there are definite similarities.

You mentioned news and the ability to inform people. You will all be aware of Sky News's rich heritage and of the fact that for five times running it has won RTS News Channel of the Year. The coverage that we produce is highly valued by our audiences. That is recognised in Ofcom research in just how highly it scores on accuracy, depth, et cetera. We do not do that on the basis of regulatory subsidies; we do it because it makes sense for us as a commercial organisation.

Similarly, the BBC has a public purpose to show the most creative, highest quality and distinctive output of services. That is something Sky has significantly leaned into over the past five to 10 years. Last year, we produced 125 original series. We have committed to doubling our spend on original content through to 2024. Many of those series—"Gangs of London", "Chernobyl" and "I Hate Suzie"—are award winning. We won 26 BAFTA awards. Therefore, Sky both for now and the future is inherently rooted in creating high-quality content that our audiences value.

You mentioned Sky Arts. We made that free to air in September 2020 as part of a mission to bring access to arts to everybody across the UK. That has been immensely successful for us and has led to almost a 200% increase in the audience and a range of initiatives that we have followed up to try to create that greater level of accessibility.

Overall, there are some similarities you can draw between some of the output we have and some of the output the BBC has and the purposes, but we serve different audience segments. That is just natural. We keep our focus primarily on original dramas, comedy, high-end factual and sport as well. Obviously, the BBC has a wider subset of genres it is trying to serve in daytime television, entertainment shows, soaps, et cetera. We do not seek to emulate that.

We also try to position our programming in a slightly different way. A lot, but not all, of our programming is paid for and we are looking for an element of premium feel. It is not necessarily "Come round your telly to watch 'Strictly' at the same time"; it is a little bit more, "When the kids are in bed we are going to put on 'Gangs of London'", or something like that.

There are differentiators, but overall the story of Sky is one where the market provision of content over a period of five to 10 years proves to be richer, with a greater level of diversity coming from a range of providers, and we are very proud of that.

Baroness Rebuck: Adam, in speaking on behalf of other members of your organisation, how would you answer that question?

Adam Minns: We see the UK as an exceptional success story. We have unprecedented levels of investment in content and unprecedented choice for audiences. We think we play a significant part in that success story.

As for investment, multi-channel broadcasters spend around £1 billion per year on new British programming. If you add in SVODs, it is probably closer to £2 billion. That content reflects UK culture. I could give you lots of examples: Prime Video's "Clarkson's Farm", Discovery or "Born Mucky: Life on the Farm". We are certainly doing our part to represent British farmers.

I think that the most important element of this is that we are part of the mixed ecology alongside public service broadcasters. If Covid damages advertising revenues, we have the licence fee subscription to fall back on—well, we do at the moment.

If the levelling-up agenda wants to create creative clusters in the south-west or Wales, producers there have PSBs to commission them; there are non-public service broadcasters to commission them.

I think the perfect example of how all this works together is in the third-party funding we provide to public service broadcasters. It is now £500 million a year or so according to Ofcom. About 19% of public service broadcasting spend is by third-party sources. That allows PSBs to ride out increases in costs; it allows them to be more ambitious in the kinds of shows they make, such as "His Dark Materials" or "The Night Manager".

We see our role as investment reflecting UK culture, as well as competing with PSBs and partnering with them to enhance and help them realise their ambitions.

As for how that will change and investment in content, I do not see that changing at all. If anything, the pressure now is on how we increase it with skills and studio space. That is not to say a lot is not changing in the sector. There are huge, seismic changes taking place with linear and on-demand, but I do not see our relationship with public service broadcasters or the BBC changing significantly.

Baroness Rebuck: Sebastian, turning to radio I was surprised to see in our pre-read the number of listeners that commercial radio has overall. I think it referred to 36 million, and you represent the largest group of commercial radio companies. How do you see yourselves either in competition with or, probably not, in collaboration with the BBC? Where do you feel you cannot compete with it?

Sebastian Enser-Wight: The market dynamics are very different. Unlike television, we have been very fortunate. Although we have had the entry of new technology, such as smart speakers and new competitors such as Spotify, 70% of all UK audio comes from live radio and 50% of that comes through the BBC, which has largely remained dominant. The other 50% is the commercial radio sector.

We look to attract a wide range of audiences and keep them engaged. Ultimately, as a commercial broadcaster we look to them and introduce them to the brands of our advertisers and sponsors.

The other big difference in dynamic between the audio-visual and radio sectors is the quantum of funding. The BBC receives about £730 million a year in funding that it spends on radio. That is in excess of the entire commercial revenues of the radio sector. That allows it to create some truly distinctive audiences and content that is just not commercially viable. It plays a really important role, especially with local radio and long-form dramas and comedy. It airs sports that otherwise do not get coverage and produces content that we cannot. That was something Magnus alluded to in the previous session.

