

Children's content review

**Response from the Commercial Broadcasters
Association to Ofcom**

January 2018



A VOICE FOR COMMERCIAL BROADCASTERS IN THE UK

Introduction

1. The Commercial Broadcasters Association (COBA) is the industry body for multichannel broadcasters in the digital, cable and satellite television sector, and their on-demand services. COBA members operate a wide variety of channels, including news, factual, children's, music, arts, entertainment, sports and comedy. Their content is available on free-to-air and pay-TV platforms, as well as on-demand.
2. 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 public support, direct or indirect.
 - 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 £725m per annum, up nearly 50% on 2009 levels.³

¹ Ofcom International Broadcasting Market Report 2013

² Skillset, Television Sector – Labour Market Intelligence Profile

³ COBA 2014 Census, Oliver & Ohlbaum Associates for COBA

Executive summary

1. COBA members provide a range of children's services, including pay-TV channels and free-to-air, as well as on-demand and online offerings. They cater to children aged up to 14 – predominantly up to eight years old, but also up to 14 or 15 years old with services such as the Disney Channel, Turner's Cartoon Network and Nickelodeon. Within this age range, they offer a wide range of genres. While high quality animation is perhaps the most prevalent sub genre, factual and particularly live action children's drama feature heavily (a non-exhaustive list of recent UK commissions by COBA members is included as an Annex).
2. COBA channels are valued highly by UK audiences. Multichannel broadcasters (excluding PSB portfolio channels) represent 48% of viewing for children aged 4-15.⁴ This is substantially higher than the multichannel sector's overall audience share of 29.3%. Disney's UK drama *The Evermoor Chronicles*, for example, regularly attracted more than a million viewers per episode, and sometimes more than two million (including catch-up viewing). Cartoon Network's UK animation *The Amazing World of Gumball* regularly reaches one million children.
3. COBA members have consistently invested in UK children's and animation as part of this service. As a sector, they have invested an average of £15.6m a year over the last three years in first-run UK originations. Other than the recently introduced production tax reliefs, this investment is made without public support such as the licence fee or privileged access to EPG positions or spectrum.
4. This investment is perhaps not fully understood. Crucially, an estimated 74% of this spend comes from overseas channels within the same corporate group. For those members with multinational broadcasting operations, investment in a UK production will typically be set not just against a UK channel, but also those overseas channels where a future return from broadcasting the show is estimated. We understand that this aspect of COBA members' investment was not part of the data gathered for Ofcom's last PSB review.
5. More widely, funding for UK children's content as a whole has declined due to well-documented reductions at commercial PSBs. While investment from COBA members is surely welcome, we do not suggest it can replace the depth and breadth of PSB spending.

⁴ Children's content review, Ofcom, figure 6, page 15

6. Nevertheless, there are good reasons to be optimistic. The introduction by the Government of production tax reliefs for children's and animation production is welcome, and is helping incentivise UK commissions from COBA members and PSBs. In addition, the Government's anticipated £60m contestable fund is expected to be used exclusively for children's content. Together, these interventions represent a substantial level of funding, perhaps comparable to the historic high when ITV was investing more than £40m a year.
7. This optimism, however, must be tempered by the growing challenge of on-demand and online services. To date, these services have invested little in new UK children's content, but they are increasingly competing with linear services for children's viewing, making it likely that pressure on broadcasters' investment in content – both that of PSBs and COBA members - will increase over time as on-demand and online viewing grows.
8. Compounding this, linear channels are subject to a far higher degree of regulation than on-demand and online services, raising questions about the ability of linear channels to compete on a fair basis with OTT and online services.
9. It is important, therefore, that policymakers seek to enable broadcasters to sustain and grow their investment in content. Recent calls by the BBC for greater EPG prominence for its children's channels would, for example, damage overall investment in children's production by undermining the audience share of the commercial sector. Unlike the licence-fee funded BBC, commercial sector channels rely on audience share as a key factor in determining both advertising and subscription revenues.
10. In our view, the challenge the BBC is facing is not in the linear environment, where its children's channels are the most watched in their demographics. Like other essentially linear services – including COBA members – the challenge for the BBC going forward is how to compete with on-demand and online services.

Response to review

1. What characteristics do (i) children and (ii) parents/carers most value about content aimed at children? How does this vary depending on the age of the child?

