

Written evidence submitted by pact

Submission to the DCMS Committee Inquiry into the future of Public Service Broadcasting

June 2020

Introduction

1. Pact is the UK trade association representing and promoting the commercial interests of independent feature film, television, digital, children's and animation media companies.
2. Pact is a strong supporter of the UK Public Service Broadcasting (PSB) system, which in the UK is a key intervention in the UK broadcasting ecology and plays a significant role for creatives, producers and audiences alike. It underpins a wider creative economy and plays a strong part in providing high quality UK content which is beneficial to audiences across the UK
3. The delicate balance of legislative and regulatory interventions has led to the creation of a broadcasting ecology here in the UK which is internationally recognised as one of the most dynamic, innovative, creative and diverse in the world. In 2018, UK independent television sector revenues were over £3 billion.¹ The PSBs still accounted for over 80% of the total UK commissioning spend over the last six years. This growth has meant the UK independent television sector has transformed from a cottage industry in 2003 to one of the most successful in the world.
4. The UK production and broadcasting ecosystem has contributed to the UK becoming the second largest TV exporter in the world after the United States. The latest UK TV Exports Report showed that the UK television industry including the BBC and ITV Studios exported an estimated £1.4 billion in TV programming and associated activities to the rest of the world. The USA was the largest export market for the UK at £444 million with Australia, France, Germany and the Nordic countries completing the top 5 markets for the UK.²
5. The creative sector's increasing importance to the UK's GDP is shown by the fact that the sector's rate of Gross Value Added (GVA) growth was twice that of the rest of the economy between 2010-17.³
6. That said these figures reflect a world before the COVID-19 pandemic had taken hold of the UK and given the current situation we expect a markedly different outlook in the coming years. Without short term interventions, as outlined in our response, there is a risk that the success we have built over many years will be damaged. Furthermore, the delicate PSB ecology faces more long term damage if urgent action is not taken. Under this context Pact considers that the PSBs' impact on the wider economy should be of paramount importance.

¹ Pact Census 2019

² Pact UK TV Export Report 2018 - 19

³ Creatives Industries, UK Creative Industries Value, November 2018, <http://www.thecreativeindustries.co.uk/resources/infographics>

Overview

Pact is a strong supporter of the PSB system and in these extraordinary times its significance has become more heightened as those institutions who support the wider production industry come under pressure with reduced budgets leading to diluted schedules that leave little room for new commissioning. We have also seen that during the crisis many production companies' reserves have been used up to stay afloat and as a result R&D budgets have begun to deplete.

In a Pact survey of 100 members we found that producers have lost over £250 million since the COVID-19 crisis began in March. More than half surveyed also found they only had up to 6 months of reserves left to last them through the hiatus in production. In the short-term Government interventions are necessary to maintain and grow the world beating production sector that the UK has built – currently worth over £3 billion in sector revenues. A key part of this ecosystem is the PSB broadcasters. All have been affected with commercial PSBs particularly under pressure because of a drop in advertising income. Network TV advertising income in Q2 2020 (April to June) – is likely to be down 40-50 per cent.⁴ The longer the crisis continues the more substantial an impact it will have on UK producers and the PSBs and their international competitiveness. The recovery must look at the whole value chain and not just one part. For this reason, short-term interventions that support both the production sector and broadcasters are vital to prevent long term structural damage to the PSB ecology - such as skills shortages, continued low growth in commissioning and a lack of diversity in the supply chain. If we want to continue diverse supply chains that serve the PSBs it is vital that the sustainability of the supply side especially those that can't access the global markets are maintained. Pact considers that the current and future market conditions may lead to failure for many of those companies who lack access to the global markets especially those in the nations and regions. The COVID-19 pandemic has shone a light on the precarious nature of the production industry and Pact considers it highlights two key points:

- How thin margins have led to no capacity within the industry within any crisis and it has laid production companies open to risks because of such tight margins.
- The importance of terms of trade within the industry despite prices being driven down and how this has allowed broadcasters to innovate whilst production companies can earn revenue from their back end.

The most pressing issue for the UK production and broadcasting sector - to get back to work - is access to affordable insurance and **an ability to cover any potential risk liabilities that may occur with restarting production.**

To this end Pact has been in discussions with the Treasury and DCMS to accelerate a short-term intervention that would see the Government implement a Production Guarantee Fund to cover any COVID-related losses for both the UK production and broadcasting sector.

Production Guarantee Fund

Pact and others across the industry including the UK broadcasters have proposed that Government set up a short-term fund guaranteeing to cover potential COVID-19 losses with industry also contributing to the loss were it to occur. This would come into effect for any COVID-related suspension or abandonment of any production, not just when Government imposes a lockdown nationally or regionally.

⁴ Oliver and Ohlabuam Associates Ltd

France and Australia and many other countries have already announced similar schemes for their audiovisual sectors, and it could be implemented quickly. The benefit to the economy hugely outweighs any cost to Government as the intervention could secure an average of £7 billion per year in production spend, save more than 75,000 jobs and over £5 billion of exports. They estimate that a potential fund size of between £190m-£580m would be required with the latter figure being the worst case scenario, the far more probable risk exposure would be £190m as it is based on a new outbreak of COVID-19 temporarily shutting down 95% of production and just 5% of productions facing abandonment. This should be considered against the wider benefits. This is the cost of confidence so that production can restart, saving jobs and businesses. The state-backed production guarantee would be available to any UK production, other than (i) those that are fully funded by way of inward investment from a studio/SVOD (which the studios/SVODs have traditionally self-insured) and (ii) sports. It would not envisage charging an upfront premium for this coverage but instead charge a premium in the form of a deductible in the event of a claim, based on a percentage of budget size.

The pandemic is a global problem that the insurance market has not yet been able to quantify its exposure to date and this is hindering any type of assessment of what a commercially viable pandemic insurance policy might look like. Whilst a PanRe solution is being discussed within Government, **there is an immediate need in order for shooting to resume** which cannot wait for that to be agreed and implemented (which could take years based on Pool Re). Until a more permanent insurance solution is in place (like PanRe), not having a temporary guarantee in place will mean:

(a) The vast majority of productions in the UK will not be able to re-start

Even with a commitment from a broadcaster unless they cashflow the full production costs, *without insurance cover* the banks will not lend money to finance productions. Most broadcasting commissioning operates on a staged payment or payment on delivery model. This requires companies to raise short term bank financing to cash flow the production. Without insurance cover, it is impossible to manage the risk of having a shoot delayed or otherwise inhibited by safety measures related to COVID-19.

Whilst some measures can help “start” productions, without insurance there is no certainty we can *deliver* them. Accordingly, productions will simply *not commence* without insurance cover.

(b) Productions that would otherwise have been made in the UK (employing UK individuals and using UK services) will, instead move overseas.

Nearly all productions are planned many months in advance. If we are not properly open for business in the UK then projects that would have been produced here will be set up abroad in those countries that have either been impacted less by the outbreak or able to offer affordable insurance cover or state backed guarantees going forward.

This is not only about the mobility of inward investment projects. UK domestic production will also seek to find countries where they can continue to make both scripted and factual productions.

