

Select Committee on Communications

Corrected oral evidence: The Internet: to regulate or not to regulate?

Tuesday 21 May 2019

4.40 pm

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Members present: Baroness McIntosh of Hudnall (The Chairman); Baroness Benjamin; Lord Bethell; Baroness Bonham-Carter of Yarnbury; The Lord Bishop of Chelmsford; Baroness Chisholm; Viscount Colville of Culross; Lord Gordon of Strathblane; Baroness Kidron.

Evidence Session No. 12

Heard in Public

Questions 108 - 114

Witnesses

I: Dan Cheesbrough, Commercial Director, Hartswood Films; Andy Harries, Chief Executive Officer, Left Bank Pictures.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Dan Cheesbrough and Andy Harries.

Q108 **The Chairman:** I welcome our witnesses to this evidence session of our current inquiry into public service broadcasting in the age of video on demand. Our witnesses this afternoon are Dan Cheesbrough and Andy Harries. I should say that this session will be broadcast online and a transcript will be taken, which will be available afterwards. May I start by asking both of you if you would give us a brief summary of how you got to where you are and, in doing so, could you address the first question that we would like to ask you, which is about recent developments and changes in the UK production sector and, in particular, anything you want to tell us up front about the impact of the new streaming video on-demand services, which we are very interested to know more about?

Andy Harries: I am the chief executive of a company called Left Bank Pictures. We are a drama company. We have been together for about 12 years since I set the company up. I was an ITV executive before and I have been in television since I was 21, so over 40 years, as a producer, director and executive producer, always on the creative side, always producing shows.

I have watched the development of the streamers with fascination and it is very much an area of special interest because I have been involved for the last 10 or 15 years particularly with international programming. One of the shows I did in the 1990s was "Prime Suspect" and that led me to Los Angeles a lot and I started to understand how you raise money in America and how you develop international drama programming. When Netflix came along and I produced "The Crown", they were the people we went to in the end, not solely but they were the people who bought the show. We got into Netflix right at the very beginning with "The Crown".

Since then I have continued to work with them and I have three series with Netflix, one series with Amazon, one series with YouTube, two series on HBO and one series on Starz. The primary profit and production of the company, which is one of the biggest in the UK, is entirely centred in Los Angeles. We do very little for the BBC, ITV, Channel Four or Sky. We do some and I am happy to work for them but I do not do a lot for them because that is not where the money and production are. The power of British television has essentially moved to Los Angeles and, although they are moving people back here, essentially I would put that as a thesis.

Dan Cheesbrough: I do not know how to follow that. I am the commercial director of Hartwood Films. We are one of the oldest, most established scripted production companies operating in the UK. We were founded about 30 years ago by a television producer called Beryl Vertue. We are probably one of the few remaining truly independent production companies operating in the UK. It is still management-owned. We are currently co-producing a three 90-minute episode series of "Dracula" for the BBC and Netflix. We are shooting that at the moment at Bray Studios. We are also producing an eight-part adaption of "The Time

Traveler's Wife" for HBO. Prior to being at Hartswood I spent some time at Universal but I was also managing director of a small independent production company called Eleven Film which is one of the Channel 4 growth fund independent production companies. Eleven is perhaps best known for an original Netflix production called "Sex Education", which was released at the beginning of this year to some acclaim, and was shot in south Wales and is shooting again there right now as we speak.

I have spent the last two or three years working on a lot of Netflix production as well as UK-based production, but historically I have spent the last 10 to 15 years working on 20 to 30 PSB productions out of the UK. Most of my remit and role is about the commercial interaction that we have with broadcasters, the SVOD platforms or with distributors, as well, obviously, with talent and agents and so on. To echo what Andy has said, it is impossible to overstate the disruption. You have heard from many other contributors throughout your hearings about the level of disruption that we have seen.

For us, as producers operating out of the UK, it is a hugely exciting time. It presents numerous challenges for the UK broadcast community. Slightly controversially, there are some that are doing pretty well to adapt. Everybody is very quick to criticise the BBC, sometimes rightly, but it is doing reasonably well. It is a little flatfooted sometimes but its output is still continuing to perform. It still has a number of titles that compete globally. What we have seen with BBC Studios is a little challenging. There is still a lot of dust to settle over there, but I am more optimistic than most, I would say, about the PSB environment, perhaps not right now but what the next five to 10 years holds for it.

The Chairman: Before I move on to the next question, may I be clear, particularly in view of what you said, Andy Harries, about the heart of the operation having moved to Los Angeles: is that just about money?

Andy Harries: It is not really just about money, although to sell a show, particularly a big drama series, the power resides in Los Angeles; it does not reside in London. Both Amazon and Netflix have set up local offices in London, and that is a good thing, but if you want a big commission, if you are looking for a really big global show such as "The Crown", the only place to go is Los Angeles.

The Chairman: Because that is where the money is.

Andy Harries: That is where the power is. That is where the big decision-makers are really and in the end you will get a better deal if you are selling it in Los Angeles as opposed to selling it to a local representative in London. That is what I believe anyway.

The Chairman: I am feeling for something about creative freedom. I do not want to put words into your mouth.

