



Select Committee on Communications

Corrected oral evidence: Public service broadcasting in the age of video on demand

Tuesday 2 July 2019

4.30 pm

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Members present: Lord Gilbert of Panteg (The Chairman); Lord Bethell; Baroness Bull; Baroness Chisholm of Owlpen; Viscount Colville of Culross; Lord Dobbs; Lord Gordon of Strathblane; Baroness Greender; Baroness Kidron; Lord McInnes of Kilwinning; Baroness McIntosh of Hudnall; Lord Storey.

Evidence Session No. 21

Heard in Public

Questions 196 - 204

Witnesses

I: Dame Carolyn McCall DBE, Chief Executive Officer, ITV; Kevin Lygo, Director of Television, ITV; Magnus Brooke, Director of Policy and Regulatory Affairs, ITV.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Dame Carolyn McCall, Kevin Lygo and Magnus Brooke.

Q196 **The Chairman:** We have another set of witnesses in front of us: Dame Carolyn McCall, Kevin Lygo and Magnus Brooke. Welcome and thank you for coming. I will ask you to introduce yourselves in a moment. We will be transmitting today's session online and a transcript will be taken. We will not be interrupted so we have an hour of your time. Thank you very much indeed for being with us. Could you give us a brief introduction to your role, starting with Dame Carolyn? In doing so, could you tell us what is distinctive about ITV's contribution to public service broadcasting and the issues that this Committee is exploring?

Dame Carolyn McCall: Thank you very much, Lord Chairman, and thank you all for asking us to be here today. I am the CEO of ITV, Kevin Lygo is our director of TV and Magnus Brooke is director of policy and regulation. Perhaps, Kevin, you would like to say a few words about your role.

Kevin Lygo: As director of television, I am responsible for commissioning all the programmes that go on ITV's various channels. I am spending just over £1 billion a year on UK content. That is my day job.

Magnus Brooke: My day job is director of policy and regulation, so I am responsible for our relationships with government, Ofcom and the European institutions. In particular, for the purposes of this inquiry, I am focused on our role as a public service broadcaster.

The Chairman: Dame Carolyn, please take the opportunity to tell us what is great about ITV.

Dame Carolyn McCall: Yes, I will kick off and I will be as brief as possible. What I will not do is repeat what Tony Hall and Alex Mahon have already said about the importance and criticality of PSBs. Suffice to say that we believe that they are more important today than ever; we will come on to that, I am sure. Despite being a commercial PSB—as you know, we are funded predominantly by advertising—we still start with a social purpose. That is fundamentally different from what you hear from anyone other than PSBs. They are vital for social cohesion. We start national conversations for democracy, we initiate debates and we challenge. We reflect different voices. We also create an enormous amount of IP, which is extremely important for the creative industries. Everything we do—our £1.1 billion content spend for the network and our channels—goes on commissioning in the UK.

What is distinctive about ITV's contribution to this is that we do what we do at scale and commercially. It is high-quality programming that still attracts very large audiences. That allows us to deliver a platform for advertising which is very attractive, and the money goes straight back into programming.

We also very much reflect all kinds of British lives, issues and concerns, from right across the country. One of the most distinctive things for us is the range of what we do. I was very struck by that when I joined ITV 18 months ago. It is not only drama, live sport, continuing drama—in other words, soaps—but entertainment, current affairs and news. There are very specific areas of focus and they are very dedicated areas of focus. So there is a range. That range is free—really free—to every single person in this country, regardless of where they are from or what means they have. It is free content and it is high-quality content. In 2018, 98% of TV households watched ITV and 60% of them watched ITV every week. That is the second most distinctive thing.

The third very distinctive thing is our very large investment in news. That is not simply about national news, which we do very well with ITN, in which we are a major shareholder, but news in the nations and regions. We have 500 highly trained professional journalists and reach about 20 million people a week, but our most distinctive part is our regions and nations. We know that there is lots of national news, but we have really distinctive, community-focused, local coverage. We have 43 offices around the country, many of which are news bases. That sets us apart. In the nations and regions, ITV news is more trusted than any other media source, including the BBC. So that is very important for us and it is critical in a world of misinformation.

The fourth and last distinctive contribution is that we are a major investor in the UK creative economy nationwide. You all know how important the creative industries are to the wider UK economy. Today, close to 50% of our staff are based outside London and, as I said, we have 43 offices. We have very large production bases in Leeds, Manchester, Plymouth and Glasgow, so we are very dispersed in the way we produce volumes and volumes of content. To give one stat, in 2018, 95% of content on our main channel was first-run original UK content. Ofcom tells us that in the catalogues of Netflix and Amazon that figure is about 10%.

Those are the distinctive bits of what ITV brings to the PSB ecology, which is quite different from other PSB players. However, I would stress that the audio-visual market has changed deeply and rapidly. It is now about global rather than national players. The market is becoming much more global, with the extraordinary scale of global online tech and content players. It is coming from all sides, really. It is about viewers and advertisers. Facebook and Google, for instance, now represent 52% of the advertising market. Of all the advertising in this country, 52% is with digital players. On viewing, as you have heard, there is a lot of competition for eyeballs and for time.