The UK production sector produce some big formatted shows from production hubs based in the UK e.g. The Circle. Currently the UK, Brazilian, US and French versions are all being made in the UK, with the international contestants flown into the UK, the series is produced here and the international version is then shown in the relevant territory. These shows will be made in other countries if insurance cannot be underwritten here.

(C) Our market position will decline and will struggle to recover

In an incredibly competitive global market, we are second only to the USA in the production and exploitation of audiovisual content. A major interruption to production activity will mean we will lose this position and will struggle to recover it. It will also mean exports in this sector will decline in the short to medium term. In essence one of the greatest success stories of

British industry will come to a grinding halt - losing us £ billions and damaging our ability to maintain the success in the future.

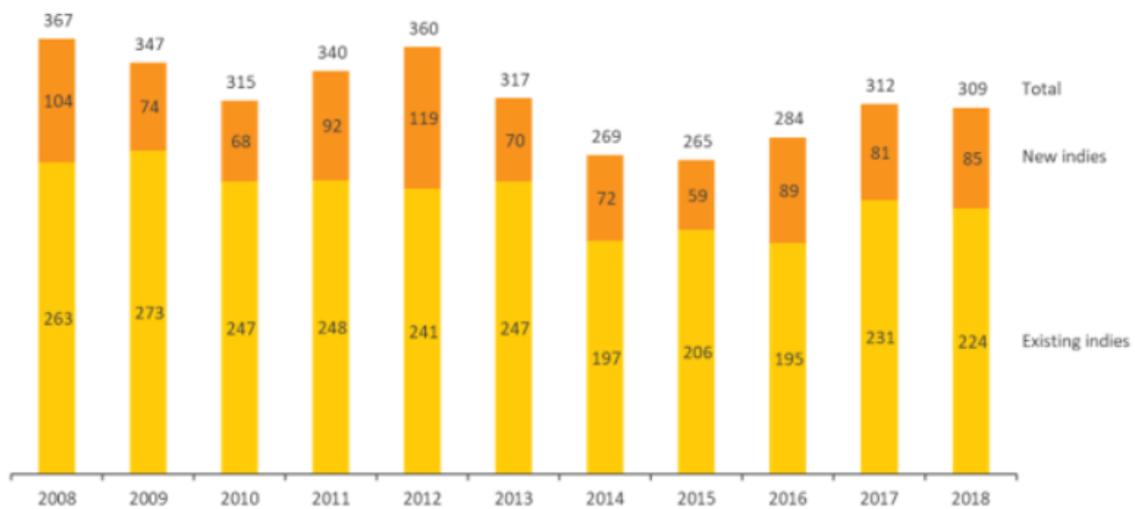
Inquiry Questions

Q1. Regulation

- **Are the current regulation 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?**
1. Pact considers that the current public service broadcasting compact – whereby the BBC, ITV (and the other Channel 3 licensees), C4, S4C and Channel 5 (the PSBs) receive certain benefits, such as EPG prominence, and in the BBC’s case a licence funding in return for obligations, such as a requirement to commission more content from independent producers works well in practice. Furthermore, in a time of extreme uncertainty within the sector we argue that any fundamental changes to the structure will exacerbate further the precarious situation.
 2. British content is extremely successful both domestically and internationally, with the UK being the second largest exporter of TV content in the world. Total independent production revenue has grown steadily over the years and last year UK and international primary commissioning revenue stood at £2.3 billion and was growing year-on-year by 9.3 per cent.⁵ A large part of this success is down to the PSB compact which includes the flexibility of the legislation in Section 285 of the 2003 Communications Act. This has enabled independent producers to retain their Intellectual Property (IP) rights by introducing Codes of Practice which govern the way public service broadcasters (PSBs) do business with independent production companies. It has been a catalyst for the sector to use their asset value to grow their businesses.
 3. Through control of their intellectual property (IP) rights the market is offered a wide range of ideas (IP) from a large number of participants. Having many organisations pitching ideas to the commissioners makes for a very competitive marketplace and ensures that only the best IP is made available to the audience. The large number of participants has been made possible by the low barriers to entry. Creative talents from either the larger companies or other sectors are able, under this system, to launch their own production companies.
 4. The dynamism of the independent production sector as a consequence of the large number of SMEs acts as a platform to find and develop new talent both off and on-screen. This has recently been reconfirmed in a Pact-commissioned report by consultancy Oliver and Ohlbaum which found that consolidation between the period of 2003 to 2010 in fact increased the number of new entrants into the market. Figure 1. below shows more new market entry and start-ups, it tracks the number of pre-existing indies and new indies commissioned each year by the PSB networks. More new indies were commissioned in 2018 compared to 2010.

⁵ Strengthening UK Culture and Creativity – impact of COVID-19, Oliver and Ohlbaum Associates Ltd, 2020

Figure 1: Number of independent producers serving PSB Broadcasters, 2008 to 2018

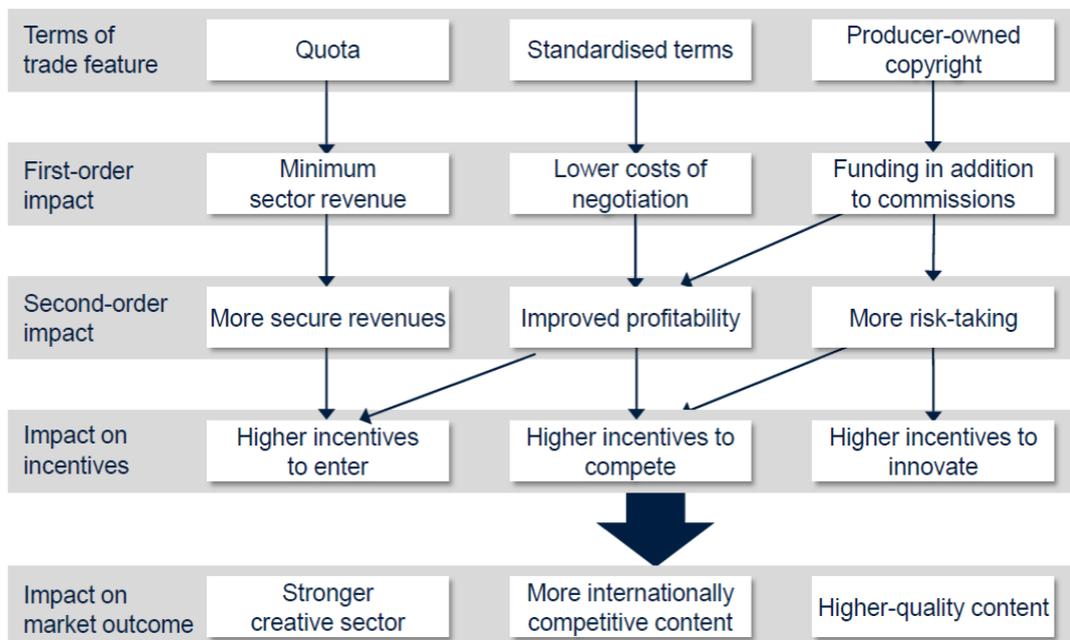


Note: Independent producers in this chart are recorded at group level
 Source: Oliver & Ohlbaum Producer Database, Oliver & Ohlbaum analysis

- The Oxera report ‘Assessment of potential changes to the terms of trade in the independent TV Production sector’ of December 2015 also noted the ‘Chain of effects’ which explains the benefits of the PSB obligations such as the Terms of Trade to the UK production and broadcasting ecosystem. See Below.