We are slowly seeing a slight drift away from creating purely distinctive content at the BBC. That concerns us. Because of its structural advantage, its funding and the licences it holds, the BBC has an inherent advantage. To give some recent examples, two years ago it launched a service called Radio 1 Dance. That was a popular dance music service that purely mirrored the content output of two existing commercial radio stations. Likewise, Classic FM has a fantastic programme called "High Score". That was devised to introduce listeners to music from video games. Two years after we launched it the BBC launched a similarly named programme, "High Scores". The slight difference is that it is referred to in the plural, but it does exactly the same thing. While traditionally the BBC has been very distinctive and produced content that we really cannot justify commercially, we are seeing a slight blurring of those lines.

Baroness Rebuck: Are you suggesting that as a result of that the commercial practitioners' listener base has shrunk, or could one look at it and say that it might have expanded the total? Which is it?

Sebastian Enser-Wight: We think that historically it crowded in listeners when it produced distinctive content. When the content is purely duplicative—I am not saying that is the majority of its content, because most of the BBC's content is absolutely additive and distinctive—or it strays into areas that purely duplicate the commercial sector, that does not necessarily attract additional audiences to the space.

Baroness Rebuck: Picking up something Alistair said at the beginning, we heard quite a few comments on the BBC's programming in terms of ethnic and cultural diversity and broader world views. Will you comment on that in relation to Sky? I saw an old piece of research from 2017 that had Sky performing rather well in reaching ethnic-minority sectors of the population. Is that still the case, and is it something you focus on in Sky?

Alistair Law: We were early to this issue. We originally launched our on-screen diversity targets back in 2014. It was not nearly early enough, but at the same time it was ahead of a lot of other people in the sector. Therefore, we have a good track record from an on-screen diversity perspective. When I say "on-screen", I mean in terms of appearing on the camera but also key roles across production itself from a writer's perspective, et cetera.

One of the things that we are trying to broaden out as a result of that is how representation works across the entire organisation. Our latest set of targets builds on our previous screen targets. They are targeted at the entire Sky organisation, with the aim of 20% of the workforce being from ethnic minorities and a quarter of those being black by 2025.

I think you were also asking about it from an audience perspective as well. I do not have immediately to hand the numbers on how we index them. I have spoken so far about Sky's role as a content provider. We are also a TV platform that aggregates a range of different content providers, including the BBC. I am sure I will have the opportunity to talk more about that, but one of the things we also do at Sky is cater with a wide number of channels to particular niche elements of UK society and particular special interests on both a community and wider base as well. I think our services and our products speak to that very strongly, in addition to what I have already said from an on-screen and workforce perspective.

Baroness Rebuck: My final question is to Adam. We heard from Claire Enders that there are about 8 million adults in the UK who access only free-to-air TV. I am interested in where those people figure among your members and in the barriers to accessing them.

Adam Minns: Many of my members are free to air. People such as QVC and UKTV, who are affiliate members, are watched by them.

Baroness Rebuck: But what about those that are not, as it were?

Adam Minns: What everyone is doing is competing for audiences in this hugely competitive market at the moment. I can only say similar things to what the PSBs told you in the previous panel about increased investment in what they think is compelling content and putting their content on to as many platforms as they can. In some cases, they will be getting slots on the DTT platform. Several of our members have done that primarily from a subscription base and personalisation. There is also a degree of consolidation going on in the sector, which I expect will continue.

Alistair Law: May I give a very brief answer as a broadcaster with a significant pay element but also a free element?

It is absolutely the case that routes to market are more varied now than they have ever been. One of the examples that speaks most to us is that 10 or 15 years ago the way to watch a Premier League football match was via a Sky Sports subscription. It is now via Sky Sports, but also a Now TV monthly pass and day pass. We tweet clips during the game to show what is going on; we make highlights available on YouTube at about 5.15 pm after the games have finished. All of that is a reaction to the fragmentation of audiences, including the people you have identified who may stick to a free-to-air proposition in the main but might have light tendencies to be able to sample some paid-for content.

The figure that Claire Enders gave is a large one, but it is probably the smallest it has ever been, if you see what I mean. Over a period of time, the idea of paying for content, particularly if it is made available in an easy and hassle-free way, has grown among the populace, and you see that reflected in the routes to market that operators take.

Lord Vaizey of Didcot: I do not think we spend enough time looking at the BBC competing with commercial radio producers. Sebastian was unbelievably polite about the BBC. I do not see anything particularly distinctive about Radio 1's "Breakfast Show". Quite rightly, Global lobbied quite hard for deregulation so that you could have a national breakfast show, for example. "Breakfast Show" and "Drive" are the key moments. Could more deregulation help you, as opposed to restricting the BBC? Related to that, does digital radio help to level the playing field a bit?