We have opportunities in that and I hope that we will come on to those, but we have to be very clear-sighted about the risks that face us. One of those, as a PSB, is about the content you see on your EPG, where we have prominence. Our relationship with the platforms is based on us giving them main PSB channels and them giving us prominence. That has worked on the EPG, but this moves very quickly. Many people, especially young people, are not really looking at EPGs but tiles—and

voice is going to come down the road. So there is a danger that PSB content will become quite invisible going forward. That is very important because it will have an audience effect and because significant content that is important for citizens of Britain will not be seen. It could all be done by algorithms and paid-for visibility, if that makes sense. So we very much welcome this PSB review, because we think the PSB construct needs radical change in order to preserve that ecology going forward.

The Chairman: Okay. Thank you. We will come back to a number of those issues, including prominence and privileges. Let us start with audiences and the audiences of the future.

Q197 **Baroness Bull:** Thinking about younger audiences, main channel viewing by 16 to 34 year-olds rose slightly in 2018, but much of this was driven by programmes that one might struggle to describe as “public service broadcasting”. Is there a tension between appealing to younger audiences and remaining true to the PSB purposes?

Dame Carolyn McCall: Perhaps I can answer that and then hand over to Kevin. One of the most important things to bear in mind about us as a PSB is that we operate what we call a cross-subsidy model. Some of the programmes you would not necessarily classify as PSB help to fund news and current affairs, where we cannot really take advertising and certainly cannot get sponsorship. We cannot make much money out of news, although it is absolutely vital to what we do. Therefore, the way ITV works as a model is that we cross-subsidise. We need to do those big entertainment shows partly because they bring the country together and are watched in groups by people. They start conversations about a whole range of topics and also help us to subsidise news.

Kevin Lygo: I would echo that. The thing about the 16 to 34 year-olds—you can get into a lot of trouble chasing teenagers, apparently—is that if you target younger viewers specifically, even if you are effective, you will get a small audience. What ITV has been uniquely successful at over the years—it is still at the forefront of our mind when we commission programmes—is drawing large audiences all the time on the main channel. Some of our shows that are watched by the largest majorities of young people are the great shows you all know: the big entertainment shows such as “Britain’s Got Talent”, “The X Factor” and “I’m a Celebrity”. The soap operas, live sporting events and big national events that we do are heavily watched by young people. As you pointed out, we grew our 16 to 34 year-old audience slightly because, if you make big popular shows, by definition they will be watched by more young people than other shows.

What is undoubtedly true is that young people are quick to find new ways of watching things, so it is not only what we commission but how we get it to them that will become increasingly important. To that end we have invested in the Hub, our online service. Something like 79% of all 16 to 34 year-olds have registered for that, so they are aware of it and are coming to it. When they come and watch something on the Hub—at their convenience: it is a catch-up service—they brush up

against all the other stuff that we are making, which can only be good for all of us.

We have, in ITV2 particularly, a channel targeted at younger viewers that is incredibly successful now. It has grown exponentially over the last few years because we have specifically targeted 16 to 34 year-olds—mainly 16 to 24 year-olds, actually. It is a very wide range, if you think about it: a 16 year-old and a 34 year-old. So we have our comedies, our entertainment shows and, of course, “Love Island”, which is the big outlier—a phenomenon that attracts so many young viewers. We do bring them in, but these programmes appear on the Hub as well. That is partly why they go to the Hub.

So this is a challenge, there is no doubt about it, because these viewers are harder to reach, which affects how you market to them. They are more fickle in their tastes and quicker to judge—but, at the moment, we are holding things about as steady as we feel we can.

Baroness Bull: I was being slightly provocative because I wondered whether you might come in with a defence of those programmes as having some element of public service.

Kevin Lygo: But remember that the very fact that they are on ITV means that they are public service programmes. You can get into a lot of trouble saying that one programme is public service and another is not. Is a soap opera, for example, a public service?

Dame Carolyn McCall: What I will say about soap operas, and even our big entertainment shows, is how diverse we are. This diversity is reflected in the participants, the contributors, the hosts and often the content. Our soap operas can tackle some of the most difficult issues—for example, Muslim homophobia, drug addiction and transgender issues. James Moore is a very talented actor who won best newcomer at the NTA. He has cerebral palsy and is in “Emmerdale”. So we approach continuing dramas differently because we are a PSB.

The Chairman: Let us go back a bit, because I think Lord Gordon wants to challenge you on the assertion that everything on your channel is PSB.

Lord Gordon of Strathblane: It has been put to us that the public service lies in the programme, not the broadcaster. I fully understand the point you are making, but would you really say that either “Love Island” or much of BBC1’s output during the day is public service and gets prominence over, for example, “Our Planet” being done on Netflix, just because Netflix is doing it rather than the BBC?

Kevin Lygo: I have never watched BBC in the daytime, so I could not comment. As we said, however, with something like a soap opera, which perhaps at first glance you would say is not public service, according to the rather old-fashioned approach of considering whether it is educational, I assure you that in the writers’ rooms and among the producers there is endless discussion about what issues to tackle and how to deal with the phenomena that are coming up in society—and all in a good way.

Lord Gordon of Strathblane: I do not think people are talking about soaps; they are talking about the equivalent of "Love Island" or, as I said, on the BBC, "Homes Under the Hammer" and things like that.

Magnus Brooke: "Love Island" is not on our main channel; it is not on our PSB channel. But the idea is to bring together a mass audience. "Britain's Got Talent", for example, is a kind of "all life is here in this country" show which literally multiple generations of families sit down to watch. There are fewer and fewer opportunities to do that now. That is one thing that ITV does profoundly: the whole country comes together to celebrate British talent. I would absolutely classify that as a public service. It is an entertainment show and is very popular, but it does perform a public service.