Andy Harries: I do not think it makes any difference to creative freedom, to be truthful. There are arguments both ways on Netflix. To be honest with you, "The Crown" has been handled with enormous smartness by Netflix. It has allowed us to pretty much produce the show we wanted to. It has not interfered in the scripting or the casting or in

the production in any shape or form. We make the show we want to make and that is what it promised at the beginning. Of course, like all companies, with different commissioning editors and programmes, there are different experiences in Netflix, and Netflix, like any big company which is growing very fast, is changing.

While I agree with Dan that the opportunities now for a creative production company in the UK are very rich—there are an awful lot of people to go to to try to sell shows—and while that is very good, the long-term impact of Netflix and Amazon is not really clear. It is good that there are more places to sell shows but less good because they want to take full rights, and that is the thing that has been developed since they started. That is a worry because at the end of the day if production companies do not have their rights they cannot really build value to the company and that is a concern.

I was lucky because when I set up Left Bank we were independent for five years and we took £1 million from BBC Worldwide to help set us up. However, five years later I sold the company to Sony, so I run a company which is fully owned by Sony these days. That is another reason why I spent quite a lot of time in Los Angeles. Again, Sony lets us get on and do what we want to do and it does not interfere. The ownership of the rights is a fundamental challenge to the development of business and may prove to be a long-term challenge because if production companies do not own their rights, they will not grow. They will be like video or commercial companies and be companies without real value and their value will be entirely the people who work for that company. That is a concern.

Dan Cheesbrough: I have first-hand experience of IP leaving the UK into the hands of Netflix with a show that was a huge success for it and that delivered good value for the producers out of the UK, but had that been a show where the IP had remained in the UK, it would have been a transformative moment for that business. The reality is delivering a hit when you do not have the IP for a specific business can still be transformative for it but not necessarily in terms of its balance sheet and the bottom line and so on.

I know that certain peers of mine were disappointed with the nature of the deal that the particular business that I worked at struck with Netflix which resulted in the loss of the IP, and it did not reward the production company fantastically well on the back end, on the premium that Andy and I will talk about all the time—in effect, the additional sum that Netflix or any SVOD operator will pay you to buy out your rights in perpetuity, or however long it is. This particular show I am talking about, while the IP left the country, transformed the success of one particular young production company, potentially saved it from administration, and has pushed I would say somewhere in the region of £35 million production spend into the UK, a very considerable part of that going into south Wales. It has good prospects for being a long-running show. It is difficult. It is a very complicated bargain to make whether or not to let the IP go. It will be right for some businesses and wrong for others.

The Chairman: We might return to this but I am going to ask Baroness Chisholm to take the next question.

Q109 **Baroness Chisholm of Owlpen:** We have heard from various witnesses that Netflix is using British talent to make American shows. We have also heard the BBC is having its head turned by high-budget drama and ignoring perhaps low-budget better drama. It has also been said that the mantra should be, "Fewer, bigger and better". What do you see as distinctive about the PSBs and how can the public service broadcasters see their productions set apart from those of Netflix and other new services across all the different genres?

Dan Cheesbrough: I think the PSBs are doing a reasonable job. Would Netflix have commissioned a show such as "Three Girls" or "Damilola, Our Loved Boy"? Definitely not. When you look at the shows coming particularly out of the BBC which address the national conversation and are important to us culturally, they are there and they continue to be there and they continue to be developed, and they will continue to be produced and aired. You just have to have a look at the BBC's output against Sky's output and you can see very different characteristics in what they are doing.

The BBC has the difficult job of having to be all things to all people. It is literally required to do that and, equally, to have those mass-market, huge shows that compete in the biggest way possible. I saw a trailer for "His Dark Materials" and it looks like an extraordinary show which will go out on the BBC at Christmas. It is a phenomenally expensive piece of work underwritten by a partnership with HBO. There must be space for that on the BBC alongside something that is more modestly budgeted such as "Damilola, Our Loved Boy", which is a crucial story which has to be told. I am a little less fatalistic about the idea that the PSBs are just fighting fire with fire.

The other thing to remember—and I am sure you are hearing this, Andy—is that the SVOD platforms time and again just want huge returning series. They are quite consistent with what they want. They are not really interested in mini-series and they are certainly not interested in singles, and those can frequently be the types of shows that are much more local with a very specific story. There is quite good market distinction and there will probably continue to be.

Andy Harries: People like the BBC for a couple of obvious reasons. First, it is sort of free, although of course there is a licence fee. For most people they turn the TV on and there it is and there are no commercials, so it is a very easy and enjoyable watch. As Dan says, it has to be all things to all people. I agree with Dan that on the whole the BBC is doing a pretty good job. Much of its successful drama, such as "Line of Duty", is not expensive to produce. It is about £1.5 million, which is pretty low. If you want a comparison with "The Crown", "The Crown" is between £5 million and £10 million an hour. It is one of the most expensive shows in the world and we would probably never have got it made had we not sold it to Netflix, however much the BBC thinks it would like to have had it. I think the BBC does a very good job and it is very important that the

BBC survives, and it survives roughly as it is at the moment, because people respond to that.

