

The Association for Commercial Broadcasters and On-Demand Services (COBA)—written evidence (BFF0059)

House of Lords Communications and Digital Committee inquiry into BBC Future Funding

Introduction

1. COBA is the Association for Commercial Broadcasters and On-Demand Services. It represents multichannel broadcasters in the digital, cable and satellite television sector, as well as on-demand services.
2. COBA members operate a wide variety of services, offering news, factual, children's, drama, music, arts, entertainment, sports and comedy. Their content is available on free-to-air and pay-TV platforms, as well as on-demand.
3. COBA members are arguably the fastest growing part of the UK television industry, and are increasing their investment in jobs, UK content and infrastructure. They make this investment without support from the licence fee or indirect support from statutory prominence.
 - **Scale:** In the last decade, the sector has increased its turnover by 30% to more than £5 billion a year. This is rapidly approaching half of the UK broadcasting sector's total annual turnover, and has helped establish the UK as a leading global television hub.¹
 - **Employment:** As part of this growth, the multichannel sector has doubled direct employment over the last decade.²
 - **UK production:** In addition, the sector has increased investment in UK television content to a record £1.1 billion per annum, up nearly 75% on 2011 levels.³

Response

Question 1. How will new technologies and consumer habits change the future broadcasting landscape?

- 1) COBA has consistently supported the principle of the licence fee, and sees the BBC as one of the cornerstones of the UK screen sector. We firmly believe in the merits of a mixed ecology that encourages public and private players. This provides greater audience choice, creative competition, and increases investment for UK content.
- 2) There is clearly more competition from new services than ever before, though this has bought many benefits for audiences that should not be

¹ Ofcom International Broadcasting Market Report 2013

² Skillset, Television Sector – Labour Market Intelligence Profile

³ COBA 2019 Content Report, Oliver & Ohlbaum Associates for COBA

ignored, including a greater range of content that appeals to different interest and diverse, sometimes minority, groups. Viewing is migrating to on-demand and this is something that the BBC should embrace rather than see as a threat. We opposed the recent reversal of the BBC's decision to move BBC3 online, and see the channel's relaunch as a linear service as questionable at best. Similarly, the BBC's partnership on Britbox with ITV, followed by its recent divestment of its stake, seems muddled.

- 3) Additionally, policymakers will need to take into account the future of digital terrestrial television (DTT) multiplex licences, which are used by both PSBs and commercial operators to reach viewers via broadcast TV, and the effect of viewers migrating from broadcast to IP viewing. Last year, the Government decided to renew licences until 2034, but with the inclusion of a new revocation clause that cannot take effect before the end of 2030⁴. How and when migration takes place has the potential to deliver benefits but is complex, and realising benefits for all stakeholders is not a given.

Question 2. What is the purpose of a national broadcaster?

- 4) The purposes of the BBC are wide ranging as set out in the Charter. Whether these are the correct purposes, policy makers must decide, but in our view universally available news is crucial, followed by those genres that are less well served by the market. While COBA members are major investors in UK kids content, for example, we see a high level of first-run UK children's content available without advertising as a priority for the BBC.
- 5) This does not mean that content cannot have broad appeal, but, across its range of activities, it is imperative that the BBC is distinctive. Otherwise, the rationale for public support is weakened. Indeed, the licence fee, and therefore making content available free-to-air without advertising is one way that the BBC is distinctive, through its content should of course be distinctive as well.
- 6) Crucially, the BBC must be accountable as well, and so it must be possible to measure or gauge this distinctiveness. Any move away from quantitative measurements such as quotas will raise challenges in this regard that will need to be addressed.

Question 3. What principles and priorities should inform the choice of the BBC's funding model? And how would any alternative funding models affect what the BBC can provide?

- 7) We are keen to ensure that any changes to the BBC funding model should not damage the UK's successful mixed ecology. The UK creative

⁴ [Consultation on the renewal of digital terrestrial television \(DTT\) multiplex licences expiring in 2022 and 2026 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/dtt-multiplex-licences-expiring-in-2022-and-2026)

sector benefits from a mixed ecology of different investors. Different companies, using different funding models, provide a wide variety of services, including linear and VoD, as well mainstream and niche or specialist content.