Lord Gordon of Strathblane: Your reply on "Love Island" was that it was not on your PSB channel, but are you not still looking for prominence for the Hub?

Magnus Brooke: We are.

Lord Gordon of Strathblane: Although it is not PSB.

Dame Carolyn McCall: That is because it cross-subsidises what we do for news; we are one company and we see ourselves as a PSB. You are right that "Love Island" is on ITV2 and is therefore not technically PSB, but it helps us generate revenue.

The Chairman: So you argue that it should have prominence because it funds the news.

Magnus Brooke: Absolutely—the Hub should have prominence. It is increasingly the incarnation of ITV going forward. It is like the main channel, and the main channel consists of a variety of programmes from the very popular to the more obscure, or the more "worthy", if you like, for want of a better term. There is both a cross-subsidy model and a mass audience element to the main channel, and also a bringing of attention to regional news and other forms of programming. So it is an indivisible whole which consists of a variety of programmes, a mass audience, a cross-subsidy and a bringing of attention to important public service content.

Dame Carolyn McCall: I will say just one more thing, if you do not mind. It is very important. Linear TV and what we do as an integrated producer broadcaster have many more years to run. It is tougher and much more competitive, but it still has a long runway. However, the way we look at the Hub today is very different from the way we looked at it even two years ago. We look at it today as a destination of ITV. If you imagine linear not existing, the Hub would be ITV. That is the way to look at it, because that is how the under-34s view: they view on the Hub, mobiles, iPads, laptops and, sometimes, the big screen, especially for live football. It is a multitude of different things in a way that is not the case for over-35s.

The Chairman: We will go back to Baroness Bull, who raised the issue of the under-34s.

Q198 **Baroness Bull:** The second question concerns this remarkable divergence between linear first, for which read a perhaps slightly older audience, and online first, for which read a younger audience. Given these diverging viewing habits, which you have just expressed very clearly, can ITV really serve both these groups? What does it need to do to serve both the online first and the linear first groups?

Magnus Brooke: We have talked about the main linear channel, and that will continue to be an important vehicle for 16 to 34 year-olds, as Kevin has outlined. Clearly, however, we are entering into a period of hybrid delivery, if you like, where you have a linear channel, through which we are absolutely aiming to bring the whole of Britain together. But clearly younger audiences are consuming their content in a different way. As a media organisation, we must respond to that with a hybrid offer: on the one hand the main channel, but also a series of offers online. ITV Hub is an important part of that, but so is putting the news on YouTube.

We have had 110 million views of news on YouTube so far this year. We have been having conversations with Ofcom about children's provision, for example, which really does not make all that much sense in terms of volume on the main channel but does make sense on a dedicated children's channel. It makes even more sense online, because that is where children are going.

One of the things we are working on at the moment is a news and current affairs service for 12 to 15 year-olds, in response to one of the challenges we have had from Ofcom. The obvious place to put that is online. So the delivery of our PSB role is expanding and manifesting itself in different ways, particularly online, to reach younger audiences. That has to be right—without ignoring the profound role we will continue to have with the main channel in bringing the whole country together.

Q199 **Lord Storey:** I am glad that you mentioned a children's channel; I do not think Baroness Benjamin would forgive me if I did not talk about children. We talk about young people as those aged 16 to 34. I think young people are younger than that. Do you feel that you are catering for 13 year-olds? You talked about a separate children's channel. Have you invested more in that channel? Have you seen growth in the number of children or young people looking at that channel?

Magnus Brooke: It is a good moment to talk about this, because we have just had a very active dialogue with Ofcom about the future of children's provision. The first thing to say is that it is very challenging; it is a challenging market. We are an advertising-funded broadcaster and, as you probably know, there are very significant restrictions on what you can advertise to children, particularly on linear television, so the economic model is not straightforward. So you are increasingly looking at your online offer to children but there are restrictions there on advertising—there is an economic model restriction overall.

Nonetheless, one of the things we have done this year is increase the budget of CITV, our children's channel, which is still one of the most

popular commercial children's channels in the UK, and still has a significant commissioning budget. We have increased that channel's budget by 10% this year, which is the first increase for a number of years. We are also engaging very actively, both as a producer and a broadcaster, with the contestable fund, which is a very interesting innovation. We have been working with producers to help leverage money from the contestable fund so that we can put more original UK children's content on to our service, particularly CITV.

As I mentioned, we are also working on a news and current affairs online service for 12 to 15 year-olds. We have just done some research in the field with some researchers who have worked for Ofcom, looking at how children would like to consume news. We know from Ofcom numbers that they are very interested in news; they are engaged. So the challenge for us is how we get trusted, accurate, impartial news content in front of young people in a way that they will engage with and consume. We already do a lot of that online in relation to the nations and regions, with national and international news, on Instagram, YouTube and our own online news service. We will put more and more of that on the Hub, because we are going to turn the Hub into much more of a destination for all our programmes, including news. But we are clearly having to think very hard about how we engage that younger audience with news; it is an important civic mission. We are taking that very seriously and putting a lot of work and effort into getting that offer right. It may require some testing. We may have to go through a process of learning how that works best.

The Chairman: Lord Gordon, did you want to ask about some of the other privileges?