- 1.1 Entertainment is probably the overriding factor, but children also value characters and stories that speak to them emotionally. This can occur at a young age – as evidenced by the appeal to pre-school girls of Disney's Frozen, which subverted traditional fairy-tale stereotypes by introducing strong female heroines. Representation is also important, affirming a child's identity and relationships. As part of this, UK content is important, enabling a child to witness, explore and understand the world around them. As we outline in this submission, COBA members are well aware of the importance of UK voices and UK-made content generally in their children's services. As a sector, they invest an average of £15.6mm a year in first-run children's originations.
- 1.2 Although they are not public service channels, COBA members are also keen to incorporate "public service" or socially or environmentally conscious elements into their content. Nickelodeon has a long tradition in this area, while Disney's First Class Chef, from Jamie Oliver's production company, aims to promote healthy cooking. Cartoon Network runs an anti-bullying initiative, CN Buddy Network, and Sky children's factual commission Ocean Rescue: Dive In & Do It is linked to the broadcaster's Ocean Rescue campaign. In addition, Sky's Kids Fit in Five production sets out to increase fitness awareness amongst children.
- 1.3 COBA members – i.e. non PSB channels - clearly play an important role in providing children with entertainment and choice. As Ofcom notes in the consultation paper, multichannel broadcasters (excluding PSB portfolio channels) represent 48% of viewing for children aged 4-15.⁵ This is substantially higher than the multichannel sector's overall audience share of 29.3%.

⁵ Children's content review, Ofcom, figure 6, page 15

2. Are there certain genres within children's content (genres could include live action, animation, factual, news) that children or parents/carers particularly value and watch, and if so why?

2.1 We caution against easy assumptions in this area. Animation can have an important role and be highly valued by children and parents/carers, both for the entertainment it provides and for other more "public service" aspects. For example, Lily's Driftwood Bay is an animation commissioned by Nick Jr from Northern Irish production company Sixteen South. It revolves around the relationship between a father and his daughter – a relationship that is not often depicted on screen.

2.2 That said, we recognise the importance as well of live action content that can represent UK children's lives. Several COBA members are active in commissioning UK drama for children, including Disney's The Evermoor Chronicles and The Lodge, which have run over multiple seasons, and Nickelodeon's Ride.

3. Do children or parents/carers have different expectations in terms of quality or other characteristics depending on the format (e.g. long-form vs. short-form/broadcast vs. online), or the provider/brand (e.g. BBC/ITV vs. Netflix vs. YouTube etc) of content? Do they value content in these different formats or from these different providers differently? Do these different formats or providers meet different needs for children?

3.1 Linear channels – both PSB and non PSB - are subject to a far higher degree of regulation than on-demand and online services. This applies also to the on-demand (catch-up) services operated by linear broadcasters, where content will typically have been through a linear compliance process when it first aired on the linear channel.

3.2 On the one hand, this means that linear channels are valued by parents as safe, responsible services. However, it also raises questions about the ability of linear channels to compete on a fair basis with OTT and online services.

4. When and why do children and parents/carers choose online or streaming services (for instance iPlayer, Netflix, YouTube) instead of watching TV on a TV set? Is this for particular sorts of programmes?

4.1 In our view, a key factor in the growth of on-demand is simply the convenience of accessing programming when viewers want. It should be noted, however, that a large part of on-demand viewing is in fact catch-up or time-shifted viewing of linear content.

4.2 Building on and driving this development, broadcasters have increasingly sought to innovate themselves. Sky's Kids App, for example, offers younger audiences a dedicated portal for on-demand and games content, and has recorded half a million registered users since launching. Disney, meanwhile, launched a dedicated UK streaming service in November 2017.

5. How do children discover programmes and decide what to watch? What role do broadcasters, platforms, parents, and friends play, and does this change as children get older?

5.1 For COBA members, EPG position is a key factor in generating revenues and, by extension, investment in content (to be clear this applies to both advertising revenues, which are directly related to audiences, and to subscription revenues, which are in part based on audience share). As we outline in this submission, these revenues enable COBA members to invest an average of £15.6m a year in first-run, original (UK) children's programming.