Sebastian Enser-Wight: Taking the first part of the question about deregulation, absolutely. Back in 2017 a number of measures were considered and not all of them have been implemented. I think the most recent digital audio review recommended that these be taken further, so at the moment potentially, given the context of the committee, commercial radio must broadcast at least "Breakfast" or "Drive", as Lord Vaizey alluded to, locally. Were that to change and we were given the option to broadcast both of them nationally, that would give us much more flexibility.

DAB listening allows us to put out further services, but we have seen that the BBC can still leverage its dominant position in FM and also make very good use of cross-promotion from both its television stations and online, enabling it to out-compete the commercial sector. Therefore, it has enabled us to launch more services, and we have done so; we have launched seven over the past five years, but it is certainly not a panacea.

Lord Vaizey of Didcot: BBC Sounds must be incredibly annoying.

Sebastian Enser-Wight: BBC Sounds is probably the area that we are most concerned about. BBC Sounds is not regulated specifically; it is not recognised as a separate public service. Similar to what Magnus said earlier, that is where we are seeing the BBC competing directly with the commercial sector, especially for new content such as podcasts. There are podcasts out there; many are commercially available; and they are currently monetised by advertising. We all see the BBC coming in and competing to acquire those podcasts.

We really struggle with that because the BBC is paying money to acquire content that would otherwise be publicly available for free. That is not to say that we do not see a role for the BBC in podcasting. There are niche genres and others that perhaps are not commercially viable that it should enter into.

I think that the numbers bear out the impact it is having on the market. If we look at the US compared with the UK, the average revenue per podcast in the UK is a quarter of what it is in the US. We are not quite seeing the entry of a public service broadcaster into that sector.

Lord Young of Norwood Green: As a quick comment, I certainly appreciate Sky Arts; it is brilliant.

Sebastian, why could you not consider your version of, say, BBC Sounds? It seems to me an obvious area. I do not know what is preventing you doing it. As far as I am concerned, BBC Sounds is making a wide range of content available to me when I want it. I listen to "The Archers Omnibus" when I am walking my dog, or whatever it may be. Have you considered it?

Sebastian Enser-Wight: Indeed. We have Global Player, which is our version of BBC Sounds where you can catch up on any of our content. It also enables you to access podcasts, so it is there.

Lord Young of Norwood Green: I was not aware of that. It needs a bit more publicity.

Sebastian Enser-Wight: We spend a lot of money advertising it, but unfortunately we cannot compete with the cross-promotion of the BBC. BBC Sounds has advertised over "EastEnders"; it is advertised online, so we really struggle with that.

Lord Young of Norwood Green: I will tune in.

Lord Foster of Bath: I want to explore a little further the discussion we have been having. We are well aware of what I think Magnus Brooke described as the explosion of choice in TV and radio offerings.

Much of what is now being provided by private sector broadcasting fits the "inform, educate, entertain" definition of public service broadcasting.

Ali, you referred specifically to the fact that Sky does a lot of what would be described as public service broadcasting, not because you have to but simply because, as you said, it makes sense.

In the light of all that, some of the witnesses have said to us that the BBC should be doing less and concentrating on genuine underprovision—if you like, fixing market failure—so that it is not crowding out commercial competitors with disincentives to innovation and so on. As the Chair said earlier, this is a process that at least started with the 2016 charter's reference to "distinctiveness".

Others have argued on the other side that if the BBC did that it should be crowding in by proactively shaping the market, not just dealing with market failure, with the things it has done with various technological innovations, such as iPlayer and so on, but investment in indies and taking risks with new talent, new formats and so on.

Therefore, there is the crowd-in, crowd-out argument, yet we have heard from Sebastian very clearly that in the case of podcasts, for example, there is a problem.

Equally, we are hearing from other witnesses that the BBC is getting a bit sloppy in just buying in existing formats and so on. Explore that debate for us. Sebastian, continue where you left off in terms of the podcast and anything else you want to throw into the mix.

Sebastian Enser-Wight: Podcasting is perhaps the key example. That and BBC Sounds are the two areas where we have seen crowding out. Equally, the BBC historically has crowded in funding and has helped, but we have seen a decline in that.

Local broadcasting is a key service provided by the BBC—local debate and real civic duty—and it has led to investment in local creative sectors. BBC local radio has showcased up-and-coming, new local talent. That was a historical benefit of the BBC and it remains one. Over time, local radio has focused less and less on that. The proportion of local speech is falling and increasingly we are seeing more and more popular music played on local radio, which again we do not see as perhaps the best use of public funding.