The big problem with the BBC is the TV itself. We are largely of a generation which has grown up watching TV. My kids never watch TV and have nothing to do with the TV. The TV not exist for them and they are only interested in their phones, laptops and bits and bobs. Where the BBC has to develop—and this is a big challenge for it—is the iPlayer has to become the major portal. It is not about switching on BBC1 and BBC2 and all that kind of stuff that we all know and understand. My kids do not. They are 25 years old. They do not care. They do not understand all that stuff. But if I say to them, “You’ve got to watch ‘Fleabag’”. “Where’s that?” “It’s on the iPlayer”, and they get it there.

We have to move, as does the BBC and I am sure it is already doing this, and stop thinking about the channels and the terrestrial stuff and the competition with ITV. That is not over but it is in rapid decline and in five to 10 years’ time we will be looking back at a very different system. There is no question about that. That is what Netflix and Amazon have done. They have made television direct. It is just a development of the internet. Everything now is online. Our entire life is pretty much online or on our phone and that is where the BBC has to go. It is really important, and I think Dan believes the same thing,¹ that the BBC survives, for many reasons, including cultural reasons.

At a time when Britain does not seem to know what its identity is—and I do not want to get into Brexit—the BBC provides shows that you will not see anywhere else, from documentaries to talk shows to news to dramas that are specifically British. It has to dabble with co-productions and do international stuff but I do not notice a trend where it is trying to be too big for its boots or trying to get into stuff that it cannot cope with. It really wanted “The Crown” and “The Crown” would have been great on the BBC, to a point. The problem is the BBC probably could not have done “The Crown” as it is probably a little bit too near the bone. Good, I am glad you agree.

Baroness Chisholm of Owlpen: It would not have happened if it had been on the BBC. From that I pick up that you are both pretty optimistic about the PSBs.

Dan Cheesbrough: There is a long way to go with the SVODs. We are just at the very start of the disruption. Everybody across the industry is watching with great interest to see how Disney+ launches its SVOD platform and exactly what Apple is going to do. We have a basic idea of what it is going to do but the disruption has only just started. There are always going to be winners and losers in that case and the established paradigm is always going to be under threat. For the iPlayer, or whichever PSB we are talking about and its equivalent on-demand service, there needs to be a managed decline of the linear operation so that over time it would become the secondary place where people would watch content, or certain shows, and the initial experience of watching a

¹ Note by Dan Cheesbrough: I agreed with this.

show would be primarily via the iPlayer or All 4 or whatever network you are talking about. We probably need to see the rationalisation of broadcast networks, and by that I mean the multi-channel networks that we saw arrive probably 10 years ago. I am not sure that makes much sense any more, but certainly there is a generational issue, and it is not going away, whereby the focus on linear television is over. The horse has bolted and the ship has sailed and I do not think we should mourn that but just prepare and adapt for it.

Andy Harries: I agree.

Q110 **The Lord Bishop of Chelmsford:** It is nice to hear you being optimistic. What I have not heard is any grounds for the optimism. Let me give an example. I understand that I might choose to watch "Fleabag". It is available to me in the world you are describing. I can watch it any time I like and I can binge watch it if I want, but I do not want to watch yesterday's news. What concerns me is that one of the things public service broadcasting has been extremely good at is informing and educating. You are telling me all about the entertainment and I get that, but what about the other things that have been precious to public service broadcasting where it seems to me there is little cause for optimism for how they are going to have a prominent place in our national life, informing our democracy? I would love to hear you say a bit about that. I know this is not the question I was planning to ask but I have been so depressed by listening to you that I felt I had to say it.

At the same time, Andy, you have already mentioned a bit about young people but alongside that could you give me some grounds for the optimism that there is a place within the broadcasting economy for something which is not just entertainment—news, current affairs, et cetera—and the other role of public service broadcasting, which has been to represent our nation in its great diversity and which I do not see happening in the SVODs in anything like the way the BBC has been able to do? Sorry, it is a long question.

Dan Cheesbrough: First, news is not my area of specialism but Ted Sarandos from Netflix said literally last week—and I think this is your point—"I am not interested in news. It is a perishable piece of programming. There are people better placed to deliver news, whether it is national or local news, than we ever will be. The return on investment for us is quite literally not worth it". If the concern is that the SVODs will become the absolutely overriding pre-eminent place in which people consume all their audio-visual content, I just do not think that will happen. If anything, the PSBs will have a greater niche as the platform through which the news is delivered. You are never going to get an SVOD choosing to do that. I do not see why that means anything other than the role of the PSBs will become increasingly important and that they can become increasingly distinct.

The same is true of sport. Barriers to entry within sport, which is also part of our national conversation, are very high. They are not insurmountable for an organisation such as Amazon and Amazon is trying to break into the sports market. It may do it, it may not. There is

a reason why Fox has retained its news and sports assets in the States. It has disposed of all the entertainment assets, sold them to Disney and kept hold of news and sport. There is a world in which those two particular areas of activity can become absolutely critical for the PSBs, much more so than they are today. I cannot foresee a scenario where the SVODs completely trample over the ability of the PSBs to deliver that type of programming. I just do not see it.

The Lord Bishop of Chelmsford: I would like to hear more about what you think the PSBs should do to retain that place or, indeed, what we should be doing to help the PSBs retain that place.

