

## OFCOM 2<sup>nd</sup> PSB Review SCBG Response

### Introduction

The Satellite and Cable Broadcasters Group is the representative body for multi-channel television in the UK. Its members provide over 100 channels to UK viewers and contributed £2.2 billion to the UK economy in 2007. SCBG members employ 24 000 people in skilled jobs in the UK.

SCBG members have specific concerns about the possible changes which may be made to the funding mechanism for Public Service Broadcasting in the UK. Rather than address the questions laid out in the 2<sup>nd</sup> Review consultation, we have focused on specific concerns which should be taken into account to ensure that SCBG members are not adversely affected by any proposed changes.

### Summary of the SCBG Position

- SCBG members provide over 100 channels in the UK showing a great deal of high-quality, UK-originated public-service-like content which is popular with viewers.
- Spend by SCBG members on UK-originated content has been increasing gradually, and SCBG members have been partners on a number of co-productions with Public Service Broadcasters.
- SCBG believes that further Government intervention in the broadcast market is only necessary where the market has been proven unable to provide certain types of programming falling within the public service remit. Careful market investigation is required to identify where this situation occurs before further funding is made available – additional funding should not simply be provided to broadcasters as a supplement to their existing and broadly-drawn public service remits.
- To ensure genuine competition, any intervention should not favour PSBs over other competitors or new market entrants.
- Models proposed so far which see increased funding for the commercial PSBs could result in revenue decreases of between £29 and £37 million for SCBG members. This could have the knock-on effect of a content investment decrease of £66.8 – 85 million in the period 2012-2016.<sup>12</sup>

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<sup>1</sup> Deloitte Touche 2008. Economic Impact of the SCBG. Pg 29, Fig 12. In the scenario where ITV and C4 receive extra funding, a market loss of 2.3% or £29 million is envisaged for SCBG members. In the scenario where C4 is developed as a larger PSB broadcaster a market loss of 3% or £37 million is envisaged for SCBG members.

<sup>2</sup> Ibid. Pg 30, Fig 13. This table shows the potential overall reduction in content investment depending on the PSB scenario chosen.

- A number of other broadcast policy issues under consideration could compound these projected losses, and for this reason OFCOM should take into account their potential effect before advising Government on the most appropriate PSB funding level and model.
- Subject to the concerns expressed above, SCBG sees the potential benefit of a competitive funding model, provided the system is transparent, avoids bureaucracy and is open on an equal basis to all those who wish to apply to it.
- The funding model must also be carefully insulated from commercial pressures and other incentives to chase ratings, at the expense of true PSB content which provides what the market does not.

### **The Role of Multi-Channel TV in the provision of Public Service Programming**

SCBG members produce high-quality UK-originated programming, which is also increasingly available on the Freeview platform and online. Increased subscriptions to Pay-TV services mean that an ever-growing number of viewers have access to high-quality non-PSB content.

In 2007 SCBG members spent £119 m on the provision of content. Of that figure 27% was on UK-originated content.<sup>3</sup>

SCBG members provide the competition which acts as a 'spur' to PSBs to produce quality programming such as CNBC's 'Worldwide Exchange', a programme produced in London and tri-anchored in London, Singapore and New Jersey which gives an innovative live global perspective on current affairs; the 2008 MTV European Music Awards in Liverpool, broadcast live on MTV in November; the History Channel's '50 Things You Need to Know about British History', produced in conjunction with the Daily Telegraph; or Discovery's 'The Big Experiment', which taught children from an underperforming school science in an engaging way and helped them gain a GCSE<sup>4</sup>.

SCBG members also work with PSBs periodically on commissions, such as Five/The History Channel's: 'Brit's Who Changed The Modern World', which was instigated by The History Channel and taken to FIVE as well as 'Peppa Pig' from Nickelodeon. Discovery Channel has also worked with the BBC on projects such as 'Walking with Dinosaurs'.

These co-productions often debut on the PSB and are shown with a slight time delay on the SCBG member channel. Unfortunately when levels of PSB content are measured the only channel to be credited with a joint production is the one which first airs it. Therefore the actual figures for investment in public service content by multi-channel operators are likely to be higher than the official figures state. Shows such as Blue Planet (a BBC/Discovery co-production) might never have been made without the contribution of SCBG members.

SCBG members are keen to invest in UK-originated programming which interests their viewers. They agree with OFCOM that a genuinely competitive market is necessary to ensure that high programming standards prevail. To ensure this is the case, intervention by Government should only be in areas where it is not possible for the market to provide a public service goal.

### **The Potential Effect of Additional Funding for Commercial PSBs**

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<sup>3</sup> Ibid. Pg 11

<sup>4</sup> Ibid Ch 2

In order to ensure that they are able to continue to provide strong competition and high-quality programming, SCBG members should not be disadvantaged by the effect of any proposed changes to the PSB funding model.