5.2 The BBC has argued that it should have greater prominence for its linear children's services. This would damage investment in UK children's programming. Uniquely, the BBC's ability to invest in content is not dependent on its EPG position, due to the licence fee. However, awarding the BBC a higher position would undermine audiences and as a result commercial revenues for the rest of the sector.

5.3 In our view, the BBC does not require additional prominence for its children's services. CBeebies and CBBC are already the most watched children's channels.⁶ The current prominence regime in linear already ensures they are readily discoverable.

5.4 Furthermore, given the BBC's enhanced ability to cross promote from its extensive range of other services, the relative importance of EPG positions to the BBC is debateable (the BBC has many more outlets

⁶ CBeebies has a weekly reach of 48% of 0-6 year-olds, while CBBC has a reach of 36% for 6-12 year olds, the highest of any channels by some distance.

through which to cross-promote than most commercial broadcasters, including other BBC channels, BBC radio, BBC online, the iPlayer, and BBC publishing). In short, there is no problem in terms of audiences being able to find these channels.

5.5 It is also important that Ofcom has a degree of flexibility in this area. The BBC children's channels are newer than the other channels above them on the Sky platform. When they launched they received the best available positions for free (a non PSB channel would have to buy those positions or go to the bottom of the children's section). In doing so, they automatically took higher positions than many commercial channels who had invested in their businesses, making a success of the platform, and in UK content.

5.6 It is in our view perfectly reasonable for platforms and Ofcom to have a degree of flexibility in this area in order to cater to different audience priorities. As a report for the DCMS stated:

*"The case illustrates the difficulty in determining empirically whether a PSB channel has 'appropriate prominence', either by reference to position, or by reference to the effects on viewing figures. There is no doubt that the BBC kids' channels are not in top positions on the Sky EPG compared to the other TV platforms. But whether they are appropriately prominent may be viewed as a separate question. And even if it were shown that these channels' share of viewing for their target age groups were lower than the equivalent shares on another platform, this could be a result of differing demographics or viewer preferences. After all, the competing kids' channels are mainly obtained through premium packages that viewers must have valued at the point of purchase."*⁷

5.7 It is also important to consider the wider impact of changes to EPG policy. Ofcom would have to apply the same criteria to all genres of the EPG, and all platforms. This could create disruption in other genres, such as news, at a time when there is already considerable uncertainty in the market. As a DCMS report on this issue concluded:

5.8 *"The risk is that even minor tinkering might unbalance a system that works, for example through putting off international content owners from investing in the UK if they are unsure of how the future land will lie."*⁸

⁷ The value and optimal management of channel position and prominence on electronic programme guides, Technologia for DCMS, 2012

⁸ Ibid

5.9 Finally, to be clear, our comments in this response about EPG policy are entirely in regard to linear EPG prominence, and should not be taken in reference to Ofcom's forthcoming consultation on prominence on on-demand platforms.

6. Are there specific genres within children's content (on any platform) where demand or audience need is not currently matched by supply from PSBs, commercial channels, or on-demand and streaming services, or a combination of the former? What supports your view on this?

6.1 The reduction in investment in UK children's programming by commercial PSBs over the last decade has been dramatic. This has led to a reduction not just in the volume of UK children's programming, but also the breadth. Our assumption is that any shortfall in provision is most pronounced in factual and drama for older (14+) children.

6.2 That said, non PSBs channels, particularly subscription-based ones, have for their part maintained a consistent and substantial presence in UK children's content. We do not suggest this replaces the breadth and depth of PSB content, but it helps mitigate the decline, notably for children aged up to 14. For example, The Evermoor Chronicles, a live-action UK drama commissioned by Disney, regularly recorded consolidated UK audiences of more than one million per episode, and sometimes more than two million. Cartoon Network's Bafta-winning UK animation, The Amazing World of Gumball, regularly reaches one million children as well.

6.3 This investment in UK content by non PSB linear channels is often underrepresented or misunderstood. In particular, this is due to the fact that COBA members leverage high levels of funding for UK commissions against their international channels. We estimate that 74% of investment by COBA members in UK children's content comes from their international channels. To be clear, we are referring to their own licensed services in other markets, not third-party companies.

6.4 It is also worth noting that COBA members are active in a range of genres. Alongside high quality, BAFTA-winning animation like Cartoon Network's The Amazing World of Gumball, Disney has recently commissioned large-scale children's dramas including The Evermoor Chronicles (two seasons) and The Lodge (two seasons), plus factual shows such as First Class Chef from Jamie Oliver's company Fresh One.