Q200 Lord Gordon of Strathblane: In your evidence you listed three things that you would like the Government to do to help maintain public service broadcasting as we know it. At the top of the list was safeguarding the future of digital terrestrial television. Do you think it is in danger? You said that you thought linear television had a long way to go.

Dame Carolyn McCall: I do. The honest answer is that it faces headwinds, because of the very deep pockets of the global players. They can spend a huge amount of money on content. We have to make sure that we get a return on our investment in content, so Kevin's budget to spend on the network is £1.1 billion. You know what the figures are for Netflix, Amazon, Apple, Disney, et cetera.

We are funded predominantly by advertising. We have tried to diversify—we have ITV Studios, so we are innovating and diversifying—but 70% of our profit still comes from advertising. And advertising has changed, because as there have been cyclical pressures—namely, uncertainty in the economy over the last three years, as you all know—people have gone very much digital first, because that is a much quicker return. It is immediate, with low production costs; you can advertise very quickly; you know exactly what you have done and what your return is; and you can turn it on and off quite quickly. You cannot do that with TV advertising.

So the headwinds are quite strong, but we are doing an awful lot to mitigate that. Our strategy, which is called “More than TV” internally, has been very galvanising. We have invested in an ad-tech platform; we are doing BritBox with the BBC, as you know; there is the Hub, which Kevin mentioned; and we have invested in content. We invest a lot of money in our studios business. So we are mitigating those headwinds, but they are there.

Lord Gordon of Strathblane: Specifically on digital terrestrial television, do you think that the transmission system is under any threat?

Dame Carolyn McCall: Yes, I think it is.

Magnus Brooke: There are two issues on DTT. First, our DTT licences expire in 2022, and there are questions about what will happen after that. That is a real issue. There is an international dimension to that, and also a national dimension about allocation of spectrum. We have given up a lot of spectrum over the last 10 to 15 years and it is important for the future of Freeview that we get long-term certainty in relation to that spectrum.

Secondly, on spectrum pricing, there is still a proposal on the table to effectively charge the broadcasters for the use of that spectrum, even though, in effect, competing demands for that spectrum are going down. We have passed peak mobile demand and are going down the other side of the hill. A lot of mobile demand is now in other spectrum bands. We think having long-term certainty on spectrum and taking spectrum pricing off the table will be part—but, I stress, only part—of the overall solution to securing the future of PSB.

I do not want to overstate the importance of spectrum in the overall position, because there are a number of other elements of recasting the public service compact that also need to be taken account of. It is almost housekeeping and business as usual for us to carry on doing what we are doing—but, as Carolyn says, the profound headwinds facing us require us to have a more radical look at how we fund public service broadcasting.

Lord Gordon of Strathblane: Another thing you are looking for is prominence, which I imagine we will deal with later. Your third point was about resetting the regulated relationship between content providers and platforms. In other words, instead of “must buy”, “must offer” and “must carry”, you want a different relationship.

Dame Carolyn McCall: It is linked to prominence. I said quite a lot in my introduction about prominence, so it might be useful for us to talk about the future of prominence and some ideas and thoughts on that. Maybe you would like to outline that, because I have already talked about issues with prominence.

Magnus Brooke: We are perhaps going to come to prominence later.

The Chairman: Tell us how prominence works in the new world.

Magnus Brooke: How does prominence work in the new world? What you need to do is look at how you secure something that looks a bit like the prominence we have today for a range of linear content in an on-demand world—that is the exam question. The way to do that is to look at the main platforms and the main ways in which people are consuming television, or will consume it in the future. Then you need to look at defining a high-level regime of objectives from a parliamentary point of view on what it is you want to achieve, which is significant prominence for content made by PSBs. It should then be Ofcom’s responsibility to define the platforms and the methods of getting content, because there are a number of ways of getting content on platforms now. There are tiles for players; there is a world of apps where you go into particular players and a lot of tiles are displayed on the screen. That is one way.

Dame Carolyn McCall: There is no prominence requirement there.

Magnus Brooke: There is no prominence requirement; this is describing a new regime, as it were. There is a world of apps, a world of recommendations, which is increasingly important, a world of search and even a world of voice. The point is that if you say that content provided by the PSBs must have significant prominence on the main methods by which people access TV content on the main platforms, that gives you a high-level objective. It is then up to Ofcom, probably working with the platforms, to ask how they will deliver these objectives and come up with a set of proposals on how the PSBs will have a certain proportion of the recommendations, for example, or how their search algorithms will work to surface PSB content, in some cases ahead of other content, or on your home page, where you log in to start with, making sure that the PSBs have a number of prominent positions for their apps.

So there is a perfectly sensible way of doing this. It must be a flexible regime. The problem we now have with the EPG regime is that it is all written in primary legislation and very difficult to change. We are now in a very fast-moving world where Ofcom and the platforms will have to have more flexibility in how they deliver prominence, but within an overall statutory framework set by Parliament which says, “This is the content that is important to citizens of this country, and this is an important method of funding PSB”. That is the other thing about prominence: it funds regional news. Not to put it too bluntly, but the cross-subsidy that Carolyn talked about from some of our most popular content and the mass audience content, and the prominence to some extent that we get from that, helps to fund regional news. We spend £120 million a year on news.

The Chairman: We get the importance of prominence. What we are trying to establish is this: how would the model work? With a principle set by Ofcom and details established by whom—you? Or the BBC working with the platforms on the basis of interpreting the principle and coming up with a method of giving you prominence?