Dan Cheesbrough: Again, this is not my area of expertise but with the news most of the data suggests—and I do not know what the ratings data is like—that for people relying particularly on the BBC's output that it is standing up pretty well. Obviously, we are living through some challenging times regarding news reporting, but certainly my understanding is that the BBC remains a deeply trusted news supplier. I do not see systemic decline in the way that people will consume news through the PSBs.

One thing that might be tricky is the appointment-to-view trends that have obviously embedded within television over the last 30 to 40 years. Andy and I have worked on many shows where we talk about inheritance, which is how high the ratings of the show before was, where you can have some sense of how many of those viewers and how much of that audience is going to migrate on to the next show. That is all going to break down, so it is not like the "News at 10" is going to be able to rely on a heavy audience from a 9 o'clock piece of programming. It is a valid question because these are the sorts of questions that the BBC and the other news organisations will have to ask themselves. I have to put my hands up and say that it is not really my area of specialism.

Andy Harries: The BBC is imperfect and we know that. There are many problems. The BBC does not have huge amounts of money. It does not attract the very best people any more, sadly, because, largely, the better people will get more money if they are working in independent companies or in commercial television, so the systematic examination of BBC salaries and the war that has been waged by the Murdoch papers, among others, upon the BBC has had a terrible effect on it. Of course it has. It is not that people do not want to work for the BBC but it is a wee bit depressing if your salary and your expenses and everything in your whole working life is constantly under scrutiny. Would you rather have that or go and work in ITV or for an independent company where you will get three or four times the money? Although there are some really good people at the BBC, it does not attract the best any more, which is a great shame, and that is one challenge for the BBC.

The BBC has a fantastic range of programming. You could say there are not as many arts programmes or documentaries as there used to be and all that kind of stuff but, intrinsically, BBC1 and BBC2—these old channels—are still putting together and creating content. There is an

enormous amount of factual programming which relates to the UK which would not be made by anybody else.

I want to make one point right now. Dan and I are the recipients of a real boom in production. People are doing well in this business and that is because this is a boom time. What happens in three years' time when it is not a boom time? How quickly do you think Netflix or, indeed, Amazon will roll back the spend in the UK if the world changes, if Trump and his trade wars and all that stuff gets out of control? We have no idea. I am sure Netflix, if you have invited it, has made an impressive presentation about how it is investing in the UK, and that is absolutely true, but this is a huge multinational corporation whose interest is growing bigger and bigger and making a lot of money, like any multinational company, and while the going is good, you get the good things but not when they row back or get bought.

In the end, Amazon, Apple, Netflix and Disney, et cetera, are not all going to survive. They are going to merge. They are going to be taken over. The interests of the British public will not be served best by them. That will always be best served by the BBC in the best way it can with the resources it has. Of course the BBC should not have to pay for pensioners' licences² and things like that—I am sorry—and it needs to be independent and to attract the best people and have a sense of itself and have confidence. If it has more confidence and more support and less battering from political enemies who have an agenda, yes. But you know all this.

The Chairman: We do now.

- Q111 **Viscount Colville of Culross:** Andy, you have given us a very stark view of how British television has moved to Los Angeles. You have also explained how Netflix particularly, and the other SVODs, keep all the rights whereas the PSBs in this country have to work under the terms of trade. You have emphasised and we all know the extreme importance of IP for growing indies. Is there anything that can be done to try to alter that balance of power so that the SVODs have to give up more of the rights to help grow the indies? The market is so enormous that it perhaps cannot do that. Do we need to get Ofcom involved as Ofcom is already involved in terms of trade with the PSBs?

Andy Harries: It is a very good question and a key point. This is another reason why the BBC should survive because if the producers who are setting up and developing programming—factual or scripted or whatever—are selling into the BBC, they retain the rights. If you can find someone else in America who will pay a licence fee, and there are many who do, you will have an opportunity to continue to build your rights. This is the alternative to Netflix and Amazon and we need these alternatives, because things will change. Can you pressurise Netflix and Amazon not to take all the rights? It is worth thinking about but it will be very hard, to be truthful.

² Note by Dan Cheesbrough: I agreed with this point at the time in the evidence session.

The danger is we will all end up working for studios. Netflix is a worldwide global studio. The studios have always been in Hollywood. You pop to Hollywood and there they are: Warner, Disney, et cetera. Netflix has said, "Fine, we are a studio. We are going to set up in the UK", or, "We are going to set up in India, Singapore or Australia". It is a global business with a worldwide studio and everybody will work for this studio. That is not such a bad thing in a sense, as we are all making programmes, but it means we are all on the payroll. I am not saying it is like this at the moment but that is the danger of where it could go.

Dan Cheesbrough: Having produced for Netflix over the last 18 months, when you spend time there you feel like you are at the tip of the spear. Certainly, when you have come from working with the PSBs, when you move into working with Netflix, the agility that it has and the way it goes about every aspect of producing television is formidable. Other people have had different experiences, but certainly my experience of working with it is that it understands that it is a competitive environment, and you get treated extremely well, extremely respectfully, and it is a very different experience.