SCBG has already presented a study by Deloitte to OFCOM which highlights the potential effect of increased funding to commercial PSBs on multi-channel operators. This study focuses on the two OFCOM scenarios which envisaged increased funding for commercial PSBs and predicted losses of between 2-3%, or £29 - £37 million, over the proposed funding period for multi-channel broadcasters.<sup>5</sup>

Some debate which has taken place since the presentation of this study has called into question the level of damage to multi-channel broadcasters these losses would actually cause. However, it is important that the figures are not viewed in a vacuum. In considering the recommendations it will make to Government, OFCOM needs to take a holistic approach which takes into account other areas where commercial PSBs might benefit from extra revenue and multi-channel operators may experience greater losses. These areas might include:

- The provision of spectrum to PSBs and the possibility they have of 'selling on' some of that allocation;
- The continued dominance of ITV in the advertising market and the result of any OFT decision on CRR;
- Proposed reductions in the public service requirement of ITV;
- Proposed rule changes on advertising minutage (RADA) which will benefit the commercial PSBs to a certain extent but which are likely to have a significant negative effect on the advertising revenue of multi-channel broadcasters;<sup>6</sup>
- Proposed changes to the teleshopping regime;
- Possible changes in the rules on product placement and which channels (in all likelihood those with the highest viewing figures) are likely to benefit the most from any relaxation in this area;
- The activities of the commercial arm of the BBC and the effect these are having on the market;
- The activities of all PSBs on new platforms and the effect this might have on genuine competition (e.g. the Kangaroo joint venture);
- The possible imposition of a levy on SCBG members to fund the PSB model.

Furthermore, Ofcom should be mindful that multichannel broadcasters' revenues are already under pressure from the well-documented downturn on the UK television advertising market, HFSS food and drink advertising restrictions, and the wider global economic recession.

Any proposal put forward to Government should include a full assessment of the effect it may have on the market, taking into consideration all the areas listed above. To maintain a truly competitive market there should be careful consideration of the effect all the proposed changes to the broadcast regime will have. Failure to do so could result in significant damage to SCBG members and erosion of the genuine competition which is necessary to drive broadcasters to higher standards.

## **The Proposed Levy**

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<sup>5</sup> See footnotes 1 and 2

<sup>6</sup> OFCOM proposals on Changes to RADA – An Update. Oliver and Ohlbaum. June 2008. According to research from Oliver and Ohlbaum commissioned by SCBG, allowing commercial PSBs increased advertising minutage could result in losses of £23-£162 million per year for SCBG members with very little long-term gain for any industry players

One of the models put forward in this consultation has been the possibility of a levy on certain sections of the creative economy to fund public service broadcasting.

SCBG members disagree strongly with this proposal. At a time when the creative economy is becoming increasingly important to the wider UK economy, taxing particular sectors to shore up large incumbents can only damage developing markets. If a levy is added to losses SCBG members may incur from existing market pressures, additional PSB funding and changes to RADA rules it will only serve to undermine production budgets and weaken competition in the market.

While other EU countries may have adopted levies or other taxes to fund their public service broadcasters, this should not be used as a justification for imposing similar burdens on UK industry. The level of PSB funding in the UK is one of the highest on an international basis, by virtue of the existing BBC licence fee and other PSB subsidies afforded to the commercial PSBs.

In this regard, it is important to note Ofcom's recently published analysis of the International Communications Market 2008, and in particular its findings concerning sources in TV revenue across a number of international markets, including France, Germany, Italy, the US, Poland, Spain, Netherlands, Sweden and Ireland. The UK is shown to take the highest amount of public funding per head of all the markets studied (£43 compared to an average of £20 across the other), and to have the second highest licence fee of £140 (joint with Germany, with Sweden at £150).

To take money from one section of an industry to fund another which produces the same content to broadcast to the same audience seems ludicrous and fundamentally undermines any competition as well as acting as a brake on new entrants to the market.

### **SCBG's Preferred Funding Model**

If thorough market assessment identifies the market's failure to provide certain genres of PSB programming, and a funding mechanism is identified which does not impose additional financial burdens on non-PSB channels, SCBG members would prefer to see a refined Competitive Funding model put forward as the solution to this problem.

However, at this moment it is still not clear how this model would work. SCBG suggests that the following elements are essential to the successful operation of a competitive funding model:

- Funding should be available only for content which the market cannot support
- Funding must be open to all on an equal basis;
- Decision-making on how funding would be allocated should be transparent and the body tasked with allocation of funding should not be a large, expensive organisation;
- The funding body must be carefully insulated from commercial pressures and other incentives to chase ratings at the expense of true PSB content which provides what the market does not.

SCBG members have already proved that they are willing and able to provide high-quality public service content either independently or in partnership with PSBs. An efficient competitive funding model which focused on content which would otherwise not be provided seems like a sensible approach to addressing any gaps in the public service remit.

Furthermore, the SCBG welcomes Ofcom's third 'principle of availability' that '*...the use of paid for platforms and services to deliver some public service content is appropriate if those platforms can deliver greater reach or impact among a particular target audience than free-to-view*

*platforms do...'*. It is certainly the case that some multichannel broadcasters are able to effectively and efficiently target particular sections of the population that the PSBs struggle to cater for, and to deliver an equivalent level of impacts against the target audience. We would urge Ofcom to ensure that this principle is included in any recommendations it makes to the Government on the question of competitive funding.

## **Conclusion**

Any reform of the broadcasting Public Service provision in the UK should not be to the detriment of other market players who provide much-needed competition to the PSBs. SCBG member channels provide a number of high-quality programmes to their viewers, sometimes in conjunction with PSBs. To maintain consistent levels of funding for programming in an increasingly difficult and fragmenting market, SCBG members need to know that their revenue will not be threatened by Government subventions to their direct competitors. All of the recent proposed initiatives should be examined and their effect on multi-channel operators as well as PSBs be considered before OFCOM makes its recommendation to Government.