There are examples where it is crowding out, and there are also examples where the BBC has previously crowded in investment. Another example would be radio dramas. Long-form radio dramas are probably not commercially sustainable. Historically, they were a public service commitment that Radio 4 had; it had to play a certain number of radio dramas. This helps the independent audio sector. Those commitments were removed in the previous charter and, as a result, we and our friends and colleagues in the independent production sector have seen a fall in spend.

There are two elements to this. It has historically helped—it still helps, but perhaps less so in certain areas—and then there are areas where we see it actively crowding out, such as BBC Sounds and podcasting.

Adam Minns: I agree with that. I think it is both. Is the BBC a friend or foe? If you ask whether it takes audience share from us, of course it does. People watch the BBC when they could be watching one of our channels or VOD services.

Equally, we license our content to the BBC; we license secondary rights from the BBC and invest in production companies that make shows for the BBC. As I mentioned earlier, we partner with the BBC on co-pros. Someone with more degrees than I have will work out the net result of that, but there are a lot of positives as well as negatives in there.

More broadly, the UK strength is in this mixed ecology and having different revenue streams such as the licence fee, if that is a revenue stream, alongside subscription and advertising.

The unique benefits that the BBC gives you are that that is guaranteed to a certain level, wherever you set the licence fee, and for now it is universal; if you moved it into subscription, it would not be.

Alistair Law: From my perspective, it will always be something of a balance. I know there is an extreme version of things that says that the BBC should do only a set of programming that nobody else would do. In reality, if it exists as a universally available broadcaster that tries to be something for everyone, clearly it will not do that.

Therefore, there is a balance to be struck. I think there is an opportunity for it to refocus a little bit more on finding new and original British talent, possibly at the expense of some of the acquisitions, which I know some of the earlier witnesses touched on as well, but that is the sort of thing you can get through renewed management focus as part of the natural programming process.

Slightly akin to what Sebastian was saying from a BBC Sounds perspective, Lord Foster mentioned the technological innovation of the iPlayer. The iPlayer is a much-loved service, but it does not remain the only way for the BBC to reach its audiences. It is important that the BBC remembers that and is very focused when it thinks about these things from an outcomes perspective. I think that the outcome that the BBC should be shooting for is making its content as widely available and seen by as many licence fee payers as possible in ways they find convenient.

One of the potential risks of just driving them down a BBC Sounds or iPlayer path is that you create something of a walled garden where people are only in BBC content and do not have the rich availability of the ecosystem that Adam and other providers have talked about.

We are an important partner of the BBC when it comes to distribution. We have done deals with them for a number of years to make sure that its content is available on Sky services and that it is placed in a prominent position where audiences would expect to find it. We deliver about a third of viewing to PSBs from Sky homes as well. We work very closely with it; we know what our audiences expect and we work to deliver that with the BBC, as much with the commercial PSBs, streamers, et cetera, but I think the BBC would be well placed to keep in mind that final outcome focus of making sure that the content in which it invests, whether it is commercially replicable or not, gets seen by as many people as possible because that is where the societal benefit comes.

Lord Foster of Bath: I do not want to get into a debate about whether the BBC should be seen as easily as possible, or that Sky could do rather more to make the BBC more easily available through the EPG. Leaving aside that debate—come back to it if you want to—our current investigation is largely about the funding of the BBC. From what all three of you are saying, nothing that you have suggested to me says that the level of funding of the BBC should be reduced, but perhaps what it does with the money needs to be refocused a little bit more on distinctiveness, the new, innovation and that sort of thing.

Alistair Law: Perhaps I may make one point about the EPG and then address your second question.

I hope that the BBC would say that it is very happy with the deals it has struck with us. It is at the top of the linear EPG, which is required by regulation, but if you go to a Sky Q Box or Sky Glass—our new TV that launched last year—and go to the on-demand section, you will find the iPlayer at the top of that. We are not regulated and required to do that, but we do it with the rest of the commercial PSBs because we know what our audiences expect. We work very closely with the PSBs, the BBC and others, to make sure that the recommendation rails that we have, et cetera, include plenty of PSB content. I would draw a distinction. The market is delivering in that area, but you knew I was going to say that.

On your second point, you may know what I am going to say as well. I think that ultimately the level of licence fee is one for Parliament and policy-makers, but I agree with your statement that the important thing is that the BBC focuses its energy, with the level of funding it has, on creating content that fulfils the purposes and the mission set out.

Adam Minns: We have a general concern about the BBC being distinctive. Ofcom is looking at how it regulates the BBC and whether it should be using quantitative quotas. There are lots of different points in that debate. We probably do not have time to go into all of them today, but I have concerns that the upshot of it will be a lighter touch that, if it comes to it, cannot hold the BBC to account, as happened with Kiss and ITV under the Communications Act 2003.