Figure 2.

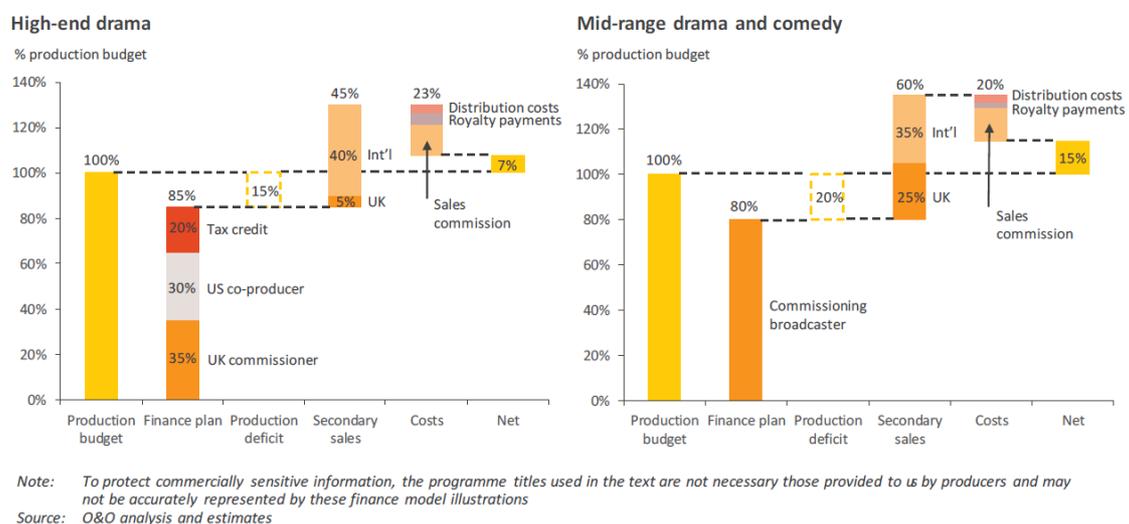
Chain of effects of regulatory regime



Source: Oxera analysis.

6. Under this regulatory regime which rewards innovation and creativity, independent producers are incentivised to invest in IP as the series might prove to be a success and thus ensure a valuable ROI to the production company for a number of years. In addition, the need to sell the content's secondary rights both in the UK and internationally means that the producer must deliver content of the highest quality possible. The quality of this content then benefits both the commissioning broadcaster and the UK audience. This was further backed up most recently when Pact commissioned O&O in 2019 to carry out research on the impact of the iPlayer changes on the TV production market. In that report it showed the gap between the tariff provided by the UK commissioner (BBC) and the actual cost of the series. Excerpts from the market impact assessment are shown below.
7. Figure 3 reviews the financing model for scripted content and comedy. This underlines the importance of secondary rights sales to the independent production sector's ability to complete the necessary finance for their productions.

Figure 3: Illustrative finance models for scripted content



8. With COVID-19 it looks set to make the ability to exploit secondary sales even more precarious as broadcasters (who were already only marginally funding the cost of programmes) face huge reductions in budgets due to an unprecedented collapse in the TV advertising market. The importance of secondary sales has increased in recent years as producers are increasingly required to deficit finance productions due to the decline in value of the BBC tariff to the overall budget. In some cases, independent production companies are required to relinquish their production fee and thus rely solely on secondary rights for their return on investment. This has meant that in times of crisis such as the current COVID-19 pandemic the UK production industry has been left more susceptible to the lack of overall reserves after years of prices being driven down by broadcasters like the BBC. This is particularly true for producers in the Nations and regions. BBC Tariff rates in the Nations and & Regions across all genres have broadly stayed the same despite inflation and gone down in some cases. For example, in 2010 the BBC had N&R tariffs for a range of different types of factual programming. However, these tariffs have now been replaced by one 'N&R factual tariff.' Making it harder to analyse but ultimately resulting in a lower price.⁶

⁶ Based on Pact analysis of BBC Tariff rates from 2010 and 2016 across all genres.

9. Ownership of their IP means that independent producers invest in the development and production cycle at several key stages. The first is in research and development (often referred to as R&D). It is extremely expensive, and time consuming to invent, research and develop programme ideas to a stage at which they might be commissioned. Analysis of smaller indies in the UK suggests that on average they spend 4.5 per cent of their revenue on R&D, and only earn margins on UK production activity of around 2 per cent.⁷
10. The media consultancy Oxera reported in 2015 that independent producers develop IP projects with specific broadcasters in mind.⁸ For the significant majority of these projects, the broadcaster declines to take the IP to series which means that the producers often have no or limited options to exploit the developed IP any further. This means that independent producers invest millions of pounds in R&D each year but very little of this is ever recouped in terms of commissions. The investment does, however, bring considerable benefit to the UK PSB ecology in terms of the quality of the IP on offer from the independent production sector. Pact has begun discussions with Government on how an R&D tax relief could go some way in recognising the benefits of this investment and to make it more attractive to companies to increase their investment in R&D going forward.
11. COVID-19 has created pressure across the whole UK TV value chain and potentially threatens the international exports of licensed content which the PSB compact has been successful in creating through independent producer's ability to retain IP rights. Commercial PSBs in particular have been significantly impacted as the downturn in advertising has meant a rapid decline in income, which in some cases has led to reduced levels of programme spending to preserve profits or reserves. Channel 4 has announced a £150 million cut in its content budget with a further £95 million earmarked as savings in an internal review.⁹ Network TV advertising income in Q2 2020 (April to June) – is likely to be 40-50 per cent down on the same period last year.¹⁰ The recovery of these revenue streams is highly dependent on the wider economic recovery. For the UK production sector this means reduced commissioning opportunities, cancelling or postponements of shows which results in costs, and a depletion in reserves. Some independent production companies can use their back catalogues to make up some of their losses, but this will not make up for the lost revenues. Figure 4 models likely revenues based on a lack of interventions.