Magnus Brooke: I think the way it would work is that you would have a high-level set of objectives in legislation, set by Parliament, which would be, if you like, Ofcom’s marching orders. Ofcom would then ask, “Given

what Parliament has told us about the objectives and the way in which it wants this carried out, how in practical terms are we going to do this?" I suspect that what it would do is write a code saying, "These are the sorts of things we expect to see in your policy on prominence". That would be addressed to each of the platforms. The platforms would then have to come up with an approach relevant to them—because all platforms are different—as to how they would deliver prominence. We are talking about the main platforms and the main methods of getting audio-visual content.

The platform would probably have to get that approved by Ofcom. In the course of doing that, I suspect that the platforms would liaise with the public service broadcasters and say, "This is the way we propose to do it. This is how we are going to give you prominence on home screens, in individual recommendations or in search results. What do you think of that?" So there is therefore a degree of consultation in the process of drawing up a proposal. The platforms then put the proposals to Ofcom, which says that they do or do not meet the objectives set by Parliament.

The Chairman: But to make this work, the legislation must first be sufficiently loose that it is not out of date in six months' time.

Magnus Brooke: Yes.

The Chairman: The Ofcom approach must be sufficiently principles-based that Ofcom does not have to keep reissuing a code every 12 months, and a lot of goodwill between you and the platforms needs to exist to make this work.

Magnus Brooke: Yes, but that is perfectly achievable. because we are having lots of discussions with the platforms on—

The Chairman: But is that a fair characterisation of what is needed?

Dame Carolyn McCall: There are some endemic tensions between platforms and broadcasters—we might as well be honest—because this code was set in 2003, when PSB was dominant. The year 2003 was all about competition between the PSBs and ensuring that there was enough competition. Well, as you have heard from all your witnesses, there is now hyper-competition. It is actually over-competition. The code must now reflect what is happening today. The PSBs are not in a dominant position; they are in a more vulnerable position than they have ever been. We are doing a lot of things to mitigate this. You have heard from Tony Hall what he is doing with iPlayer and from us about what we are doing on a number of different fronts. But the fact is that there is a very unfair and uneven relationship between us and the platforms. Tony Hall mentioned that on Alexa, if you ask for news, it comes up with the BBC. This is only because they have a deal, a partnership, to do that, not because that is what Alexa would do normally. That is the kind of thing you have to legislate on. Legislation can help the dialogue between platforms, because it establishes a framework within which to have the discussion.

Lord Gordon of Strathblane: To be specific, are you looking at retransmission fees?

Dame Carolyn McCall: We would like that very much. We think that there is something unfair about having to put our main channel on platforms for free, and those platforms encourage viewers to skip or PVR advertising, so we do not get money for it. We are therefore in deficit on that advertising. That is encouraged behaviour, yet we cannot get any compensation because there is no principle that says, "If you are going to encourage that, you need to compensate the broadcaster whose content you are carrying for free". Then, as you have heard, prominence is becoming dissipated because of other ways of representing programme content, so there is a disaggregation that is very much working against prominence if you are a PSB today.

The Chairman: Finally on prominence, and then we will move on, should Ofcom have a range of sanctions available to it against platforms that do not comply with the letter or the spirit of whatever code it has produced, and what could those sanctions be?

Magnus Brooke: The answer is yes, in the sense that, at the moment, if you are an EPG provider you need a licence and, ultimately, Ofcom's sanction is to withdraw your licence and you cannot then provide an EPG. That is a pretty serious sanction—an existential sanction if you are a TV platform, because if you cannot have an EPG, you do not really have a TV platform. Equally, under those licences you can force people to comply and fine them. So there are a variety of sanctions. The sanctions regime for licence holders is reasonably well established in statute, so I would have thought that the same system could apply.

The Chairman: So another thing we need to make this work is a commitment to enforcement by Ofcom.

Magnus Brooke: Yes.

The Chairman: We will move on. We will stick with some of the commercial issues but move on to other issues such as the advertising playing field.

Q201 **Lord McInnes of Kilwinning:** Perhaps I might explore the headwinds that the current commercial model faces. Notwithstanding that you see a future for linear production and viewing, it will continue to decrease, and advertising is already being lost to a significant degree to social media. To what degree does that make a long-term future for the current model workable? Secondly, does it mean that the cross-subsidy is even greater from non-PSB production to PSB production, and when does that become untenable in terms of the current cross-subsidy?

Dame Carolyn McCall: That is one of the reasons we diversified into our own production business. ITV Studios is a business with a turnover of roughly £1.5 billion. We have done that because it helps cross-subsidise everything else and diversifies us away from the headwinds. The advertising market is cyclical as well, so there is volatility in it, but it is also about viewing, because if your viewers are going online, your advertisers will respond to that. So we are trying very hard to mitigate those headwinds. The Hub is a very important answer to that, because we need to make that our equivalent online. We look at this as total

viewing, and that is how we talk to advertisers about it. We will also have addressable advertising—programmatically advertising—which is what Facebook and Google have, effectively.

We are trying to ensure that we diversify. BritBox is one way of doing that because, although we offer everything free to air, we are also saying that you can get this vast, brilliant breadth of British-originated content all in one place. That is a powerful consumer proposition, and there is demand for it, but it is also a way of helping to cross-subsidise the other effects that we are seeing. So it is not that advertisers do not see TV as a strong, effective medium. The return on investment in TV is higher than in any other medium. It is simply that you have cyclical pressure as well as viewing trend pressure, and that is conflating to make it very much harder today than it has ever been.