Sebastian Enser-Wight: I would echo what Adam says, especially in the radio sector, where the BBC has such dominance, about any alteration to its public service commitments. As you alluded to, some slightly worrying comments emerged from Ofcom that suggested that it might be looking at relaxing the public service requirements of the BBC in this market where the BBC is so dominant. That would have wide-reaching implications for commercial broadcasters.

Q88 **Baroness Bull:** My question is about the significance of the BBC’s investment in the creative industries. Depending on how you answer it, it may become a question in two parts. Let us start with the first bit.

Two years ago, the gentleman to my right secured a debate in the Lords about public service broadcasting. He said: "The BBC is the biggest single investor in the UK creative industries, contributing hundreds of millions of pounds to the wider sector". What do you see as the significance of this investment? What does it deliver? How does it compare with the investment that your organisations make in the creative industries?

Alistair Law: That statement is probably right. I do not think anybody spends as much on original UK content as the BBC. It is obviously able to do that because it has a guaranteed funding source. Notwithstanding the debates about the level of the licence fee, in terms of its magnitude but also the fact that it is guaranteed and does not oscillate on the basis of viewership, advertising or the general health of the economy, other than at set periods, it is in an immensely powerful position when it comes to making those investments, because it can do it absent the level of risk that perhaps some commercial operators have. Therefore, the investment role it plays within the production sector and in training young people from a skills perspective, bringing them into the industry in the first place, is immensely important, and the rest of the sector has a series of initiatives to which it is deeply committed.

The skills shortage that the UK production sector is experiencing at the moment will not be solved unless every single organisation makes a commitment and undertakes a series of steps to do that. Clearly, the BBC plays an immense role from that perspective—a role that we are stepping into over a period of time. Certainly, the level of original UK content production we are doing now is bigger than it was 10 years ago and will continue on that journey, but, as I say, the BBC's unique funding position means it is in a very strong position to make those investments.

Adam Minns: I think that is still true to an extent. Going through the numbers in my head, is anyone spending more than the BBC on UK TV content? I do not think there is a single organisation, but there are more out there, significant players as well as smaller ones.

The BBC licence fee remains one of the three big pillars of funding for this content, with video on demand coming in. Let us say there are 3.5 pillars now with video on demand. As a result, the BBC has embraced partnerships in certain genres looking at co-production. There should only be more of that, and I hope there will be. It is still probably the biggest player in content, but it is now part of a mixed ecology, which perhaps it was not so much 10 years ago.

Baroness Bull: This will definitely be a question in two parts. Sebastian, will you answer that?

Sebastian Enser-Wight: The dynamics are slightly different in radio. The BBC absolutely remains by far the most significant spender on audio. To put it in context, what the BBC spends on Radio 1 in its content probably amounts to the same broadly as we spend in Global across all 17 of our stations. It is an enormous contributor, especially in terms of the type of content to which I alluded earlier that is not commercially sustainable. In drama and comedy, it plays an absolutely vital role in the industry. We hope it will continue to do that and to focus its spending on that type of content rather than the other forms of content that are slightly more duplicative.

As Alistair said, we all have a part to play in growing the creative economy. In radio, we recognised that there was a shortage of young talent from diverse backgrounds entering the media sector. We established our own academy back in 2016 to get students into that sector. We have tracked young people from really diverse backgrounds, trained them up and helped them enter. Those people have gone on to work at the BBC, Global and multiple media organisations. We all have a part to contribute, but due to the difference in funding the commercial sector cannot afford to put quite as much into it as the BBC, but the BBC remains very vital to the creative audio ecology.

Baroness Bull: You have all defined the creative industries quite narrowly. You have talked about audio or visual content, whereas other people would point to the BBC as the biggest commissioner of new music and classical music, as providing a platform for emerging bands and as a development route for new writing, particularly on radio. Will you talk about Sky's and Global's roles in supporting the creative industries more broadly? We have talked a lot about ecosystems. We know that the creative industries are an ecosystem and that there are connections between talent produced in one area and in another. I am thinking particularly about new music. I do not know whether it is still true, but it was always said that the BBC invests more than anybody in the commissioning of new music, which is quite a stark point.

Sebastian Enser-Wight: New music is vital. That is a key public service requirement for the BBC. It does have a minimum level of new music and UK artists that it is mandated to play. That has fallen over time, unfortunately. That is one of the public service requirements put in place by Ofcom to which we were referring. Its role there is really important. We would want to see that requirement remain and, through these public service requirements, it being obliged to continue to support new music and find new bands, because unfortunately quite often it is not necessarily a commercially viable enterprise to do that.

We think that is a really important role for the BBC. We have concerns that perhaps it has drifted down even further in meeting its requirements, and we worry about what would happen were those requirements to be removed.