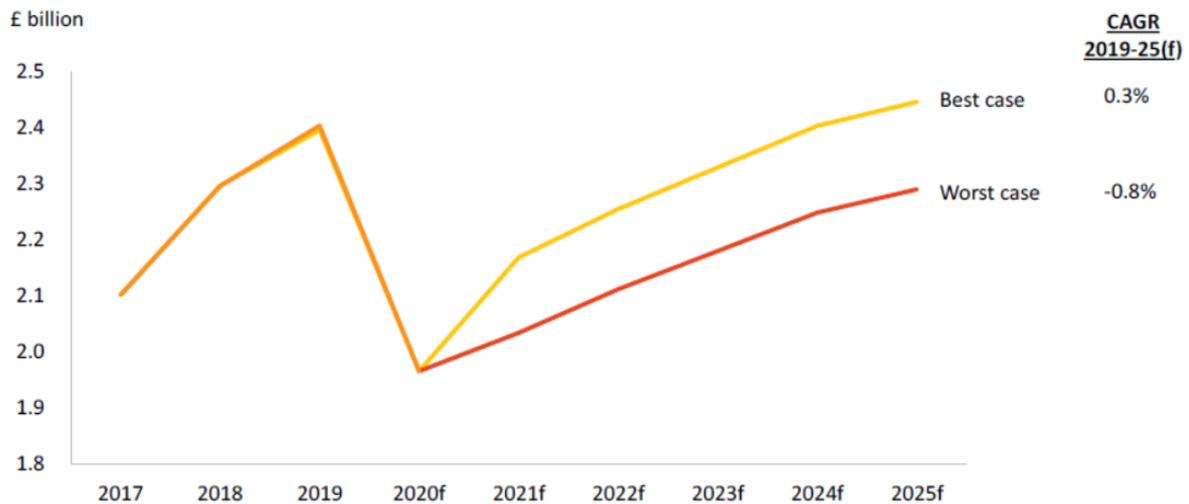
⁷ Based on Oliver & Ohlbaum report: Strengthening UK culture and creativity in a globalising TV Marketplace

⁸ 'Assessment of Potential changes to the terms of trade in the independent production sector: Prepared for Pact', Oxera, December 2015

⁹ [Channel 4 press release](#), April 2020

¹⁰ IBID

Figure 4. Illustrative forecast for UK independent producer commissioning revenues, without intervention



Source: PACT, Oliver & Ohlbaum estimates and analysis

12. To stem the possible damage to the UK production sector there are several interventions to get to the best-case scenario:
- More certainty that in the short-term COVID-19 related liabilities and potential losses will be covered through a Production Guarantee Fund as identified in the overview.
 - Ensuring that any short-term PSB support is linked to returning commissioning to pre-crisis levels. There is a risk that as budgets get squeezed broadcasters will use up repeats or acquire library content which is cheaper than commissioning new content.
 - Targeted help to maintain R&D by looking at reforming the R&D tax credit. Currently the qualifying criteria for this tax relief is too narrow for the majority of creative industry businesses. PACT has been calling for the Government to relook at the existing R&D tax relief to make it easier for creative industry businesses to be included and possibly extending the existing creative tax reliefs. As producers look to cut spending, R&D is amongst the first to go but this discredits its importance to the sector. No capacity for R&D spending means a lack of ideas and a vacuum in content production pipeline once current programmes are completed.
 - Increased access to the Equity Investment Scheme (EIS): many producers have been unable to take advantage of the Government-backed loan schemes because it ultimately leaves the company with an outstanding debt which would be difficult to service for many of our members as the future of a return to profits is so unpredictable. Previously HMRC has made it harder for Film and TV production businesses to take advantage of the SEIS and EIS because of a misunderstanding about the nature of the business – this should be reviewed if the success of the sector is to be restored and built on.
 - Broadcasters prevented from favouring their own in-house production companies: it is inevitable that post the initial hiatus in production and impacts of COVID-19 broadcasters will seek to keep costs down and therefore would seek to shore up their own in-house IP at the expense of the wider independent production sector.

SVODs and new entrants

13. Innovation within the industry has also allowed new entrants to compete in the market and over the last ten years, the impact of online services and non PSB multi-channels have helped broaden the market and increase choice for the consumer – both players

are spending more on original content than ever before. Pact strongly welcomes this new investment and would not want any interventions to unduly dampen the additional opportunities this provides for producers, who look to a variety of broadcasters and SVOD services to pitch ideas to try and seek a commission.

14. Pact supports the principle that, where possible, it is better for the market to be left to evolve and adapt solutions to the opportunities and issues raised by convergence rather than for regulation to be introduced, as this might have a negative impact on the UK production and broadcasting ecosystem, and the wider UK creative economy. This might stifle UK economic growth and restrict the creation of jobs, across the UK, that are resistant to automation.
15. Any recommendations that impose regulations on on-demand services could have an inadvertent effect, for example, those calling for a levy against the SVOD services would mean that SVODs would likely cut content budgets which would in turn hurt co-production budgets rather than be incentivised to increase their budgets.
16. Pact is concerned that any new regulation has the potential – intentional or otherwise – of inhibiting or undermining the fundamentals of the UK production and broadcasting ecosystem.

Q2. Representation

- **How would representation be protected if changes were made to the PSB model?**
 - **How would the nations and regions be affected by the changes to the PSB model?**
 - **Is the 'quota' system the most efficient way to maintain and improve representation in broadcasting?**
1. Any changes to the PSB model would have a significant impact on the diversity of supply and the opportunities open to those production companies within the Nations and Regions. In a time of tumultuous change and uncertainty due to COVID-19, especially for those smaller companies based in the Nations and Regions, Pact considers that it is inadvisable to change the fundamentals to the system. This is something highlighted the report by O&O which found that smaller producers are less likely to be supported by Government measures and were less likely to be able to use any of the loan schemes set up for businesses because smaller businesses are unsure whether they will be able to repay any debt after the crisis period finishes.¹¹ Pact also found in a recent survey that 75% of those surveyed had either not used the schemes or intended not to.
 2. This places PSBs in a position by which they are often the key to getting the sector restarted. In the UK, Ofcom places a series of obligations on the PSBs which aims to increase representation and portrayal of people from different backgrounds and different parts of the UK. This comes in the form of quotas where both Channel 4 and the BBC are moving towards 50% out of London production spend. ITV has an out of London spend quota of 35% whilst Channel 5 has a 10% out of London quota spend. Furthermore, the BBC is also required to open up commissioning so that 100% of commissions in such genres as comedy, drama, entertainment and factual will be open to bids from the independent production companies by 2027.
 3. These obligations on the PSBs for out of London production spend quotas and the general opening up of BBC commissioning have meant that the UK is able to spread the economic growth of the production and broadcasting sector to every nation and region.