Lord McInnes of Kilwinning: How do you think the current legislative model for advertising could be improved to help that—if it could be improved?

Dame Carolyn McCall: TV is highly regulated, and ITV is the most regulated of all broadcasters. We are regulated on content and editorial, as we should be, but we are also highly regulated on advertising. Not one advertisement appears on TV that has not been through the test. There is a dissonance there, because there is little regulation online. It is largely self-regulated. There is this bizarre thing where an Iceland ad was not allowed to be shown on ITV but went completely viral and was shown repeatedly online. It lost us money. Do you see what I mean? It is not a level playing field. All we can ask for is a level playing field with the platforms and the digital giants, because that has an advertising effect. That is where it is unfair currently.

Magnus Brooke: On Lord Gordon's point, we are also trying to make sure that, as a PSB, we properly capture the value we create. To give an example, one of our most popular dramas this year has been "Manhunt", which is a three-episode drama. In Sky homes, we had about 2.5 million views for that programme on average. We were able to monetise about half of that, because half of it was recorded and the ads were skipped. The loss to us across the three programmes was just under £1 million. The issue for us is partly about making sure we get the advertising revenue, but also, on some of these pay TV platforms, you now have a very significant volume of content being recorded, which competes directly with our on-demand services.

For those reasons, it is profoundly important that we change this relationship between PSB channels and platforms, because it will have a direct impact on our ability to continue to invest in things such as drama for everybody, for free, wherever you live in the UK, compared to the SVODs, which are paid-for propositions. There is no harm in that.

Dame Carolyn McCall: Or the platforms, which are all pay TV.

The Chairman: Is anything you put on BritBox PSB content, by virtue of the fact that it comes from ITV and goes on BritBox?

Dame Carolyn McCall: I am not sure that you would necessarily classify it as that. I do not know how you would classify it, but it will have an awful lot of PSB content on it because it will be archive content from the BBC and ITV; there will be access to both libraries. In effect, this will be the second or third window—probably the third—because it appears on telly, then goes to catch-up on iPlayer and the Hub, then goes straight from those to BritBox, exclusively, for a period of time. That is what it will be. We will also commission new work. Kevin can go into more detail on that. We will do new commissions in Britain from British producers, because that is what you need for an SVOD service; you need to have something new to constantly encourage subscriptions.

The Chairman: Tell us a bit about that. Should we worry that if BritBox becomes a soaraway success, and critical to your business model—hopefully it will contribute to your business model—you will commission some of your best content straight to BritBox rather than free to air?

Kevin Lygo: No. I wish it could be like that. What I would say about the BritBox originations is that they will all be British—the clue is in the title. Ninety-five per cent of originations will be shot in the UK, they will have British talent on and off screen, and they will be made by British production companies—including ITV Studios, obviously. That is a genuine increase in proper production in the UK. Others are talking about investing a lot of money in the UK, but we have not really seen it yet.

Remember, we spend something like £120 million every year just on drama. One can get slightly obsessed with drama because it is lovely to talk about, but it is only part of what we do. BritBox will concentrate on drama, but our intention is very much to commission comedy, which is much more tested on a mainstream channel like ours. It is very hard to get large audiences for comedies, as the BBC has found much more than we have. There will be some factual content, too, eventually. So I think it will add to what we do. It is extra expenditure. At the moment we have no intention of lowering our programme spend on our traditional channels, so it is totally additional.

Dame Carolyn McCall: We need those large audiences on our channels, so it is not substitution. We have to get those big audiences to get the advertising revenue that Lord McInnes talked about.

Q202 **The Chairman:** On advertising, thank you very much for your submission to us. You have referred to headwinds today. The forthcoming ban on HFSS advertising pre-watershed will have an enormous impact on you. For the BBC there is the big issue of the TV licence and the licence fee for over-75s. For you, it is HFSS advertising.

Dame Carolyn McCall: Yes. The first thing I would say, and you would expect me to say this, is that we will do everything we can to support the drive to dramatically lower childhood obesity. It is a problem in this country and we all recognise that. In fact, we believe that behaviour change is the most significant thing we can contribute to this, because we can change people's minds. We do that through our daytime programming, through the food we show on "Lorraine" or "This Morning"

and through talking about health and fitness. We support the Daily Mile, with 1 million kids now doing some form of activity right at the start of their school day. ITV's involvement has accelerated that enormously. Veg Power has been massively successful; we got every single supermarket to sign up for that.¹ We are doing a huge amount to show kids that eating well is a good thing to do.

Our constant and continuous plea has been for this to be evidence based. We are the most regulated broadcaster in the world in terms of advertising. Ninety-five per cent of people who watch TV before 9 pm are adults. We cannot advertise HFSS products to children; it is not allowed. Children's TV audiences have declined dramatically, because they are all on YouTube, and obesity has gone up. So there is no real correlation. The Government's own impact assessment says that the calories saved by a pre-9 pm ban would be 1.7—that is not even one-third of a Smartie. Alex called it a Tic Tac but it is actually one-third of a Smartie.