For its part, Nickelodeon recently commissioned UK drama *Ride*, building on the success of its earlier UK drama *House of Anubis*.

- 6.5 Sky, meanwhile, recently started commissioning UK children's content, such as a reboot of the animation *Morph* and factual natural history programme *Big Cats: Wild Files*. In October, it announced a major investment in UK children's content with *Moominvalley*.
- 6.6 Nevertheless, we acknowledge that this investment does not provide for the full breadth of age ranges on a consistent basis. Provision is highest for children aged up to eight, although channels such as Disney Channel and Nickelodeon cater to children aged up to 14 or 15. Animation is probably the biggest single sub genre in terms of volume, but drama represents a substantial share of spend on UK children's commissions, given its high cost per hour. Older children (14+) are probably least well served across all platforms, although there are exceptions – Disney and Nickelodeon play up to 15 years old, including homegrown shows such as Nickelodeon's *Slimefest*.
- 6.7 In addition, we note that investment in UK children's production by COBA members can vary significantly from year to year. Broadcasters will commit to investing in a large-scale series or animation in one year, and potentially air that programme over a number of years. Output may therefore be more even, but investment in production can be uneven at least in the cases of some broadcasters.

7. What is the role and importance of first-run UK-originated programming for audiences? For broadcasters? Does this vary by sub-genres or by age group?

- 7.1 COBA has surveyed its members on their investment in UK children's content for this review. We collected data for a three-year period (2015-2017 inclusive), asking members to break down the amount of investment in UK originations from their UK channel and any overseas channels they operate. Production tax reliefs or other public or private investment from third parties was excluded, and we averaged spend for the three years. Our main findings are:

7.1.1 COBA members surveyed spent an average of £15.6m a year on first run, UK children's programming, during the last three years. Recent examples include Disney's live-action children's dramas *The Lodge* and *The Evermoor Chronicles*, Nickelodeon's drama *Ride* and Cartoon Network's Bafta-winning *The Amazing World of Gumball*, amongst many others. Sky recently started

commissioning UK children's shows with Morph, and last year announced a major investment in the genre with Moominvalley, a large-scale British animation that will go into production this year (see Appendix for full list of programmes covered).

- 7.1.2 A high proportion – 74% - of this investment came from overseas channels within the same corporate group. This supports Ofcom's suggestion in the consultation paper that international funding is important for UK programming.⁹ We note that the majority of international funding for UK production comes from EMEA channels, but channels further afield can also account for significant amounts, particularly in animation and large-scale drama. In the timeframe for this consultation, we have only been able to collect partial data on this, and it is highly likely that some investment from outside EMEA is not included in our final estimates.
- 7.1.3 Investment is uneven, varying from year to year, although output is expected to be more regular.
- 7.1.4 We have outlined which genres and age ranges are most common in response to the previous question. In short, we see a healthy mix of genres up to age 14, with provision for children up to eight years old particularly strong.

8. How are on-demand and streaming services changing the nature of competition in children's content? Is this impacting on the range or quality of content available to UK audiences?

- 8.1 On-demand viewing is clearly growing, with children's one of the most popular on-demand genres. This has not yet impacted on the investment strategies of COBA members, but may do in the future. The ability of commercial sector broadcasters to invest in content is directly linked to their ability to generate advertising and subscription revenues. In turn, these revenues are directly linked to audience viewing levels, making it likely that pressure on investment in content will increase over time as on-demand and online viewing grows.
- 8.2 Compounding this, linear channels are subject to a far higher degree of regulation than on-demand and online services. This means that linear channels are valued by parents as safe, responsible services. However,

⁹ Children's content review, Ofcom, page 27, 5.9

it also raises questions about the ability of linear channels to compete on a fair basis with OTT and online services.

- 8.3 It is in our view, therefore, all the more important that policymakers do not undermine the ability of commercial sector channels to invest in UK children's content – as would be likely to occur through the changes to EPG policy that we address in response to Question 5.

9. How have funding models and investment in children's content changed over the last five to ten years? Do you have evidence you can share with this to support your view?

