

Written evidence submitted by Enders Analysis

Response to the DCMS inquiry into “The future of public service broadcasting”

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About Enders Analysis

1. Enders Analysis is the leading technology, media and telecoms research company in the UK. Independent, it provides research, analysis and specialist expertise on major markets (UK, USA and Europe).

Explanatory Note

2. Given the constraints in length of this evidence it is not possible to fully illustrate the differences in approach, risk and formation of the different public service broadcasters (PSBs) across all relevant issues. As such—unless explicitly stated—we have approached the different areas highlighted for discussion through the prism of the greater system of public service broadcasting (PSB), and its mission.

Area 1: Regulation

Are the current regulations and obligations placed on PSBs, in return for benefits such as prominence and public funding, proportionate? What (if any regulation) should be introduced for SVODs and other streaming services?

3. The PSBs have various programming, news, original content and regional obligations, and all must ensure that their PSB services are available on TV platforms throughout the UK free of charge (“must offer”). In return for fulfilling their public service obligations, they receive certain benefits which include guaranteed spectrum and positions one to five on the linear EPG. If directed by Ofcom, TV platforms “must carry” these services.
4. Despite the declining value of these benefits, we broadly believe the current balance of payments between TV platform operators and the PSBs remains proportionate (i.e. no net payments needed), as the DCMS did in 2016. However, to maintain this the prominence regulation must be updated to incorporate the burgeoning online video environment.
5. Currently, prominence only applies to the linear electronic programme guides (EPGs) on TV sets or set-top boxes (STBs), the value of which is declining given the migration of viewing and content discovery to online platforms’ homepages, which feature a mix of third-party apps alongside highly personalised live and on-demand programme recommendations: here the PSBs are just one of many content providers with no prominence advantage. This poses a very serious challenge to the PSBs’ overall business models.
6. As such, we broadly agree with Ofcom’s July 2019 “principle based” prominence regime recommendations that EPG prominence should be extended to connected TV platforms

(which include smart TVs and streaming sticks and boxes, as well as pay-TV STBs). However, we concede that inconsistencies around prominence afforded to non-PSB material from the PSBs need to be addressed, agreeing with Ofcom's proposal of setting qualifying criteria—determined through consultation—for PSB players, if they are to be eligible for prominence on various platforms.

7. It is critical that prominence is extended to all connected TVs, whether a streaming stick, box or smart TV. This is an essential step in ensuring that the PSBs continue to deliver the benefits outlined later in this submission. But we acknowledge that this is far from easy given that TV and device manufacturers already have global deals for, say, the Netflix app to be in a highly visible position. Moreover, they may not be encouraged to change their interface designs for just the UK: a wider European push may be required.
8. Prominence for a PSB SVOD service is harder to justify, given the likely content available. BritBox, for example, would not fulfil any programming criteria set down for qualification given the lack of certain genres, such as news & current affairs, and scant original content.

Area 2: Representation

How would representation be protected if changes were made to the PSB model? How would the nations and regions be affected by changes to the PSB model? Is the 'quota' system the most efficient way to maintain and improve representation in broadcasting?