While I believe that there is definitely a world in which, once the dust settles on the shift we are experiencing now, there will be an ongoing role and a place for a healthy PSB sector, I am not complacent about that. It is a bit of a poor analogy but when you are working with Netflix and you go back to work with the BBC, it feels like it is walking to try to catch up with a competitor which is sprinting. I do not feel it moves fast enough. I absolutely have deep concern about its ability to hire. When I started my career 15 years ago it was without doubt one of the most prestigious places you could work in our industry, and that is undeniably not the case now, sadly. There are many reasons for that. I am digressing but there are some major issues.

I worry greatly about the way it is addressing or failing to address younger audiences. That is something that the SVODs are in absolute mastery and control of. They are producing show after show which young audiences own; they belong to them. Young audiences might watch "Bodyguard" or "Line of Duty", but those are not shows owned by them, whereas young audiences absolutely see Netflix as a hallmark of quality. They know if they go there, they might not go with any particular show to watch but they know if they turn it on they will find something high quality for them to watch that is produced specifically for them.

If I can bounce around on one other area, something that does not get discussed enough is the way the SVODs are able to market their shows. It is just so radically different from the way, historically, the PSBs have been able to market their shows. So much of the business is about calculating, managing and mitigating risk. The SVOD model is so much better placed to manage risk and allows them to manage their investments in a much more considered way. They can ensure that they reach the audience that they need to in the right way at the right time and that is a deep worry for an organisation such as the BBC, ITV or Channel 4. For an integrated PSB such as the BBC I have less concern. The model of Channel 4 as a straight publisher broadcaster is in great

jeopardy. It will be a great loss if, ultimately, in 10 years' time we end up with a seriously diminished Channel 4. There are several different things there and I do not know if that is helpful, but hopefully it is.

Viscount Colville of Culross: We looked at the internet in our previous inquiry and we were told that there were worldwide enormous tech companies that we, as national jurisdictions, could do nothing about. Is there really nothing that we could do as a country to try to change the terms of play so that we did something more to help the indies with getting the IP from them? Andy has just said he did not think so.

Dan Cheesbrough: The terms of trade, as everybody knows, have been a phenomenal success. There is a reason why PACT did not try to force terms of trade on to the non-PSBs in the UK. I think that is quite a sensitive commercial arrangement. It is quite delicate and I suspect that within the industry we would not really have the muscle to secure those terms. I suspect they might begin to move away and it would be a disincentive for them to do business here. We already have quite a lot of regulation within the market when you think about it.

Andy Harries: I have not really thought about it before, I must be honest, but, just thinking aloud, could you link it to the tax break in some shape or form?

Dan Cheesbrough: Possibly. I know that Peter Kosminsky is advocating a levy and that terms of trade, or some kind of quasi terms of trade arrangement with the SVODs, is something else that people are talking about. I will be perfectly honest and say it will be a challenge. Philosophically, the idea that at a national level we would try to impose a regime on an international business by which it had to do business with us is a little odd and counterintuitive.

Viscount Colville of Culross: You have posited this very gloomy view of where the PSBs are going wrong. A lot of it, from what you were saying, is about commissioning. They do not seem to be able to actually commission things for young audiences, yet if you talk to Tom McDonald, who does specialist factual at the BBC, he is all about young audiences and his format is trying to get young audiences. There is a huge effort by PSBs to try to get young audiences. What more can the PSBs do to combat the SVODs and the power of their content?

Andy Harries: I do not see this as a war. I do not think they should see it as trying to combat the SVODs. You cannot combat the likes of Netflix, with its financial power and global reach. You just cannot take them on. Those days are over. The BBC has to rethink itself, not as a niche channel but as offering something distinct and fresh and more specific to the UK. Again, it does not want to be so niche and so UK that it does not have any global interests but you cannot compete with Netflix. You just cannot. The budgets are enormous.

The search for the young audience is tricky. Essentially, the young audience will watch YouTube and how do you compete with YouTube? That is really what it is about. It is not just Netflix. At a certain age they graduate from YouTube to Netflix. If you look at the statistics, most

young kids spend 20 minutes, half an hour, 40 minutes a day on YouTube. That short programming is all part of the way brains are developing and the way we access our information and entertainment. Everything is shorter, quicker, smarter, more instant.

It is hard and the BBC is just going to have to evolve and find itself a new place in the pantheon of things on offer. It is very important that it is there. I suppose that is what Dan and I are both trying to say. We cannot solve the issues of the BBC overnight. We would love to but it is very challenging. I do not think we should be despairing about the BBC. I have watched the bashing of the BBC for years. I have never worked at the BBC. I have done lots of shows for it but I have never actually worked for it. I have always found it very dispiriting that the BBC gets quite such a bashing. It does not deserve it really.

The Chairman: Before we move on to the next question, Dan, you mentioned "Sex Education", and thinking about the fact that this is piece of content which has been created in the UK using UK talent but with Netflix investment, when it came out, some people, people who enjoyed it, none the less noticed that it did not quite look like the UK that we all recognise. I wondered what you might want to say about the influence of money.