- 9.1 Overall, our view is that there is good reason to be optimistic about funding for UK children's and animation. While investment from commercial PSBs has clearly declined dramatically over the last decade, funding from non PSB linear channels (domestic and international) remains significant at an average of £15.6m a year. Alongside this, recently-introduced production tax reliefs now cover children's and animation, while the Government is finalising a £60m contestable fund for children's programming. Taken together, these sources of investment do, in principle, "plug the gap" left by declines in spending by commercial PSBs.

- 9.2 In production terms, as Ofcom refers to in the consultation paper,¹⁰ new sources of funding are creating a mixed ecology – not the mixed ecology of previous eras in television broadcasting, when the BBC and ITV competed head to head for children's audiences, but a different world, with multichannel broadcasters (domestic and international), tax relief and contestable funding all contributing alongside the PSBs. Historically, producers might rely on a single commission to fully fund a programme. In this new, emerging environment, producers and broadcasters will need to piece together production funding for each show from different sources. This is a process that animation producers have long been used to, but perhaps is now becoming more widespread across the wider children's sector.

10. If certain genres within children's content (for instance news, factual, or drama) are becoming increasingly difficult to obtain funding for, what are the reasons for this? Are certain genres more difficult to generate financial returns from, and if so, why?

¹⁰ Children's content review, Ofcom, page 27, 5.9

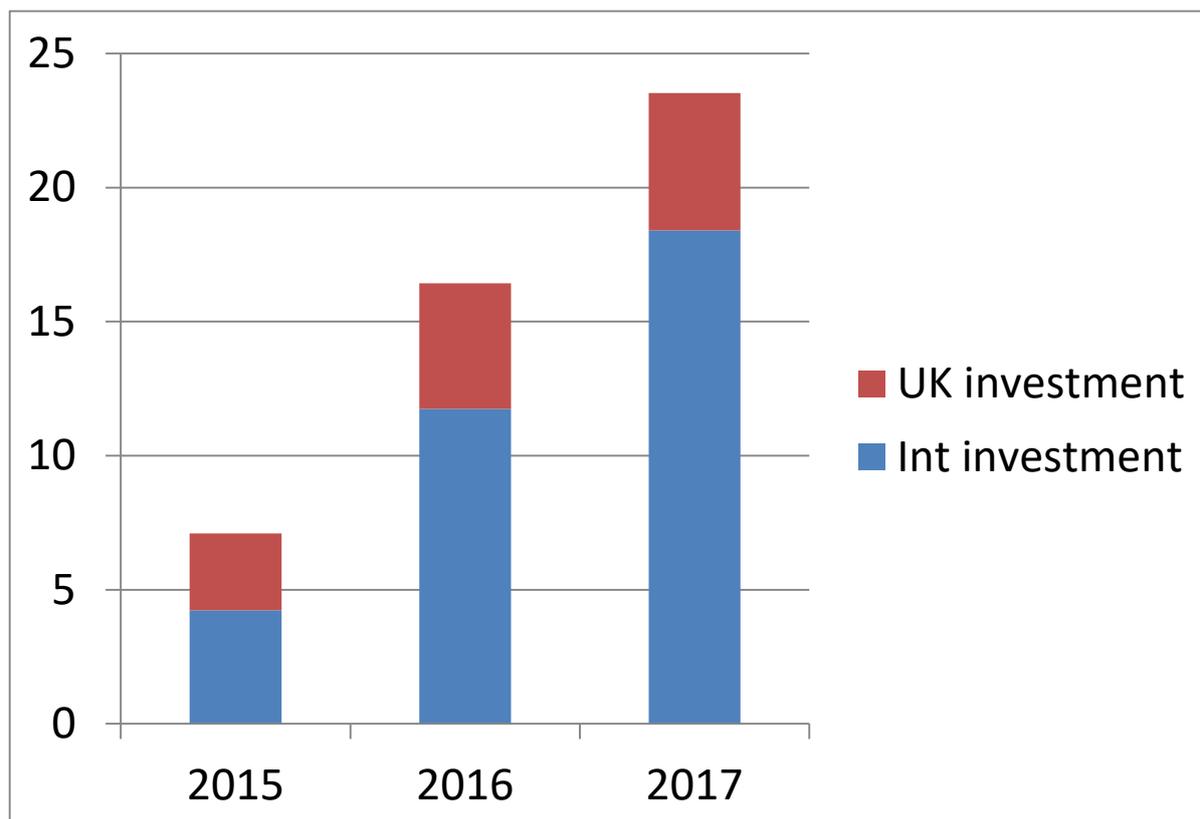
10.1 Certain sub genres may be less commercial than others, which may limit their availability. Specifically, factual and drama for older children are challenging from a commercial point of view. Although multichannel broadcasters are still active in these sub genres, the market has not delivered significant levels of content for older children (14+) in factual and drama.