9. As PSBs are vital to the representation of the nations and regions and production outside of London, changes to their financing and viability would necessarily impact upon the industry's activity in this area. Recently, tighter regulation has resulted in a greater proportion of PSB spend devoted to outside of London. Non-PSBs are performing well in other areas of on-screen diversity, but their impact in the nations and regions appears to be much smaller.
10. Currently, the PSBs must produce a proportion of their programming in the nations and regions (i.e. outside London) with other broadcasters not subject to the same obligations. These requirements support the UK's wider creative economy and ensure that viewers across the country can access relevant, local content.
11. Between 2010 and 2018, the proportion of (qualifying) PSB hours produced outside London increased from 39% to 52%, with spend growing from 38% to 44%. This was of a smaller overall pie, however—in real terms, PSB spend on first-run UK content declined from £2.92 billion to £2.59 billion.
12. Viewing reflects this effort: in 2019, 57.8% of viewing outside London was to PSB channels. In London, this proportion was 53.6%. With viewers outside London watching more TV overall, this equates to 25 more minutes of PSB TV content every day for each person outside London.
13. Furthermore, according to Ofcom, 61% of PSB viewers in 2019 believed that PSB channels showed “different kinds of cultures within the UK”, up from 51% in 2014. 59% thought that they showed “different parts of the UK”, up from 49% in 2014. 50% of PSB viewers in 2019 believed that PSB programming is “different to what [is seen] on other channels”, consistent with the 51% measured in 2014 despite significant viewing changes.
14. In radio, the commercial sector, by and large, favours more commercially-viable networked shows (with local news and information), while the BBC has a remit to provide programming that reflects the nations and regions, which it continues to fulfil successfully. One third of production spend for BBC network radio services must be incurred outside of the M25—39% was achieved in 2018/19. The Salford-based 5 Live contributes to this. While BBC local stations (in England) must produce at least 95 hours of original, locally-made programming

each week, the 2018/19 average was 118. In 2018, 96.9% (272,001) of original BBC local/nations radio hours were produced outside London.

15. For many older listeners, BBC local/nations radio's provision of relevant programming, news and information is essential, and especially so at this point in time. 69%, 78% and 84% of BBC Radio Scotland, Ulster and Wales' respective hours are to listeners aged 55+, as compared to 55% across the BBC's network stations (Q4 2019).
16. In 2018/19, the BBC spent £76 million on nations radio content reflecting the commitment of the BBC to serving the different British nations, cultures and languages. The cost per user hour is higher for these valuable national services, from 6p for Radio Ulster and Foyle, up to 23p for the Welsh-speaking Radio Cymru and 27p for the Gaelic-speaking nan Gàidheal. By comparison, Radio 1, 2, 4, 5 Live and 6 Music are all 3p or less per user hour.
17. The quota system ensures that the PSBs continue to measure their progress in this area and alongside tightening of definitions and more prescriptive instruction—Ofcom updated its guidance for regional TV production in 2019 to ensure that the PSBs' quotas are more clearly defined and therefore effective—it remains the most efficient way to maintain and improve representation in broadcasting.
18. Operational obligations and constraints must be clear and inflexible: e.g. for ITV, the *Communications Act 2003* largely did away with a prescriptive approach when it came to the provision of genre programming, the result being that ITV has been able to cut back on a number of different types of content.
19. While the impact of the PSBs predominates in nations and regions representation and production, onscreen diversity and representation is in fact bolstered by others, with Sky and the commercial PSB families outperforming the BBC in some areas according to the Diamond reports.

Area 3: Accessibility

How would changes to the PSB model affect the accessibility of services? How would a wholly internet-based service compare to the current PSB model?

20. Talk of a BBC subscription fee to replace the Licence Fee—which will remain in place until 2027—is naïve. Any transition to a subscription funding model would take many years, with considerable implementation expenses including replacing televisions, added content distribution costs over IP, a major reduction in content volume/quality, coupled with the potential loss of universality of access—the bedrock of PSB.
21. Subscription requires some form of Conditional Access (CA) which enables a household to consume the service only if it has been paid for. This is not possible for radio broadcasts on FM, AM or DAB, nor on the television platforms Freesat or DTT (Freeview), the UK's largest.
22. As no TVs in the UK have CA embedded within them, they would need to be fitted with such a system necessitating another switchover which would take years to plan and execute. Digital switchover between 2005-2012 cost £500 million in planning, marketing and communications and included a government-funded Switchover Help Scheme to help older households and those with disabilities.
23. There are other flaws in a subscription model, an option gathering pace due to the success of Netflix, a service not comparable to the BBC, due to:
 - a. **Breadth of output:** the BBC covers TV genres that Netflix never will, including news, current affairs, sport and national events, as well as providing BBC Radio services.