¹¹ Strengthening UK Culture and Creativity – impact of Covid-19, June 2020

4. Pact has always championed the need for all PSBs to implement a strong nations and regions strategy because Pact wants to see a local and vibrant production sector sustained across the UK's nations and regions. As the impacts of the coronavirus pandemic take hold, the need for domestic production to get back up and running will be vital. PSBs will need to play a strong part in that as most producers win commissions from the PSBs in the Nations and Regions. Approximately 40% of first-run originations on the five main PSB channels are made outside of London. With the BBC spending £509m; ITV spending £241m; Channel 4 spending £174m; and Channel 5 spending £17m.¹²
5. It should be noted that Pact's over 500-member companies are found all over the UK with 33% based outside of London. There are clusters of Pact member companies in the production centres of Glasgow, Belfast, Bristol, Cardiff and Manchester with smaller clusters in Birmingham, Leeds, East Midlands and the North East.
6. There is a risk that COVID-19 will exacerbate behaviours from the PSBs that increase safe commissioning and avoids taking on risk. In the last financial crisis Pact commissioned consultancy Oliver and Ohlbaum to survey our then members about the effects of the recession and found that the squeeze was on both the volume of new commissioning and the primary prices being offered – a 4 per cent decline in primary prices with 30 per cent of producers experiencing the postponement of commissioned material.¹³ This could have a significant impact on diversity of supply which inevitably means broadcasters taking less risk in commissioning which usually means impacting those members in the Nations and Regions and less established production companies. In the last recession O&O also found that broadcasters would seek to remove risk of programming by adopting more international formats as a way to minimise risk thereby taking away the opportunity for UK-based producers to put forward new ideas and IP.
7. Pact believes that, the continued opening out of BBC local opportunities to competition, and the additional out of London quotas are vital for production companies based outside of London to represent the diverse voices and communities from around the UK. There is a considerable risk that this could be lost or highly squeezed given COVID-19 - Channel 4 is particularly vulnerable and risks missing its out of London spend target of 50% by 2023.¹⁴ These targets have initially been intended to boost the opportunities of Nations and Regions companies to secure returning series, invest in talent and grow their turnover. The pandemic and any longer term altering of the PSB model could undo the work that is already in train to build these centres of production. For this reason, we would support Government interventions to help commercial broadcasters like Channel 4 with a tax relief on advertising income.¹⁵
8. Pact believes in investing in the future of the independent production sector across the UK. To this end Pact opened a new Nations and Regions office in Leeds in May 2019. The Leeds office helps independent production companies with business development services. Using Pact's Business, Production and Export Accelerator schemes which are intended to help independent producers from across the UK grow their businesses. This has become more pertinent now as all companies grapple with the complexities attached to restarting. Our information apps and schemes have export information and the latest COVID-19 social distancing rules for each territory to help encourage

¹² [Regionality Trends within the UK production sector, a Report for Ofcom](#) by Oliver and Ohlbaum, 2018

¹³ The Economics of UK Content Supply , report prepared for Pact by Oliver and Ohlbaum, 2009

¹⁴ Channel 4, All the UK, <https://www.channel4.com/corporate/about-4/4-all-uk> - Accessed 25/4/2019

¹⁵ Strengthening UK culture and creativity – impact of Covid-19, June 2020

companies to quickly restart economic activity, create jobs and provide more opportunities for social mobility.

9. The PSBs are also obliged to improve diversity both off an on-screen. Much remains to be done as the Ofcom Media Nations Report found that only 47% of people believed that the PSBs portrayed the nations and regions fairly to the rest of the UK.¹⁶ Pact is confident that Ofcom's diversity and out of London production targets will be reached. This will ensure that the industry's jobs from acting to production, which are largely resistant to automation, will be generated throughout the UK and so be accessible for every diverse community.
10. Greater contestability over BBC commissioning, low barriers to entry and the out of London production requirements on all the PSBs drive competition, growth and innovative IP development. But given the COVID-19 pandemic we recognise that the entire sector including the PSBs are under significant pressure and we do not want any short term downturn to structurally damage the PSB ecology. Any interventions that support the PSBs should be linked to quickly re-establishing content commissioning. Pact considers that it is important for PSBs to quickly return to their commissioning practices pre-crisis and that the framework of existing legislation is maintained.

Q3. 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**

1. Pact notes that Digital Terrestrial Television (DTT) will continue to have an impact (as identified by Ofcom) over the next 10 years and 20 million UK households continue to use it.¹⁷ Consequently, it has not got to the stage where linear PSB content has become obsolete. If PSB content continues to be found where it is expected by the audience, Pact considers that PSBs are no less disadvantaged than any other broadcaster or streaming service. High quality content continues to be the key factor in driving people towards the TV channels. If the PSBs are creating engaging and relevant content, then they will continue to amass the viewing figures and reach that their channels already secure amongst the UK audience. In a recent Freeview survey it found that in times of crisis free TV (without subscription or contract) is very/quite important for society – for 91% of the respondents surveyed across all age groups.¹⁸
2. There is a risk that if a wholly internet- based service is implemented or if there is a serious alteration to the current PSB model the universality of the services would be lost. Universality is a key principle which allows PSB programmes to be available to everyone, free at the point of use. Based on the current statistics on DTT usage it appears that a measured approach to changing the PSB model would be required. As noted in the Lords Communication Committee's report into the PSB system last year - broadband is still not universal: 13 per cent of adults do not have it.¹⁹ It also found that 'broadband is associated with a monthly subscription contract which undermines the notion of 'free TV'. It is also not as reliable or secure, and the internet TV industry is still developing.'²⁰

¹⁶ Ofcom Media Nations 2019

¹⁷ The Future of DTT, http://www.digitaluk.co.uk/about_digital_uk/the_future_of_dtt - Accessed 24/4/2019

¹⁸ Freeview survey based on online survey with a nationally representative UK sample, involving more than 1,000 interviews. <https://www.freeview.co.uk/corporate/news/freeview-research-value-of-pbs-during-lockdown>

¹⁹ Lords Communications Committee Report PSB: Vital as Ever, 2019

²⁰ IBID

3. Pact also notes that even without explicit changes to the PSB model, accessibility to its services can be altered outside of the framework. For example, in recent years the Government has negotiated with the BBC to fund free licences for the over-75s. This is a welfare policy and should not have been agreed by the BBC and has ultimately undermined the licence fee.
4. The over-75s licence fee concession will cost the BBC £250 million in 2020/21 which is considerably less than it originally estimated presumably as it is due to set up a means tested system to allow only those over-75s on pension credits to access a free licence fee - this has currently been postponed due to the coronavirus pandemic. Previously the BBC estimated that the costs of the scheme would be in the region of £745 million in 2021/22 and escalate over time to over £1 billion by 2029/2030 when 5.7 million households will be eligible.²¹ Despite a lower estimate on costs the impact on programme budgets will be felt and Pact urges the Committee to make the recommendation that if the BBC cannot find a progressive, fair and proportionate alternative, the Government should consider taking over in full or part the cost of the BBC licence fee concession, or its alternatives as a last resort.
5. Pact holds the view that the licence fee should be used for the BBC Public Service's investment in content for all generations and all diverse communities across the UK. Following the publication of the BBC Annual Plan in May 2020, Pact was disappointed that the planned level of BBC content on spend remains so low in comparison with the revenues generated by the licence fee. The BBC forecasts that it will spend nearly £1 billion on administrative costs which appears excessive.²²