The Government are not even sure about that. We have done a huge piece of work with an independent consultancy which shows that HFSS advertisers will not stop spending money but will displace the money into retail prices. They will go straight into supermarkets and discount pricing. It will not be buy one, get one free, which they have stopped doing, but a reduced price for everything. That means that kids will buy more of those products with their pocket money. So it could increase the obesity issue among children.

One thing that we can say with certainty is that it will damage PSBs such as Channel 4 and ITV. That is certain and we can tell you exactly how much it will damage us. What is totally uncertain is what it will do to reduce childhood obesity, because there is no evidence that it will.

The Chairman: Cancer Research UK and others are convinced that it is an important part of a package that would include formulation and price. They call for a comprehensive 9 pm watershed. Are they wrong about the evidence? Do you hope that you can persuade them on the basis of evidence?

Magnus Brooke: The important thing is to look at every single intervention on its merits. In other words, I just do not think it is right to say that all these things add up and you can somehow ignore the consequences of any particular intervention. You need to look at them one by one. You need to ask whether each intervention will work, and whether the benefits of doing it outweigh any disbenefit.

If you look at the TV intervention, I think you would say that it is unclear whether it will have any effect at all and there is a strong body of evidence to suggest that it could be counterproductive. It could spur price promotion and incremental consumption. The Government's own evidence shows that price promotion is very effective in persuading people to buy more than they would otherwise, particularly families with children. Given the shaky evidence of positive effect, the history of declining children's exposure and the lack of effect on obesity, as well as

¹ Note by witness: An unprecedented advertising campaign for vegetables.

the effect on TV broadcasting, we would say that there is no firm basis for this policy.

Dame Carolyn McCall: I remind the Committee and also the charities that we are talking about childhood obesity and that 95% of people who are watching ITV before 9 pm are adults. It is therefore spurious to say that it is part of a package. It sounds great to say that there are eight or nine things that we can do, but they do not have to live with the consequences of what that would mean for a programme budget that is already under pressure for all the reasons you know—we would have to cut into something we do that is highly valuable to us as a PSB.

The Chairman: I think that they would argue that 10% of viewers is still quite a lot of children.

Dame Carolyn McCall: Five per cent.

The Chairman: Okay, that is still a lot of children. Also, given that those charities are convinced that a package that would work would include an advertising ban, those children would be protected as well as everyone else.

Dame Carolyn McCall: Those kids are watching with their parents. The 5% are watching programmes such as “Britain’s Got Talent”, “The X Factor” and “I’m a Celebrity”. They are watching family shows with their parents, so parental control is important here. There is just no compelling evidence to say that this is the case. Kids get pocket money, and the big thing for them is going to the local shop—a Tesco or whatever it might be—after school and buying things with their pocket money. If it is price-promoted or even just reduced in price, they will buy it. We all know that from our own kids’ behaviour.

Q203 **Baroness McIntosh of Hudnall:** May we come on to co-production and the economics of it? We have heard a lot of evidence that seems to support the contention that the cost per hour of high-end stuff has gone up quite significantly and quite suddenly over a relatively short period. There are different views on why this has happened. First, it would be nice to know your view on why it has happened and on the impact it has had on your commissioning policy and your ability to produce high-quality drama, which clearly you still have because you are still producing it.

More generally, you have heard the conflicting evidence on whether there will or will not be a sustained level of co-production money coming in from the SVODs, et cetera. What is your medium-term to long-term view of the future of co-production?

May I add one more thing? I listened to what you said about BritBox. How will the issue of the retention or non-retention of rights in co-produced work impact on your ability to put your high-end co-produced work on to BritBox when the moment comes?

Kevin Lygo: First, yes, there undoubtedly has been cost inflation. Again, we are talking about drama. That is a simple supply and demand issue. There is more money going into drama. People therefore come at a

premium. As we have heard, there are not enough good people to go round, so good people can charge good money and the whole thing inflates. We do not do anywhere near the same amount of co-production as, say, the BBC. I was amazed by the amount of money it spends with co-producers. We fully fund 84%, I think, of everything we make.²

Baroness McIntosh of Hudnall: Eighty-four per cent?

Kevin Lygo: Yes. The cost of a drama does not equate to its success when transmitted. Some 95% of our drama is UK-based. What we have found is that, traditionally, shows such as "Vera" or "Endeavour", those long-running detective shows, which are quintessentially British, are very affordable to us and our studio's distribution arm, which sells them on. If a programme budget—

Baroness McIntosh of Hudnall: May I stop you for one moment? I hear what you say, that they are affordable to you within the budgets that you are now able to create, but has there been cost inflation within those kinds of dramas as well?

Kevin Lygo: Yes.

Baroness McIntosh of Hudnall: Even though you are still fully funding them?

Kevin Lygo: There used to be quite a disparity in that there were dramas that were a bit cheaper to make and then more expensive dramas. Now everything starts at the level of what used to be the most expensive drama—essentially about £1.3 million an hour. There used to be dramas for which we would pay—

The Chairman: Why is that? Is it because some costs are universal?

Kevin Lygo: I think the reason is people—people just earning more, and more people working on productions. The good thing is that a higher quality is expected all the time, so you have to make sure that everything looks good. I remember that when HD came in, it made quite a difference to design budgets and so forth.