Baroness Bull: You do not see it as viable or your responsibility to be commissioning, or supporting the commissioning of, new music.

Sebastian Enser-Wight: We do on our adjacent brands. We have a very broad spectrum of brands. We have 17 brands across the UK. Certainly, for some of our smaller brands that attract different types of listeners we do, but unfortunately new music by its very nature is not as popular as established music by established artists, so the economics do not quite stack up for us to be able to invest as much time.

That is not to say we do not do so. We have slots for new musicians on our stations, and whenever we put on live events we have a variety of artists, from new and up-and-coming ones to really established ones. We think that just because of the dominance of the BBC it has a vital role to play. We agree that it is one that it needs to continue to perform.

Alistair Law: To stay slightly with content for a minute but with a wider production outlook, we are active in that part of the value chain, too. Sky Studios is our own production and distribution company that manages both Sky's in-house production capabilities but also the various production companies in which we have a stake. We are building a new set of studio spaces at Sky Studios Elstree that will deliver about £3 billion-worth of inward investment into production over the first three years of its operation, with about 2,000 jobs.

Looking at the kind of journey we are going on, 15 years ago we were primarily an acquirer of content moving towards direct investments. Those investments are not just done at arm's length with production companies that we commission and they make; they are also done with a view to creating a sustained and ongoing set of capabilities within Sky to be able to deliver on that.

From a creative industries perspective, we are fortunate in that we have Sky Arts that we can talk to. We made that free to air. That decision was taken on a commercial basis, but it was taken because the ethos of the channel is to try to bring arts to the wider populace as much as possible.

There is a whole raft of things. If Phil Edgar-Jones, the channel controller, was here, he would be able to list all of them. We worked with the National Theatre to bring to people live productions of plays. We have commissioned full dance festivals, exploring the history and future of modern dance as well. Writers' round tables take place in our Leeds Dock base to look at new writers of the future. Sky Arts gives the space for a number of different actors, directors, et cetera to create projects that would not necessarily live on a mainstream entertainment channel but are very much part of the arts sector more widely, but also have a screening on Sky Arts.

That is an area that we are continuing to lean into because it has been so successful for us. It offers something that is very unique and distinct and is valued by the creative industries as a whole.

Baroness Bull: It may be unfair to ask you now—perhaps you could write to us—but, thinking about the performing arts, it would be interesting to know how much actual investment is made in commissioning new content that then appears on air, or are things acquired? I am interested in how investment gets into the performing arts sector, and perhaps you could write to us about that.

Alistair Law: I will definitely take that away. From my conversations, I would say that it is a mix of things. There are some things happening anyway that we can bring a spotlight to, as it were. The National Theatre is a great example of that. There are others that are specifically commissioned programmes working with local artists, regional spaces and that kind of thing.

Adam Minns: We see our role as contributing to the wider ecology. Obviously, we approach it from a commercial perspective, but the outcomes are similar.

We absolutely support new on-screen talent. We invest heavily in skills. Time Warner and Prime Video were among the key partners for screen skills with their apprenticeship pilots. There is a very interesting stat in the producers' annual census that gives an illustration of how our contribution is not just in terms of investment. They break down the amount of money going to independent producers from different broadcasters in terms of new shows versus returning series. "Strictly Come Dancing" would be a returning series; a new show has not been commissioned before.

Pre-Covid, the multi-channel broadcast sector was spending more than the BBC or any other public service broadcaster on new shows from independent producers.

Baroness Featherstone: You talked about Sky Arts. I always felt that the BBC missed a trick because it should be the station that has something like Sky Arts but it does not. How would you feel if it now did that?

Alistair Law: We chose to launch Sky Arts and make it free to air on our own decision independently of the BBC. It is an important part of our brand. We are talking in hypotheticals. We often make moves in the audio-visual sector that are aped by competitors. When that happens you have to respond to it accordingly.

I would hope that the position we have built up means that competitors do not see the benefits of replicating and that it is a strong enough brand that it can exist on its own and, even were elements of it to be replicated, it would continue to be successful.

Baroness Featherstone: Well done on that. I was surprised that it was not done by the BBC, but you did it.

Adam Minns: It has always been a strength of the multi-channel broadcasting sector and certain video on-demand services to appeal to particular niche or specialist demographics. If you are looking for your USP in the marketplace, most PSBs have to appeal to a broad audience. I do not think most of them could do Sky Arts because you cannot have an hour of—how shall I say this respectfully?—a fairly esoteric subject.

Baroness Featherstone: Maybe, but on the basis of inform, educate and entertain one would have thought it had done so.

Adam Minns: It ticks all those boxes, but in getting a big audience for a mainstream ITV broadcaster I cannot see it.