Q4. Impact

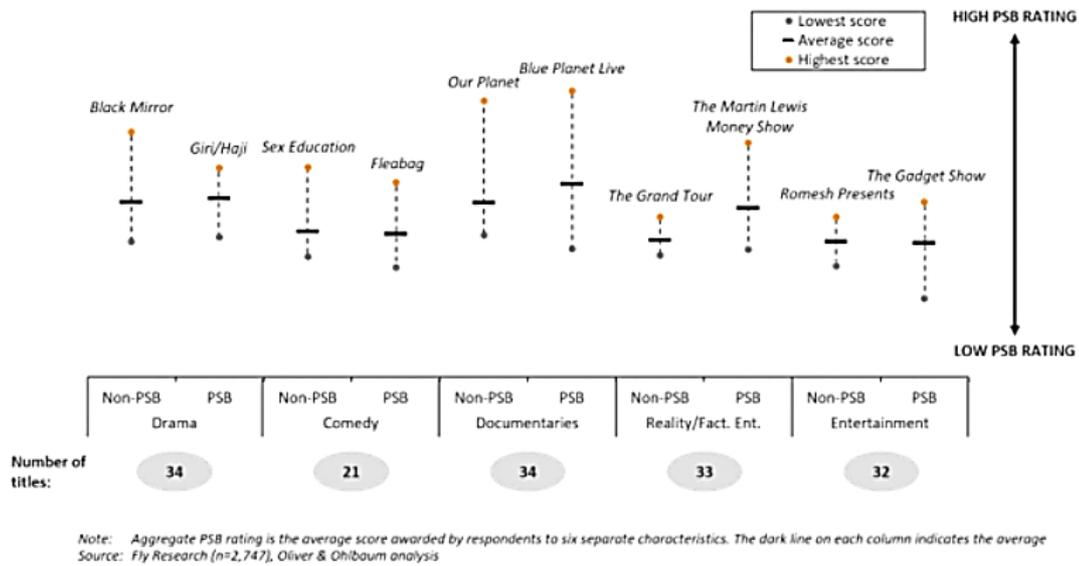
- **What value, if any, do PSBs bring to the UK in terms of economic (local and national), cultural and societal impact?**
1. Pact is a strong supporter of the PSB system, which drives innovation and competition in the UK production and broadcasting ecosystem. Pact, which is the UK content producers' trade association, wants to see a healthy PSB system maintained and continued into the future.
 2. The cultural values of the PSB system was also something we commissioned Oliver and Ohlbaum to look at in their report on '*Strengthening UK Culture and Creativity in a globalising TV Marketplace*'.²³ Using a survey sample of 2,747 nationally representative respondents the report found little difference between audiences' perceptions of PSB and non-PSB programmes' ability to deliver PSB purposes and characteristics across most genres. There are even several instances where non-PSB titles significantly outperform their PSB counterparts. It is clear that public service broadcasters are not the only platforms capable of delivering PSB content to UK audiences. Other platforms, including traditional multichannel and SVoD, are already supporting PSB purposes and characteristics through content like *Our Planet*, *Black Mirror*, and *Chernobyl*.

²¹ 'AGE-RELATED TV LICENCE POLICY BBC Public Consultation Published: 20 November 2018

²² The BBC Annual Plan 2020/21, published May 2020 included the 'Other Operating Costs Table'. This figure includes costs such as Central costs (Property, HR, Finance, Marketing, Policy, Comms, Strategy) and Technology and Distribution . The total of these costs is £982million.

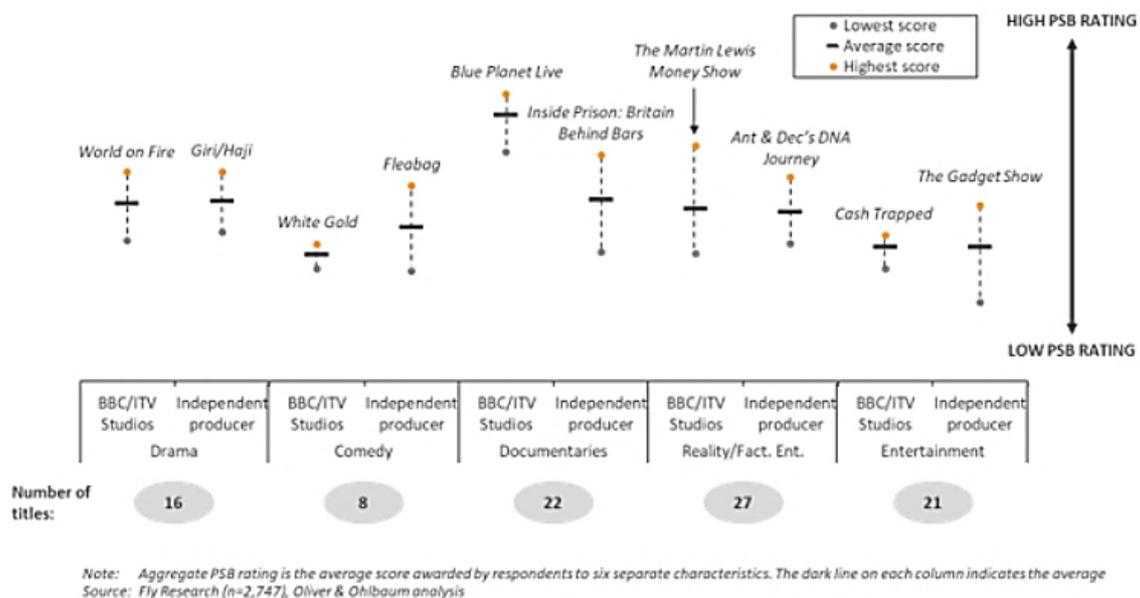
²³ Strengthening UK Culture and Creativity in a globalising TV marketplace, Oliver and Ohlbaum, 2020

Figure 4: Overall delivery of all 6 PSB values in individual programmes from PSBs and non-PSB commissioners



- The survey also looked at how in-house production companies of PSB providers fared at producing PSB content compared to independent producers and again there was little difference in in-house studios ability in providing PSB content.

Figure 5: Overall delivery of PSB values in PSB commissions, comparing in-house and independent producers



- Despite the above, PSB content does outperform programmes commissioned by non-PSB providers in delivery of UK cultural identity. See Figure 6.

Figure 6: Public perceptions of the extent to which PSB and non-PSB content reflects UK cultural identity



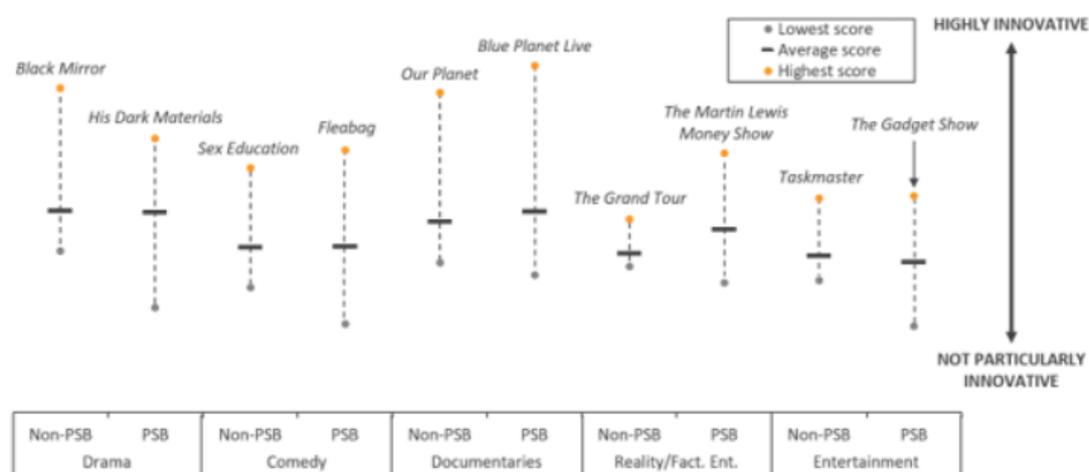
5. The cultural and societal impacts of the PSBs on the whole are valued by the UK public. In a recent Ofcom survey it found that Public Service Broadcasting remains very highly valued by viewers, with three quarters of those who ever watch any PSB channel (BBC One, BBC Two, ITV, Channel 4 and Channel 5) reporting that they are satisfied with PSB broadcasting.²⁴ This is particularly true when it comes to the provision of news for example in the most recent Media nations report by Ofcom it found that audiences find 'news programmes which are trustworthy' (73% of viewers gave it a 7-10 rating) and 'helping me understand what is going on in the world' (69%) continue to be the most important PSB purposes to the public.²⁵
6. Pact would note, however, that only 57% of BBC TV viewers believe that the BBC are taking sufficient creative risks in their programme commissioning.²⁶ The Media Nations Report also finds that more needs to be done for diversity both on and off-screen. Pact believes that the BBC, in particular, should show more ambition in their commissioning policies in order to reach out to diverse UK audiences across the nations and regions and in particular, younger viewers. This was also confirmed in the survey we carried out to see how non-PSB providers fared with providing the PSB characteristics and values. It found that under the characteristic 'innovative' non-PSB providers performed just as well and, in some instances, better than PSB providers. See Figure 7 below.