- b. **Supporting UK production:** 94% of the BBC's TV content spend is on first-run UK originated content and, as the largest commissioner, it is the lifeblood of the UK production sector. Netflix has stated that it spent £400 million on British-made TV programmes and films in 2019, and this is increasing, but this amount is tied to current corporate strategy, rather than public obligations and quotas.
 - c. **UK culture:** The BBC reflects and celebrates UK culture, including the different regions and cultures within the UK. Netflix is a global service, with some content produced in the UK but primarily created for an international audience—this programming is not necessarily aligned to British taste or cultural values.
 - d. **Netflix is heavily debt-funded:** The BBC cannot/should not hold the level of debt that Netflix does.
24. If paid for by subscription the BBC's output would, by necessity, narrow, and move away from the public service genres which evoke little appetite to pay but are thought by most to be valuable. If DTT were shuttered to avoid a switchover then universality is lost. DTT is the only TV platform with near universal coverage (98.5%): satellite, according to Ofcom, is unlikely to achieve above 95% coverage, and would require universal instalment of satellite dishes and receivers. Virgin Media will only ever have partial coverage of the UK.
25. Any wholly-internet based service cannot match DTT at this stage either. Broadcaster content can be distributed via fixed broadband, and around 98.5% of UK households can subscribe to broadband speeds of at least 10Mbps, enough for a single HD video stream (which uses about 6Mbps). But not all households *do* subscribe, with some not paying for the fastest speed available, and 20% of UK adults, and 30% of those over 55, not taking any fixed broadband at all.
26. Many of those currently without broadband are also unlikely to have smart TVs, which then requires distributing HDMI dongles to enable the programming to reach the TV, with a set-up process that is complex for those not technically minded. Taking broadband just to watch the BBC would entail an extra cost of £20 to £35 a month depending on the provider and package, between two and three times the current cost of the licence fee and on top of any BBC subscription.

Area 4: Impact

What value, if any, do PSBs bring to the UK in terms of economic (local and national), cultural and societal impact?

27. Attempting to quantify, or even illustrating the value of something that is, at its core, uneconomic is difficult and positions the notion of "value" within an economic framework that the purpose of public service broadcasting is not structured nor intended to succeed in.
28. As it stands, the greatest attribute of PSB is the malleability and opportunity for intervention that it grants the broadcasting sector, given the still outsized presence in the market of the PSBs. The counterfactual is important here, especially given that it is the current direction of travel, with a greater proportion of viewing provided by purely commercial, foreign companies, none of which:
- a. Would be answerable to the public in the same way
 - b. Could be compelled to produce the type of content most think benefits the nation but may be uneconomic
 - c. Would be structured to return the same kinds and volume of value to the wider creative economy

29. From the quotas and obligations that the PSBs are to adhere to a number of material benefits have emerged that go beyond the free accessibility and guaranteed availability to the viewer of certain types of original programming (such as news, current affairs, national events and arts) that non-PSBs would likely not consider commissioning. These include:
- a. **Leading on industry-enhancing, non-commercial initiatives that others won't:** diversity (both on and off screen), regionality of production and voices, stoking operations in burgeoning creative clusters such as Salford and R&D into broadcasting technologies.
 - b. **Obligations to invest in local content, through a variety of vendors, with the upside returned to the producer:** led by the *Communications Act 2003* the PSBs negotiated Terms of Trade that granted independent producers control over the secondary rights of the programming that they produce for the PSBs (and the lion's share of the revenue). After their inception, UK international TV rights income grew at an average annual rate of 22% (between 2004 and 2008) and post the financial crisis continues to grow at approximately 7%—enabling a vibrant sector and handing producers the ability to cashflow productions in a manner before impossible. There are no terms of trade with the foreign streaming services which generally pay a margin on production costs and have less advantageous payment terms.
 - c. **Commissioning of “real” local content:** although the likes of Netflix and Amazon are investing more in British content, this is produced not just for a local audience, but for a global one. This can result in skewing of cultural touchstones, such as the forced normality of the gated community in *Safe* and the approximation of a British accent by its US star, or the full-length lockers and letter sweaters in *Sex Education*. Some PSB content, however, co-produced with foreign channel operators may also display these tendencies.
 - d. **Talent outflow to the commercial sector:** obligations to provide training at some PSBs, as well as the nature of the sector's balance, mean that there are financial incentives that guarantee the movement of many to outside the PSB sphere.
 - e. **Enrichment of the entire TV and radio offering through a commitment to variety and quality:** without a significant PSB presence the entire broadcast offering is diminished. The US television experience has almost interminably high advertising loads (up to 15 minutes/hour), repetitive, interchangeable procedural franchise dramas and partisan news—all made possible by the lack of the stabilising presence and market influence of large, distinctive, impartial broadcasters (one ad free) and the paramount requirement to satisfy shareholders by all major players.
30. Operating under a quota regime has drawbacks, with the most notable being the speed of operation and the ability to react to changes in the market.
31. These negatively affect the entire sector. The PSBs are considered to be slow with regard to commissioning, potentially a remnant of a time when they were essentially the only commissioners, and the prescriptive nature of their obligations surrounding content output makes it difficult for the larger PSBs to materially alter their schedules in terms of genre mix or style and tone. Comparisons in the mind of the viewer with the faster moving SVODs, or instantly-produced user-generated content on YouTube could be reflected in the perception of the entirety of television as a less dynamic product.
32. Other concerns surround news, with the commercial news sector often arguing that BBC news services online “crowd out” the market. In short, we see no strong evidence to support this:
- a. PSB and commercial news operations are *complementary* with different editorial standpoints and therefore content outcomes, and both ensure plurality in news.