Baroness Featherstone: There is a lesson in that, is there not?

Lord Young of Norwood Green: I confess I enjoyed "The Art of Architecture". It was brilliant and certainly opened my eyes. You specifically focused on skills. Apprenticeships is one of my bags. You are to create 2,000 new jobs at Elstree Studios covering all aspects of production.

Alistair Law: Yes. It will be 13 production sound stages that we are providing from our own production perspective with our sister company, NBCU. We are owned by the Comcast Group; Universal will make use of it, and obviously we will welcome other third parties as well. It is a significant undertaking, and the site will be live later this year.

Lord Young of Norwood Green: I do not want particularly to defend the BBC, but if it is being said that the BBC does not produce esoteric programmes, I must be watching something strange on BBC4 and BBC2 because I have seen hour-long programmes that are pretty esoteric.

I am interested in creative content, because the BBC is required to produce 25% with private companies; it has to. Surely, that must have a significant impact on the market in encouraging production companies and in creative content.

Adam Minns: Are you talking about the BBC's originations quota?

Lord Young of Norwood Green: Yes.

Adam Minns: It is a huge investor, but, on the point I was making about new shows versus returning series, commissioning a series of "Strictly Come Dancing" costs so much money. When you break down what it spends on content—I have the figures in front of me—only 42% of BBC spending on independent producers goes on a new show; the majority will go on recommissions of existing series. You need both. A big commission such as that will sustain a production company, which is great, but you also need new IP being created so that the UK can be a hotbed of creativity.

Q89 **Baroness Harding of Winscombe:** Out of an abundance of caution, I should declare an extra interest, which is tangential. My brother used to work in a strategy team at Global and I think he still does some occasional consulting for it. I suspect that Sebastian knows better than I do.

I want to go to the direct meat of our inquiry and talk about the potential impact that changes to the funding of the BBC could have on the marketplace. I was hoping that you could give us your views on how, both positively and negatively, different funding mechanisms for the BBC could affect the overall marketplace. Perhaps we could think specifically about three different types of changes: advertising as a source of funding; either full-fat subscription or a hybrid; and different forms of levy, such as a household levy, broadband levy or taxation. Those are the three buckets. Sebastian, what do you see as the pros and cons for the market?

Sebastian Enser-Wight: I will be talking primarily about the radio market because it is very different from television.

Starting with advertising, lots of previous witnesses in this inquiry have shared my view that it would be absolutely disastrous. The BBC accounts for 50% of all listening. Were the BBC to turn to advertising overnight, there would be double the supply of advertising. It is fair to say that no one, even under the most optimistic projections, imagines that would result in double the amount of advertising flowing into the radio market. Therefore, we would be left with a market where the BBC and commercial sector would be competing for the same revenues.

It is also worth noting that about a 15% drop in revenue would put most commercial radio players out of profitability. In the near term, you would see some of the smaller and most vulnerable players drop out of the market, reducing customer choice. In the longer term, it would have an even more damaging impact on customer choice because the BBC, in its competition for audiences and therefore competition for revenues, would need to change its programming ethos. It would no longer be able to produce content such as the dramas I have spoken about on Radio 4 or local radio that have quite a high cost relative to the audiences that they attract. Therefore, it would be incentivised to produce much more mainstream viewing.

I think it would be disastrous not just for the commercial sector, with the implications for tax revenues that float from that; it would also have a real impact on consumer choice. We would see a BBC that very much mirrored the commercial players. Indeed, there would be far fewer commercial players in the market. That is advertising.

Subscription has a slightly different dynamic from television. Eighty per cent of all radio listening is delivered through AM, FM and DAB—a medium that does not support conditional access. There is no way of enabling subscription for 80% of BBC radio listening, so it would be very challenging. The BBC would either have to turn off its free-to-air radio or it would perhaps have to be funded out of a television subscription-type model but remain free to air. There are some real structural barriers in radio when it comes to subscription.

On a universal levy and direct government funding, there are some advantages to which I think the previous panel alluded. Magnus was talking about how, if it was enacted in the right way, it could lead to a much more progressive way of funding the BBC. It could also remove some of the barriers to collection and enforcement.

The risks that come with that are a BBC that is slightly less independent, so there may be implications for the future independence of news and/or other programming decisions of the BBC.

From a radio industry perspective, the advertising model is one that absolutely scares us. We are not sure we can see a viable route to subscriptions. There is probably something in a more progressive levy, taxation or direct funding model, but we will leave that comparison to experts at the Treasury.

Adam Minns: I agree that the funding models would have an effect on the BBC, but I will leave that to one side. I want to talk about the impact on the market.

Thank you very much for inviting me today, because the single biggest concern that we have in this debate is the impact on the market of a change in funding model. To my knowledge, it has not been looked at yet.