²⁴ Ofcom, Media Nations Report 2019

²⁵ IBID

²⁶ Ofcom's Annual Report on the BBC, Ofcom, October 2018

Figure 7: Public perceptions of the level of "innovation" of PSB and non-PSB commissions



Source: Fly Research (n=2,747), Oliver & Ohlbaum analysis

The above shows how interlinked the independent sector is in providing PSB content for both PSB and non-PSB providers. PSB values seem to be wired into the whole UK content sector and are not the sole preserve of just the PSB broadcasters or their owned production houses.

7. Economically the PSBs continue to be a significant part of the broadcasting ecology within the UK. The PSBs continue to play a vital role in the success of the UK independent sector. The UK market remains key to most indie production companies: 80% of UK revenues are reliant on the four main PSB network groups.²⁷ The independent production sector has contributed to the success of the UK PSB system through bringing in top-quality popular IP across every programme genre. In both 2016 and 2018, the PSB channels allocated an average of 48% of spend across all genres of first-run UK-originated content to external commissions, which is approximately £1.2 billion and 52% to in-house commissioned productions, approximately £1.3 billion.²⁸ This has meant that it has considerably helped boost the creative sector's increasing importance to the UK's GDP is shown by the fact that the sector's rate of Gross Value Added (GVA) growth was twice that of the rest of the economy between 2010-17.²⁹ Socially and culturally the PSBs also do much to develop the UK domestic production through training and talent nurturing to then become the world acclaimed sector it has now become.
8. COVID-19 threatens to undo much of this cultural and economic success as broadcasters start to weigh up the costs associated with the pandemic and start to navigate a world with dwindling advertising revenues and restricted budgets. The Oliver and Ohlbaum report on the impact of COVID-19 on the sector found that without short

²⁷ Pact Census Independent Production Sector Financial Census and Survey 2019, by Oliver and Ohlbaum Associates Limited

²⁸ Ofcom Media Nations Report, 2019

²⁹ Creatives Industries, UK Creative Industries Value, November 2018, <http://www.thecreativeindustries.co.uk/resources/infographics>

term Government interventions such as: production guarantee or extending existing tax reliefs the sector will fall behind other countries and lose the success it has enjoyed.

Q5. 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?**

Relevance and importance of Public Service Broadcasting

1. Pact considers that the term Public Service Broadcasting continues to be significant and currently there is a newfound value in the PSB institutions as the UK grapples with the challenges of COVID-19. Furthermore, pre-COVID-19, the number of people watching live TV in the UK continued to account for 163 minutes of average daily minutes of TV screen time which is 66% of total daily TV screen time in the UK.³⁰ When on- demand and time shifted viewing is included this increases broadcast viewing to 202 minutes which is more than two-thirds of total viewing of video content.³¹ As noted already, Ofcom has found audiences consider the PSB provision of news to be one of the most important aspects of the PSB system. And this along with the need for trustworthy information during a crisis like the COVID-19 pandemic has seen increasing numbers of people viewing live TV. For example, in the weeks after the Lockdown was announced the number of minutes of live TV watched per week increased from 188 minutes to 223 minutes which is a 15% increase after only a couple of weeks.³²
2. That said, in a post COVID-19 world despite viewing figures increasing this will not bring any comfort for many UK commercial broadcasters who are experiencing a drop in advertising revenue due to the pandemic – the Advertising Association has reported in its annual report that the record ad spend in 2019 is set to drop by 16.7%.³³ This drop in advertising revenue means that many broadcasters have started reducing budgets; commercial PSBs Channel 4, ITV and Channel 5 all recently reported downturns in their advertising revenues, which have led to a reduction in programming investment which will in turn impact our members revenues:
 - *In April 2020, total ITV advertising was down 42% impacted by COVID-19.³⁴ ITV will also be reducing their programme budget by at least £100m in 2020.³⁵*
 - *A Channel 4 press release dated 8th April 2020 states that the TV ad market is set to be down in excess of 50% over April and May. In this press release, Channel 4 also announced that they will be reduced their 2020 content budget by £150m.³⁶*
 - *Channel 5 spends around £140m a year on original commissions and is believed to be cutting its programme budget by around 10% this year to combat the downturn in the ad market.³⁷*