Dan Cheesbrough: It was a creative decision made uniquely out of the UK. For the rest of the Members who may not have seen it, it is shot in south Wales but it is a show that is set in a British high school in an anonymous British location, in a fictional town somewhere in the UK. Its look and feel and production value are very much inspired by 1980s American high school comedy dramas. "The Breakfast Club" was the ultimate touchstone for it creatively. A lot of people watched it and, understandably, suggested that this was the strange mysterious hand of the American executive demanding that we made our British show look American by putting English students in baseball jackets. It was a creative decision made out of an office in London that existed here and was imagined by the British creative team. Many people have their opinions about how successful it was or was not, but it was certainly an autonomous decision made in the UK.

The Chairman: The word "irony" might be hanging over it somewhere.

Dan Cheesbrough: Correct, yes.

The Chairman: We like irony. That is very interesting by the way, thank you. Lord Gordon.

- Q112 **Lord Gordon of Strathblane:** May I offer a contribution to the theme developed by Lord Colville about preserving IP rights for independent producers? It would seem to me, and I may be a starry-eyed optimist, that with increased competition in the buyers' market there has to be somebody who says, "I have a better chance of attracting this very good producer and the series if I offer him a bit of the action". Surely that has to happen.

Andy Harries: I think that is right and why the BBC could be part of that but is not necessarily part of it. In the end, if the competition really hots up, yes, the producer will have a certain amount of power. The show has to have a “must buy” quality to it. The problem is that for Dan and me we only have a “must buy” show every now and again. We have quite a lot of pretty good shows that we would quite like to sell but they do not absolutely have to have them.

Lord Gordon of Strathblane: The number of entrants into this market in the last three months is surely very encouraging from a seller’s viewpoint.

Dan Cheesbrough: We have had some success with SVODs in retaining IP. As Andy says, that is with a special type of programming that is pretty rare. I would say that there are other new entrants in the video on-demand space who are building very interesting commercial models that are about retention of IP and, quite literally, that is their sales pitch to you. They are like, “Bring your show to us. We want a seven-year licence but you will retain the IP”. This is Quibi’s model which you may have heard about.

I will say until I am blue in the face the best deal in the world for a television producer is a terms-of-trade deal with the BBC. It might not be right for many other reasons, but on paper that deal is unbeatable and it has proven to be successful on many different levels. I guess that is a key message I would like to deliver. I will die in a ditch for the terms of trade. They need to be protected. Anything that is going to compromise or erode or challenge them needs to be resisted desperately. Ironically, there is a large voice within the BBC that would love to see the terms of trade overturned. I do not think it is in its own interests to see the terms of trade overturned, now more so than ever.

Lord Gordon of Strathblane: It is one of the selling points, you would argue.

Dan Cheesbrough: Correct.

Lord Gordon of Strathblane: In the meantime, would you argue that there are certain areas of programming that are traditionally offered by PSBs where the BBC has been priced out of the market and can no longer do?

Andy Harries: I am not sure. I suppose one might argue that the recent Attenborough series probably would have been at the BBC. It is a sort of spin on Attenborough’s previous shows and made by the people who had made his previous work. That is an inevitable part of the development of the market, to be truthful. On the whole, the BBC has been pretty clever, I think—I do not know how good the deals are—in partnering up with Nat Geo and Discovery and various other things such as that, in order to fund ambitious wildlife and factual programming. That is what the BBC will have to do more of. It will have to do more partnerships, unless someone is going to increase the licence fee and all that kind of stuff.

Lord Gordon of Strathblane: I have a final question on programmes for young people. Does the BBC face a pretty well impossible challenge?

It is rather like the local vicar running a disco in the church hall which will end at 10 o'clock versus a rave down the road.

The Lord Bishop of Chelmsford: I will speak to Lord Gordon afterwards.

Lord Gordon of Strathblane: Last time I talked about a vicar's tea party so at least it is a disco here.

Dan Cheesbrough: It is very hard. There are three shows that Netflix has commissioned out of the UK from three terrific young female writers, all of whom have developed with the likes of Channel 4 and the BBC, but, ultimately, they were never successful in getting a show ordered. Netflix came in and ordered three shows of varying levels of success. That is terrific for those writers and the writing community and it is generally good for UK producers because they will come through the ranks. It is not good for the UK PSB community that the SVODs are able to take higher risk with less-tested talent. I do not have a quick answer to that. The SVOD model is fundamentally able to take higher levels of risk, not just because of the levels of investment but because of the model. I think that is a big question for them.

Lord Gordon of Strathblane: Apart from financial risk there is the question of meeting public service broadcasting standards. Are the shows that the SVODs are doing ones that the BBC could legally, as it were, commission?

Dan Cheesbrough: We were developing "Sex Education", which is a very modern show, with Channel 4. It passed on it and we took it to Netflix and it ordered it, just like that.

The Chairman: We have a couple more questions. If Baroness Bonham-Carter is happy, I would like to ask Baroness Kidron to go next because she has to leave.