Advertising is a fixed pool. As Magnus from ITV said in the previous session, the BBC would be taking advertising from other players.

Subscription, I fear, would be a similar story. We need to do the analysis to work this through. Perhaps a couple of weeks ago I would have been more bullish about it, but, looking at the Kantar report last week, which I think someone mentioned in the previous session, video-on-demand subscriptions in the UK have dropped for the first time as a result of the cost of living increase. We lost 1.5 million video-on-demand subscribers in the past quarter. There were new subscribers, but the net result was a loss of 200,000. It is a small amount, but it shows that this is not the magic money tree that perhaps we thought it was even a few weeks ago. I do not know, but I suspect that if the BBC moved wholly into subscription or some sort of hybrid model it would dampen the market to some degree, depending on how big the BBC change is.

The tax option, thinking of it purely from the point of view of the creative industries and my members, is the cleanest change. It is difficult to see how that would have a negative impact on the market.

Alistair Law: The advantage of going last is that most things have already been said. I agree with him.

I make two additional points. The first one, to which Adam alluded, is that any change of this nature would have a potential impact on both the BBC and the market, and it would be incumbent on any Government to work through to the fullest what the cost-benefit analysis would look like and what the impact assessment would be. We are talking in hypotheticals and it is difficult to be fully drawn.

The other specific point I make on subscription—it is a point that Baroness Harding will know well—is that managing customer relationships takes an awful lot of investment. At Sky, we employ thousands of people to talk to our customers and work with them to make sure that they get the package they want and to help them with any troubles they encounter. That is no small undertaking.

If you were carrying out an exercise to evaluate where the shift would be, you would have to take into account the very significant impact that creating that infrastructure for the BBC would have. Other than that, most of the things have already been said.

The Chair: That being so, what is your view if the scale and scope of the BBC is reduced as a result of continuing down this path? Let us say that it keeps the licence fee but has a lower fee and the consequence is that it is a smaller BBC. Would that have an impact on you, or would you welcome it?

Alistair Law: Again, it is a slightly boring answer, but it all depends on the levels. It is still the case that the BBC remains the largest recipient of funding and, therefore, the largest spender of funding on UK original content as a single source. Clearly, if that was materially cut, there would be certain impacts. If it was eroded at the top, there might be other impacts.

I find it difficult to get into the slight hypothetical because, first, there is a question about the level and, secondly, there is a question about how the BBC responds and what it refocuses upon.

Adam Minns: It is a really hard question that depends on what that change was and where that shrinkage occurred. It is not just about us competing for market share, which we do; we also license and co-produce content with the BBC, and we make programmes for the BBC. If you made the BBC smaller, it might benefit one part of our members' businesses but it might harm another part. I am sorry I am unable to give you a complete answer.

The Chair: One thing that I find quite interesting is that Mr. Enser-Wight has been clear about the commercial impact of the BBC on radio. There is a different story coming from commercial broadcasters today compared with what they would have said if I had asked this question several years ago. I predict that you would have said, "Yes, we want a smaller BBC. That would be fantastic". I am curious to understand what is driving this—or are you just being polite before this committee?

Adam Minns: I certainly was not intending to be polite, or no more than the occasion demands. I have been executive director of COBA for 10 years. I do not think we have ever called for the licence fee to be scrapped or the BBC to be shrunk. We have a significant issue with how the BBC is governed at the moment in terms of the market impact. The BBC board is not fit for purpose. The majority of the directors on it are either appointed by the BBC or work for the BBC. I do not think that asking them to have some sort of independent consultation to gauge the BBC's market impact works. I suggest that the whole process be given to Ofcom. Ofcom currently has an oversight role, but it does not start the process, so hopefully that is critical of the BBC.

As for wanting it to be made smaller, it is true, as Ali mentioned, that there are more routes to market and more ways to develop the business, but television audience share has never felt so dominated by the BBC as commercial radio has.

Alistair Law: From my perspective, the BBC has a huge market intervention and should be properly scrutinised. The impact that it has is a significant one and that needs appropriate governance and regulation. As I have said already, there are some areas where it can refocus perhaps a little away from acquisitions and a bit more towards its own original content.

I return to the point that I made earlier. Sky has a number of different touchpoints and relationships with the BBC. We are a close and collaborative partner with it. We are its route to market for millions of people who have Sky in their homes as well, and therefore we have a good working relationship, bringing the content it creates to our audiences, who we know value it.

Baroness Harding of Winscombe: Is it fair to say that where you would like to see change is in the regulatory oversight of the BBC rather than the funding mechanisms?

Alistair Law: Absolutely.

Baroness Harding of Winscombe: That is very clear.

The Chair: Gentlemen, thank you very much for your time and testimony today.