³⁰ Media Nations Report, Ofcom, 2019

³¹ IBID

³² BARB

³³ Advertising Association and WARC Expenditure Report 2020

³⁴ [ITV Trading notice](#), May 2020

³⁵ IBID

³⁶ [Channel 4 press release](#), April 2020

³⁷ [Broadcast Article](#), 24 April 2020

- 3 As commercial PSBs continue to weather the new broadcasting landscape post COVID-19, questions will need to be asked about how these broadcasters make up for the lost revenues. These revenues were already being challenged pre pandemic by new streaming platforms who are attracting younger audiences. Pact has previously considered this challenge as healthy for the audiovisual market and helped the UK audiovisual market become the vibrant and successful market it was pre-COVID-19. The BBC and Ofcom have previously over emphasised the competitive challenge from the SVODs at a time when 91% of the UK adult population still uses BBC services at least once a week.³⁸ That said, with the continued uncertainty regarding how the UK production and broadcasting sector secures liability cover for production shoots it means there is a risk that the recovery becomes lopsided with US studios and SVoDs able to quickly return to shooting productions because of their ability to secure their own insurance. SVoDs in general have fared well in the COVID-19 crisis. In the O&O report Pact commissioned it found that the biggest beneficiaries of the pandemic have been the SVoD platforms – it found that that c. 4.6 million new SVoD subscriptions had been taken out in the UK since the start of the crisis. Once churn between services had been accounted for, this had resulted in a net total of c. 1 million new SVoD subscriptions.³⁹ Netflix also do not anticipate moving around any of their current slate to accommodate the current crisis and lack of production that's going on.⁴⁰ Furthermore, Netflix have begun shooting in some countries such as South Korea, Japan and Iceland. They are also due to begin filming in Sweden this month and Norway in July.⁴¹
- 4 Long term a lopsided recovery whereby SVoDs are largely unaffected by the pandemic could unbalance the UK production ecology. SVoDs invariably retain all rights when commissioning from independent producers and if producers' only recourse to getting new commissions reside with the SVoDs it could change the UK production ecology to one of 'make for hire'. Furthermore, a focus on only delivering commissions for SVoDs will make it harder for producers to diversify their income streams, for example, through PSB commissions which allow producers to maintain their rights and exploit internationally.
- 5 The majority of our membership relies on the PSBs for their revenue and as such the priority will be to get the PSBs commissioning to pre-crisis levels as fast as possible. It is in this light that Pact has been calling on Government to ensure the PSBs are properly protected and supported during this unprecedented time by increasing their borrowing limits to ensure broadcasters will be able to return to pre-crisis commissioning levels. This includes continued Government support for over75s licence fees to help the BBC and tax reliefs on advertising revenue to help the commercial PSBs under pressure from a lack of advertising income. These will go some way in re-establishing PSB commissioning. On the production side Pact has also been calling for the Government to look into setting up a short-term Production Guarantee Fund for any risk liabilities related COVID-19 as set out in our overview. Insurance is a necessity for all productions and is usually bought as a package at approximately 0.5-1.5% of budget size, dependent on the type of production. Production insurance will cover the costs of a temporary pause - or, in the extreme and as a last resort, a permanent abandonment - of the production. There are two key elements of this insurance which are particularly vulnerable to COVID-19: 'cast cover' (additional cost to the production due to the death, accident or illness of the named individual) and 'extra expense cover' (which includes any loss directly

³⁸ BBC Annual Report and Accounts, 2018/19

³⁹ Strengthening UK culture and creativity- impact of Covid-19 , June 2020

⁴⁰ [Netflix press conference notes](#), 21 April 2020

⁴¹ [Netflix CEO, Ted Sarandos, article in LA Times](#), 4 May 2020

resulting from the interruption, postponement or cancellation of a production consequent upon any action of a civil authority - similar to business interruption). These insurances are still available, but not for claims arising out of COVID-19 where the losses are likely to be bigger, such as caused by:

- o further Government-imposed shutdowns or tighter restrictions being imposed,
- o an individual testing positive, and the cast and crew having to isolate or
- o a cast member becoming sick and being unable to complete filming.

6. Pact - along with the UK broadcasters' - request is for an emergency short-term fund to provide cover for COVID-19 related claims until the commercial insurance market has developed reinsurance arrangements (PanRe) – which looks to be many months away. This follows the French example where they have set up a short-term indemnity fund to cover cancelled or postponed TV and film shoots during the pandemic. As already outlined without a Production Guarantee Fund as a temporary measure it is likely that minimal domestic productions will be able to start or resume shooting and this in turn would impact the revenues that the sector has enjoyed over the last decade. This also causes a ripple effect to the rest of the economy as the TV and Film sector employs a wide array of people across the creative industries – even a narrow snapshot that focuses on Film and HETV has found that GVA was over £7 billion.⁴² We will also begin to see market failures in all genres of UK audiovisual and our position as the world's second biggest exporter of AV content will almost certainly be threatened.

PSB in a digital age

7. As evidenced above audiences can access PSB content through broadcast viewing that is live, time shifted and through on demand platforms like BBC iPlayer and ITV Hub. These are some of the ways PSBs are already adapting to audiences' preferences in a digital age. Audiences have access to a range of content and have never had it so good. Live TV viewing also continues to account for 66% of viewing and of this PSB channels account for the majority of the viewing.⁴³ PSBs, as already identified, accounted for over 80% of the total UK commissioning spend (i.e. spend on production with non-broadcaster producers) pre-COVID-19.⁴⁴ Furthermore, Ofcom data shows that audience expectations of PSBs are being met despite this decline in investment. Independent producers play an important role in this ecosystem, bringing investment of over approximately £200m per year into original UK content creation as the PSBs no longer fully finance the total cost of television programme production. Ofcom has also acknowledged this in its latest Media Nations report where it identifies that contributions to the cost of production from third parties, including as part of a co-production arrangement, deficit funding from production companies and tax credits has more than doubled over the last ten years, from £147m in 2008 to £455m in 2018.⁴⁵
8. However, it is also true that younger audiences are shifting away more steeply from broadcast viewing compared to other age groups and that there is a worry that this could be a permanent shift away from broadcasting. 16-34s are watching 78 minutes less broadcast TV a day than in 2010 but at the same time younger viewers have increased the proportion of overall viewing time they spent watching PSB channels: 43% for the five main PSBs in 2018 compared to 40% in 2017. For PSBs and their portfolio channels, 16-34s' share of viewing was 67% in 2018 compared to 66% in 2017.⁴⁶ Pact recognises the need for providing audiences with enhanced utility of

⁴² Screen Business, How screen sector tax reliefs power economic growth across the UK Sectors, report commissioned by BFI from Olsberg SPI with Nordicity, 2018

⁴³ Ofcom Media Nations Report, 2019

⁴⁴ Media Nations report, Ofcom, 2019, p48

⁴⁵ Media Nations Report, Ofcom, 2019

content and this is one aspect of attracting and retaining audiences. The current PSB framework including the Terms of Trade has shown to be flexible and adaptive enough to cater to these new preferences by agreeing to new Terms of Trade that will allow PSBs to utilise content in longer windows – most recently this applies to the new terms agreed between the BBC and Pact on iPlayer which gives the BBC the opportunity to exploit third -party content for longer whilst at the same time remunerating producers for a bigger share of the back end. That said, distribution is not the sole challenge to be faced by PSBs. Pact considers that the issues that face PSBs are focused on editorial and content in a more competitive market for audiences especially younger viewers which has accelerated due to the COVID-19 crisis. As already discussed, once the short term impacts of COVID-19 are dealt with the PSBs need to meet the challenge and competition that the market is bringing in terms of creative ideas and content in order to attract and hold onto audiences as well as look at how content is distributed.

9. The PSBs push for an extension to its prominence regime is another strategic aim that focuses on using distribution as the primary way to attract and maintain audiences. Pact considers that any extension of the prominence regime to the PSBs' new services must be accompanied by the imposition of the same obligations and responsibilities that are imposed on PSBs' linear services. Pact understands that the PSB compact is a delicate balance between additional obligations which these broadcasters must meet – including a higher independent production quota than their fully-commercial rivals and Out of London production quotas – in return for benefits which could include an extension to its current prominence regime.
10. Subject to a full market impact assessment, Pact would support extending the prominence regime to platforms and devices not currently captured by the current EPG prominence regime. We also note that any EPG prominence legislation would quickly become out of date, and take interest in how the Government, Parliament and Ofcom plan to avoid the legislation being circumvented by technological change. Pact supports any decision which increases the ability of UK broadcasters to invest in more original content – we do not consider that we have sufficient information to fully understand whether extending prominence would be translated into higher levels of investment. What are the fiscal benefits to the PSBs under the proposed future prominence proposals? Pact wants Ofcom and the Government to set out exactly what additional fiscal benefits would go to programming.