- b. PSB output is required to be fact-based and impartial, whilst newspaper organisations often distinguish themselves by political standpoint, deeper investigations, analysis and a spectrum of opinion.
- c. PSB news provision anchors the market, and is seen as the most trusted news provision in the UK: during the COVID-19 lockdown the Reuters Institute for Journalism found the three most trusted news outlets were the BBC, ITV and Channel 4.

Area 5: Looking ahead

What should a PSB look like in a digital age? What services should they provide, and to whom? In what way, and to whom, should they be accountable? Is the term 'public service broadcasting' still relevant and, if not, what is a suitable alternative?

- 33. The purposes that underpin public service broadcasting remain essential whatever the pervading mode of transmission of information and entertainment: a mission to provide quality local programming, impartial news, and championing initiatives that enhance the entire sector are constant requirements of any leading society.
- 34. Universality of access and ease of that access is integral to the PSB mission, and looking far further forward to when delivery of content is wholly via the internet, this must be maintained. At that point it is natural that the expectations as to how public service broadcasting achieves its objectives may have shifted. Certain issues are already clear and will necessitate changes in the operation of the businesses of the PSBs and require the refocusing of remits:
 - a. With national and local press currently under financial pressure, the value and importance of trustworthy news sources will only rise and the provision for funding of this through the PSBs must be maintained and ring-fenced.
 - b. Changing viewing patterns hastened by the availability of on-demand viewing and the rise of user-generated content through services such as YouTube and TikTok will release the PSBs from the constraints of the television schedule, requiring more flexibility around content form and volume of certain genres. As such, innovation and experimentation should be advanced in remits. Ofcom has proposed to accept an amendment to the BBC's children's obligations—transitioning some broadcast news quotas to online delivery—and this flexibility should be extended to reflect general viewing shifts. However, such a trend cannot be an avenue for manipulation of broadcast quotas given the vast—often older—audience that relies on that type of content delivery.
 - c. Due to the structure of the broadcast sector, some genres (sport, scripted drama) may become too expensive for the PSBs to commission or license at a consistent scale, meaning remits, listed events or funding mechanisms would need to be readdressed.
 - d. Furthermore, giant upheavals occurring in the sector may challenge the viability of the PSBs themselves. Accompanying these challenges will be changes in the balance between benefits and obligations of being a PSB, requiring regular reassessment.
 - e. The value of public service broadcasting to the public should be promoted, along with its accountability to them. "Broadcasting" will eventually be a redundant term and PSB should be renamed with something that outlines its benefits and its beneficiaries, such as "Programming for the UK".