Then there are more expensive programmes. Some producers love to have a budget of £4 million an hour or something like that. We do not do very much of that. You can get seduced into chasing after a look that is closer to a movie experience. As I said, we make the sorts of programmes I cannot imagine anyone but a PSB making, such as a drama about the Hillsborough disaster or about Stephen Lawrence. We did a harrowing three-parter last year called "Butterfly" about a transgender child. We made a brilliant one last year called "Little Boy Blue", about the murder of a child in Liverpool. These are completely affordable productions and unaffected by whatever the SVODs want to do. Remember that with the SVODs, so far we are talking about "The Crown"—which was marvellous, and good luck to them—and some other things we struggle to remember.

² Note by witness: For clarity, 84% relates to all ITV commissioned programmes, including drama. The number of fully funded dramas is well below that.

We are making 130 hours of drama a year, and the BBC is making much more: 200 hours a year. So it may affect some people. When a writer is engaged by an SVOD for a long time, they are locked up and they have gone away. That is a shame; they are busy and they cannot write for us because they are writing for "The Crown". But there are lots of other writers. You could see a benefit to us having to use a less experienced writer; they would come on and all the rest of it. So, although they have undoubtedly contributed to the rise of certain sorts of drama, as far as ITV is concerned it is not affecting us particularly in production. And remember, as a studio—I used to run the studios—it is a joy; there is a new buyer in town and they might want to lay a commission.

Baroness McIntosh of Hudnall: Can you say a bit more about ITV Studios and how it fits into your overall business model? You are making programmes for, among others, the BBC as well as yourselves. What is your expectation of ITV Studios in the future?

Kevin Lygo: In a perfect world we would commission a show from our own studios. We would probably fully fund it and then the studios can send it around the world and make lots of money. We get what we want, and they get the work and what they want to sell. So we are naturally inclined towards commissioning from ITV Studios—in all its labels; it is quite a big outfit now.

Dame Carolyn McCall: It might not recognise that. We commission loads of stuff that is not from ITV Studios.

Kevin Lygo: About half our drama comes through our own studios and half from the independent sector.

Baroness McIntosh of Hudnall: Is that policy or happenstance?

Kevin Lygo: It is both.

Magnus Brooke: It is both.

Kevin Lygo: I think that it is a healthy balance, with proper competition between people. There are wonderful independents coming in offering juicy things that I could not possibly turn down. So that is the ratio for the work.

Dame Carolyn McCall: There is also a regulatory requirement for us to have a quite substantial number of hours through the indy sector. So there is a regulatory piece and I have also learned that commissioners just want to commission the best stuff and will go anywhere to get it, because that is where they get the audiences—and that is healthy.

One thing that we do in ITV Studios is work with the SVODs. In a way it is quite good that, when you are commissioned by them, you do not keep the rights—and you know that from the start.

Baroness McIntosh of Hudnall: It is a job.

Dame Carolyn McCall: It is a job. You get commissioned, you make a show and you sell it. For a period of time—quite a long period—you do not have the rights. But you go in knowing that. If we wanted to keep

the SVOD rights to something we made through ITV Studios for the UK only, it would be quite a tricky conversation.

Baroness McIntosh of Hudnall: But that suggests—sorry, I know that we are running out of time—that you might have a slightly different attitude to the stuff that you create that you will just make and hand over, from the attitude that you have to work that you are going to keep in your family. Can you reflect on the issue of the longer-term life, the archived life, of material that you create that will go on to BritBox if it all works out?

Dame Carolyn McCall: Some of the work from ITV Studios will never go on to BritBox.

Baroness McIntosh of Hudnall: Exactly.

Dame Carolyn McCall: There is a proportion. SVODs work with providers from all around the world. They do not just come to this market. They will work with Italy, Germany, France—so we have production companies around the world, including America. That is how we have diversified. It has been a very important part of our strategy to hedge against the volatility of advertising.

The Chairman: Thank you. There is one other area that we want to explore. You mentioned it at the outset when you talked about ITV's contribution to PSB around skills and training. Baroness Chisholm will summarise the question for the record, and then perhaps you could write to us about it, rather than taking up time now.

Q204 **Baroness Chisholm of Owlpen:** We are thinking about whether you feel that public policy could help in some way towards the development of skills in the production sector, and whether it could also help with the underrepresentation that there is at the moment. We are also thinking about the apprenticeship levy, which we have heard a lot of bad things about—that it is not working.

Dame Carolyn McCall: We look at this whole area. I think that you already have quite a lot on regional representation. I have already given you those numbers and would be happy to put them in writing. ITV looks at this as a total commitment to diversity and inclusion, whether regional, BAME, disability, gender or LGBT. We have initiatives on screen, off screen and as the ITV group. I can give you a lot of information on all our initiatives. We are making good progress. We have improved the statistics but we are very focused on the perceptions of inclusion rather than just the statistics. Ofcom, of course, holds us publicly to account on our metrics.

On the apprenticeship levy—you will have heard this repeatedly—we were taking about 40 apprentices a year, which was really good, but we have reduced that slightly this year because the levy started to kick in.

Magnus Brooke: We will definitely write to you on that.

The Chairman: The clerk will give you the subject areas we would have explored, and perhaps the supplementary questions we might have

asked. Thank you very much for giving us a full hour of your time. It has been very useful to the Committee. Thank you for the written evidence you sent us, and for the engagement of you and your team, Dame Carolyn, with the Committee. We went to see your colleagues in STV in Glasgow last week, and received an open invitation to the Committee from ITV that in future we would like to take up. Dame Carolyn, Kevin Lygo and Marcus Brooke, thank you very much.