- Q113 **Baroness Kidron:** I want to pick up on the question of co-production. You have already mentioned Peter Kosminsky and his view, and his intelligence from beyond his own experience, that increasingly what is happening is the SVODs come into town, make primary relationships with talent and then say, "We are not going to co-produce any more". We then heard various people say, "No, that's not true. It is the BBC that won't co-produce because Netflix wants to brand BBC programmes as Netflix Originals". Can we just use SVODs and forget about Netflix in that? One of the things that I think is of interest to the Committee is what the levers are. I have really loved listening to you because you are both putting up a big fight for the importance and preservation of a PSB mandate, as it were, but in your evidence there is a bit of a circle. We can respond with levers. We have IP, tax breaks, levies, all these levers, and I think co-production is perhaps one such lever. I am interested from your perspective, first, what your experience is and, secondly, whether you think there is something that could be done around co-production with PSBs that would keep the door open. Sorry, it is a killer question.

Dan Cheesbrough: We are in the thick of a BBC/Netflix major co-production now. We had the choice, I do not think it is too sensitive to say, to do that purely with Netflix. It was a highly marketable show, one of those rare shows that Andy mentioned earlier, one of those luxuries where you get, by and large, a choice of who you can produce it for. We knew that we wanted it to go to the BBC within the UK. The commercial model that we were able to build was really excellent. There was a scenario where Netflix would have paid us a considerable up-sum payment but we were able to build a really good hybrid model. Are you suggesting some kind of mandated requirement to co-produce?

Baroness Kidron: To be honest, I am not suggesting anything, but I am wondering is there something creative that one could do around the model that says, "If you are in our territory, support our national PSBs"? I do not know.

Dan Cheesbrough: I think that would be very difficult. Hartswood is quite unique. I say "quite unique" but that does not mean anything. We are pretty benign towards the BBC. We see a thriving BBC as a thriving environment for us to be able to sell our shows into, and long may that continue. There is a lot of talk that co-production is going to decline. The direction of travel is probably for a little less co-production. You have to remember we have just had the most expensive television show ever—"Game of Thrones"—finish last night. It is phenomenally expensive to make shows. "The Crown" is a rare exception. It is pretty rare that any organisation can be the single financier of a show like that.

There is always going to be a need for innovative deal-making, which essentially means co-production. The BBC will continue to be at the heart of that. I saw another contributor suggest that the BBC was saying it did not want to co-produce. I do not think that is right. I do not think that is true. Anecdotally, he might have had that information but I do not think that is right. There is a concern that people within Channel 4 are having fewer meetings and less interest from the SVODs and UK broadcast executives going to LA are getting a little less interest. I think co-production is going to continue. There are various reasons for that. Netflix probably will be the one that continues to co-produce the most. Apple is clear it will not co-produce. Amazon will co-produce and will continue to, I suspect. Disney will not co-produce. You will get different areas of activity with different platforms.

Baroness Kidron: In three years' time, if the world changes and the tide goes in the other direction, are they going to be strong enough to still be standing, I guess is my question, if it is a slightly hostile environment now?

Dan Cheesbrough: In the UK, we have all become very dependent as producers upon this investment and the PSBs are very dependent upon it. If there is a world in which that evaporates that is a deep challenge. I do not see a world in which that will happen within the next three to five years. The thing that mitigates against that for certain PSBs is the fact they are integrated. They have large production outfits and large distribution outfits, as well as all their broadcast assets, as well as the

iPlayer. Somebody like Channel 4 really suffers in that environment, I think. You can already see that and you can already see it struggling.

Andy Harries: In this country, the creative industries punch way above their weight, as you know. That is well known and understood around the world, but particularly in Los Angeles. Why do we produce great pop music? I do not know. Why do we produce great television productions and producers and creative talent and writers? I do not know but we do. It does not happen in the Mediterranean but it happens in not just London but the whole of the UK. It is just something we are tremendously good at.

It is changing fast but we must be very careful not to take away the tent poles that have allowed this creative industry to grow up. Fundamentally, that is terrestrial television. The very roots of terrestrial television post war were ITV and the BBC. They are facing tremendous challenges and need to change and evolve and all the things we have discussed, and you will have heard from many other people too, but it is absolutely essential that particularly the BBC survives. I have no doubt about that. I do not believe for one second the SVODS would take a Murdoch-type view that the BBC has got to be destroyed. I do not believe that for a second because they know in the end the very thing that Dan has described of a young writer developing a show with Channel 4 and it does not get picked up by Channel 4 and they are off to the SVODs. The great thing for the SVODs is that there is so much talent here and so many shows being developed that they can pick them up. That is not the worst thing in the world. There are the dangers with the rights, but, at the end of the day, it is good for the business at the moment. The business is booming.

Baroness Kidron: Do you think it might be an unintended consequence?

The Chairman: I might have to intervene at this point because we really are running out of time, you have to go and Baroness Bonham-Carter has one more question.

Q114 **Baroness Bonham-Carter of Yarnbury:** It is right to reverse them because this leads seamlessly into my question which is about skills. Andy said earlier that the BBC—but I presume you mean across the PSBs—does not attract the best people any more and, Dan, you said that the PSBs found it difficult to hire. I come from a television background and we know what a wonderful career it is and what a wonderful world it is to work in, but it does appear that there is a skills shortage. My question to you is: is this to do with Netflix and co. coming into our territory or is there a deeper problem?