- 8) This mixed ecology enhances audience choice and creates a strength and resilience in the sector. When one funding stream is under pressure, such as advertising was during the Covid-19 crisis, this can be mitigated by other revenues such as subscription and licence fee. This mix of investors and services also enhances the variety of content: mainstream services such as the larger PSBs must cater to a wide demographic, but smaller, more targeted services can offer more specialist content. Both are important.
- 9) COBA members – ranging from commercial, non PSB broadcasters to subscription on-demand services - invest more than £1 billion per annum in first-run UK content,⁵ as well as making a significant investment in skills, facilities, infrastructure, and other areas. Ofcom's recent PSB report found that non PSB sources account for nearly 50% of all investment in UK production.⁶ This is not simply about increasing investment levels, it also enhances the range of content being created and the opportunities for those making it.
- 10) To expand on this point, we refer to the annual census of producer's body Pact, which shows that the multichannel sector (i.e. non PSB broadcasters) spends a higher proportion of their commissioning budgets on new shows, as opposed to returning series, than PSBs, creating more opportunities for fresh ideas for content.⁷
- 11) While investment has concentrated around London, the mixed ecology is rippling out across the UK. A recent Enders report stated that non PSB sources accounted for 39% of investment outside London, including inward investment. Bristol, for example, was recently dubbed Green Hollywood,⁸ reflecting how a range of players has stimulated local production in the natural history genre. Similar stories are emerging in many areas. In Wales, for example, drama is the key genre thanks to investment from PSBs such as the BBC's Dr Who series and non PSBs, such as the HBO-BBC co-production His Dark Materials and Sky's returning series, Britannia. Other examples include Disney's first slate of new commissions since launching Disney+ in the UK, which include shows made in Manchester, as well as in Scotland and Bristol (see case study on North of England). Also in Scotland, Amazon has invested in a range of productions (see case study on Scotland).

⁵ COBA Content Report, O&O for COBA

⁶ Small Screen: Big Debate, Consultation, Ofcom, Section 3.21, stated: 'While PSBs now only commission slightly more than half of all programmes made in the UK in spending terms, this is largely due to a significant increase in international and UK multichannel spending.

⁷ Pact financial census 2021, O&O for Pact, slide 19

⁸ <https://www.theguardian.com/media/2021/nov/20/wildlife-series-bristol-green-hollywood-independent-production>

- 12) We also note that such non PSB content is perfectly able to reflect UK cultural identity, as evidenced by Discovery's *Born Mucky: Life On A Farm*, A+E Networks' *Crimes That Shook Britain*, Prime Video's *Clarkson's Farm*, and Steve McQueen's *Small Axe*, a co-production between Amazon and BBC Studios.
- 13) Far from being a threat to PSBs, such investment from other sources enhances their output, as many of their own commissions are part funded by non PSB sources. While co-production has always taken place, third party funding is now "the new normal" for many areas of programming, providing an estimated £400m a year for PSB commissions on top of the contribution from PSBs themselves.⁹ This is nearly double 2012 levels and has enabled PSBs to successfully mitigate any increase in production costs, as Ofcom concluded last year.¹⁰
- 14) To put this contribution from third parties into context, it is more than all PSBs invested in drama themselves (£307m in 2017). Some have suggested that this third-party funding is drying up. On the contrary, it is increasing, as the above figures for third-party funding for PSB content illustrate. Even if the number of co-productions with Netflix has slowed, others such as non PSB broadcasters or other SVoD services are queuing up.
- 15) This mixed ecology would be undermined were the BBC to move to a subscription or advertising model. It is far from a given that the overall level of revenues for the sector would increase as a result of such a move. Furthermore, it is difficult to see how the BBC would not have an undue competitive advantage if, under a hybrid model, its public services are linked to significantly expanded commercial activities generating revenues from advertising and subscription. It is important to bear in mind here that the BBC remains the biggest media broadcaster in the UK, and the risk of crowding out other players is significant.

Question 4. How should the BBC change over the next five years to adapt to evolving consumer habits and needs - and what does the Corporation need to do to prepare for the future in the longer term?

- 16) As we have noted, broadcasters are making the transition to on-demand and the BBC should do the same. Moves such as returning BBC3 to the linear schedule are ill judged and costly, while the recent investment in Britbox, and subsequent withdrawal, seems muddled. As we have noted in response to Question 1, the BBC will also need to consider the implications of increased IP viewing.

⁹ According to Ofcom's 2018 Communications Market Report, the BBC, Channel 4 and Five reported that third party funding for first-run originations represented £338 million on top of their own production spend in 2017. ITV figures were not available but, as it is the biggest commercial PSB, COBA estimates that third party funding would amount to more than £400m if it were included.

¹⁰ Ofcom Communications Market Report, 2018

- 17) The BBC should also look to partner. As we have already evidenced in the drama genre, this has huge advantages for the BBC and the licence fee payer.

Question 5. What actions and consultations are needed from the government to inform its future BBC funding plans?

- 18) We support a transparent process in which stakeholders are consulted fully. This should include an assessment of the market impact of any changes in funding to the BBC. For the record, we do not believe the BBC board is fit for purpose to take objective decisions on market impact, populated as it is with a majority of BBC executives and/or BBC appointees. While this is necessary to maintain independence from Government, and the BBC Board may have an important role in other matters, it means that decisions about the BBC's market impact should be left solely to Ofcom, the sector regulator.
- 19) We have already noted the potential impacts of migration to IP viewing. This will require thorough discussion of the interdependencies and consultation on the policy choices, and sufficient time to run this process and get the right legislative framework in place. For comparison, digital to analogue switchover took well over a decade. We would suggest, this process starts in the Government's forthcoming media White Paper.

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