11. Are there other incentives and disincentives you think we should consider as part of the review?

11.1 We ask Ofcom to consider carefully the level of spending and impact of recent Government interventions through the production tax reliefs and the £60m contestable fund. This is a substantial level of investment, which in pure cash terms largely replaces the investment lost from commercial PSBs reducing investment over the last decade. It is important that it is used to support areas where there is a genuine demand that is underserved.

Annex: Investment in UK children's content by COBA members

Investment (£m) by year in first-run UK original children's and animation production (2015-2017)



* UK investment is spending set against UK channels; International investment is spending set against international channels within same corporate group (does not exclude third party spending or tax reliefs). This does not include tax relief funding or any third party investment from co-productions or other sources.

**We note that the majority of international funding for UK production comes from EMEA channels, but channels further afield can also account for significant amounts, particularly in animation and large-scale drama. In the timeframe for this consultation, we have only been able to collect partial data on this, and it is highly likely that some investment from outside EMEA is not included in our final estimates.

Programmes included in investment figures (Commissioning Broadcaster/Production Company). This is a non-exhaustive list that does not include recent commissions by Sky, such as Morph.

2015 commissions

- First Class Chef (Disney/Fresh One)
- Tini Special (Disney/Wired TV)
- Access All Areas (Disney/Lemonade Money)
- Good Dinosaur Special (Disney/Wired TV)
- Cartoonito Tales (Turner)
- The Amazing World of Gumball (Turner)
- Wanda and the Alien (Nickelodeon)
- Tickety Toc (Nickelodeon)
- Thomas and Friends (Nickelodeon)
- Pegga Pig (Nickelodeon)
- The Gruffalo (Nickelodeon)

2016 commissions

- First Class Chef Family Style (Disney/Fresh One)
- Aladin The Musical Special (Disney/Vamonos)
- Life Hacks (Disney/Maker Studios)
- The Lodge Series 1 (Disney/Zodiak Kids)
- The Lodge Live (Disney/Whizz Kids)
- The Evermoor Chronicles Series 1 (Disney/Lime Pictures)
- Cartoonito Tales (Turner)
- The Amazing World of Gumball (Turner)
- Lily's Driftwood Bay (Nickelodeon)
- Digby Dragon (Nickelodeon)
- Peppa Pig (Nickelodeon)
- Wissper (Nickelodeon)
- Ride (Nickelodeon)
- Slimefest 2016 (Nickelodeon)
- Zack & Quack (Nickelodeon)
- Nick Kicks 2016 (Nickelodeon)
- Morph (Sky/Aardman Animation)
- Make Your Own Movies with Merlin (Sky/Aardman)
- Big Cats: Wild Files (Sky/Offspring Films)
- Duck Quacks Don't Echo: Kids (Sky/Magnum)

2017 commissions

- The Lodge Series 2 (Disney/Zodiak Kids)
- So Sammy Webisodes (Disney/King Bert)
- The Evermoor Chronicles Series 2 (Disney/Lime Pictures)

- 101 Dalmations (Disney/Passion Pictures)
- Cartoonito Tales (Turner)
- The Amazing World of Gumball (Turner)
- Lily's Driftwood Bay (Nickelodeon)
- Peppa Pig (Nickelodeon)
- Wissper (Nickelodeon)
- Digby Dragon (Nickelodeon)
- Nella the Princess Knight (Nickelodeon)
- Slimefest 2017 (Nickelodeon)
- Nick Kicks 2017 (Nickelodeon)
- Aliens Love Underpants (Sky/Tiger Aspect)
- La Buntina (Sky/La Buntina)
- Monkeys: Wild Files (Sky/Offspring Films)
- Ocean Rescue: Dive In & Do It (Sky/Happy Alchemy)
- Kids Fit in Five (Sky/in-house)
- Revolution Top Tens with Znak & Co (Sky)