Dan Cheesbrough: There are large equality problems but they have been a long time coming and it is the perfect storm with the arrival of the high-end TV tax credit, which everyone knew about. Do not get me wrong, I am not complaining about the high-end TV tax credit, it is a terrific thing, but we all knew that was going to drive up activity and that there would be a skills shortage. We have a weak pound. Alongside that,

you have the arrival of the SVODs and the boom—fortunately for Andy and me—in scripted television. You have had those three factors arrive that have transformed everything, caused huge amounts of inflation and we find it extremely hard to crew up a show. At every single level we find it hard to find people. That is our issue within production but certainly for the broadcasters—

Baroness Bonham-Carter of Yarnbury: Is it a real threat?

Dan Cheesbrough: I think it is because if you are a smart 30 year-old development executive you do not really want to work at the BBC. Just five or 10 years ago you definitely wanted to work at the BBC. It is where you cut your teeth. That is a great shame. It is getting absolutely outgunned and outpriced and outbranded for the best talent. That is quite scary. I do not know how it stops that. To try to offer something constructive, I agree with Andy that the floodlight on the BBC on talent and the pay restraint that the organisation has had has been deeply damaging to it. It has left it wounded and unable to compete and that, I would advocate, needs to be fixed.

Baroness Bonham-Carter of Yarnbury: What about Peter Kosminsky's idea of a levy?

Dan Cheesbrough: It is a difficult one. If Peter were here I am sure he would be able to articulate it clearly. I do not know how it would be administered. It sucks a lot of money out of the market. Generally, rightly or wrongly, my view is that the market economy is working reasonably well. We have quite a lot of regulation in there already.

The Chairman: To be fair, his view, if I have understood him, is that it is already operating elsewhere and therefore there already is a model.

Dan Cheesbrough: In France or Canada.

The Chairman: In France and Germany. You may not have anything to say about that, but that would be his view, that there already is a model upon which we could base the possibility of having a levy.

Dan Cheesbrough: I would not say I am absolutely knee-jerk against the proposition, I would need to look at it in more detail, but I would not look at the French and German production markets and think they are a perfect model. How much we export and the soft power that we deliver through our television output is second to none. If there is a technical proposition it might be worth some consideration. Mid-market television is very hard to produce and very hard to finance at the moment, but there are ways, and I guess that is what Peter is talking about: the stuff that does not cost £5 million or £6 million an episode, the stuff that is a little more localised and issue-led and a show that is not a commercial proposition. I understand that.

The Chairman: And does not attract the tax break?

Dan Cheesbrough: The BBC already levies £3.2 billion or £3.6 billion on the UK and it has a very clear remit to deliver that type of programming. I do not know that we would want to add another layer or another area that is designed to do the same thing. It feels like there is a bit of

overlap there. If there was some data that showed some decline in the amount of programming of that nature, possibly I would be interested in that, but at the moment all I hear—and it is anecdotal—is that there is not as much of that programming around. I am not sure when you look at the shows that are winning awards, when you look at what some of the great writers are doing with the PSBs, that that is right.

The Chairman: Do you want to add anything to that, Andy?

Andy Harries: I do not entirely understand the levy, to be honest with you, so I do not really have a view on that.

Baroness Bonham-Carter of Yarnbury: It is a suggestion that the levy could be used to address the training and skills shortage.

Andy Harries: Dan is right that there definitely is a skills shortage but, in a sense, we hope, although it is not a good thing right now, that that will force people to be trained quicker and the production companies will help support that. That is our hope, but it is a luxury.

Baroness Bonham-Carter of Yarnbury: For successful companies like both of yours, if you have problems it is to your benefit for the industry to come together and address this problem.

Dan Cheesbrough: Peter Kosminsky's proposal is a bit different from the skills shortage.

Baroness Bonham-Carter of Yarnbury: It is supposed to put the money into training.

Lord Gordon of Strathblane: It is supposed to put money into the country.

Baroness Bonham-Carter of Yarnbury: No, training, according to my note.

The Chairman: We could all go back to Peter's evidence and see what he actually said.

Dan Cheesbrough: Fundamentally, we have a skills shortage. It has driven up cost. You can kill two birds with one stone because we can widen the skills base in the UK at the same time as addressing some of the diversity, BAME and regionality issues that we have. There are two wins to be had there. Everyone has spoken about the apprenticeship levy and we need to crack that open. There is £75 million sat there waiting to be poured into the economy.

Baroness Bonham-Carter of Yarnbury: I have a Question on that. I will bring it up.

The Chairman: I think we have kept you long enough. Your evidence has been very helpful indeed. Thank you very much. There is just one thing. If there is anything when you leave here that occurs to you that you might add to what you have told us about cost inflation, it would be very helpful because, clearly, when you are talking—I think you used the words, Andy, between £5 million and £10 million an hour for "The Crown", that is a massive margin. Even the bottom end, £5 million, is a very big number compared with what we have been hearing about costs

per hour for drama historically. We know the skills shortage might be contributing to that and there are issues to do with the availability of more funds, but if there is anything else that you think of that you would like to tell us about what is causing these very much more inflated costs than we have been used to, it would be very interesting to hear them.

In the meantime, thank you very much indeed for coming. We have really enjoyed hearing from you.