

Submission to Ofcom's Children's Content
Review

pact.

January 2018

Introduction

1. Pact is the trade association which represents the commercial interests of the independent television, film, digital, children's and animation media production sector in the UK.
2. Pact works on behalf of its members to ensure the best legal, regulatory and economic environment for growth in the sector. Pact has around 500 member companies across the UK and the majority of these are SMEs (small and medium sized enterprises) with a turnover of less than £50m a year. By way of an indication, around 100 of these companies produce children's and animation content in some form, with a combined turnover of £151m (not including Indies that are part of a group).
3. The UK independent television sector is one of the biggest in the world. UK independent television sector revenues have grown from £1.3 billion in 2005 to around £2.5 billion in 2017 largely driven by a growth in international sales.¹ However, specific data on the current children's and animation production sector revenues, given its smaller size, is not widely available.
4. UK originated children's content is one of the most important areas of public service broadcasting. Pact has long been concerned about the dramatic reduction in commercial PSB (Public Service Broadcaster) investment over the last ten years or more².
5. The British Independent TV production sector is successful internationally and is strong, along with the wider UK creative industries, at promoting the UK 'soft power' brand overseas. UK TV exports have grown by an impressive 10% over the last year up to £1.3 billion in 2015/16³. UK children's content, particularly in pre-school, has a well-established and strong reputation internationally.
6. Pact's address is: 3rd floor, Fitzrovia House, 153-157 Cleveland Street, London, W1T 6QW.

¹ Pact Census Independent Production Sector Financial Census and Survey 2017, by Oliver & Ohlbaum Associates Limited

² Children's television – a crisis of choice: the case for greater commercial PSB investment in Children's TV, Pact and the Ragdoll Foundation (2015)

³ Pact/UKTI UK TV Exports Report 2015/16

The case for introducing PSB criteria

Pact welcomes the opportunity to contribute to this Ofcom review into children's content. We were delighted with the amendment in the Digital Economy Act championed by the Save Kids Content UK campaign, supported by Anne Wood CBE, Ragdoll Foundation and Baroness Floella Benjamin. The Government has taken action and wants to reverse the trend in a long decline of commercial PSB investment into children's content.

The arguments for the introduction of PSB criteria or quotas are compelling:

- There has been a dramatic reduction in commercial PSB investment. This amounts to a 93% decline by the commercial PSBs over the last ten years⁴. The BBC is now virtually the last remaining buyer of children's content, making up 87% of all first run UK originated PSB children's content in 2016. This lack of plurality in commissioning is further compounded by pressures to BBC budgets and more recently a shift towards a 'fewer, bigger brands' strategy.
- Legislative PSB requirements: Parliament's objective is to review and support the PSB system for all genres and audiences. Ofcom outlined in its latest PSB Review⁵ there was a 'substantive risk' that Parliament would not be in a position to 'maintain and strengthen PSB' for the children's audience given the 'decline in provision'. As outlined, Ofcom's role is to ensure a 'suitable quantity and range of high quality and original programmes for children and young people'. Despite a crowded market place of content across a plethora of platforms, continuing to invest in great public service content that rises to the fore and reflects the lives of UK children is important.
- Value of public service content for children: Pact recognizes the key value of public service content that educates, entertains and inspires and touches on all four PSB purposes: Informing understanding of the world; stimulating knowledge and learning; reflecting UK cultural identity and representing diversity and alternative viewpoints. Commercial PSBs could be commissioning more content that enhances the lives of our young people and makes them feel part of society. The *Media Attitudes and Use report* illustrates where content is lacking for older children, in live action/drama and news/current affairs/factual programming.
- Reflecting the lives of UK children: All children should have the opportunity to access content that reflects themselves and their lives on screen. This applies across the different age bands and to a range of genres, to all children, regardless of community, geographical location or socio-economic background. We are pleased to see Sharon White, Chief Executive at Ofcom using multiple public fora to promote the importance of diversity, ensuring that the content we see on screen reflects the full diversity of the UK population across the nations and regions.

Pact urges Ofcom to fully use its powers granted through the Digital Economy Act. The regulator has previously lacked powers to compel the broadcasters to commission more original children's content. This is a crucial moment for public service children's content. Pact wants to ensure there is a sustainable supply of quality and innovative content for children into the future, to be viewed on a range of platforms.

⁴ Children's television – a crisis of choice: the case for greater commercial PSB investment in Children's TV, Pact and the Ragdoll Foundation (2015)

⁵ Ofcom PSB Review (2015): <https://www.ofcom.org.uk/consultations-and-statements/category-1/psb-review-3>

Focus of the criteria

The key principles that Pact would like to see the PSB criteria follow are:

- Original content for British children: A focus on *original* content for British children is crucial as the review outlines; the Digital Economy Act does not specifically refer to 'original' content but this is an underlying requirement of the PSB licence.
- Diversity of content: Ensure a variety and diversity of children's content for different ages, across the genres and across the PSBs too. Children from different communities and backgrounds across the UK should see themselves reflected on screen.
- Realistic PSB requirements: The intention of the amendment was not about rigid or unrealistic quotas, or going back to the previous levels of quotas. We appreciate that the commercial PSBs operate in a challenging advertising market however, it should be possible for them to commission more content in line with current channel strategies. Our expectation is that the introduction of criteria or quotas will result in each of the commercial PSBs commissioning and investing more and, in doing so, fully complying with their PSB obligations.

Specific criteria or quotas

Pact does not want to be prescriptive and suggests that the exact nature of the criteria and level of quotas will be a discussion and negotiation between Ofcom and each of the PSBs. Pact trusts that the PSBs will present constructive proposals to serve the current children's audience and build brand loyalty for their future adult audience. Whilst appreciating a degree of flexibility, the outcome must result in a greater provision of a more diverse range of programming for UK children.

It is clear from a number of the questions posed by Ofcom in the Review that there is value in the regulator carrying out a full literature review and further analysis before the PSB criteria are applied, to appreciate how children are consuming public service content including on the platforms.

Pact is open to further discussions with Ofcom but, by way of illustration, the criteria could involve:

- Requirements for PSBs around both hours and spend commitments for children's content, recognizing that the Act applies to the main channels but takes account of provision on portfolio channels.
- Requirements that a broadcaster contribution for each commission should reach a minimum amount e.g. 20% of programme spend

Consultation questions

Questions on children's content viewing

Questions 1-5 of the Review are more targeted at organisations in a position to share wider research with regard to children's content viewing. However, Pact makes a number of observations below to reflect the views of the independent production sector.

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 At the heart of the issue is children having access to quality public service content. Some recent examples of this by the BBC would be Pablo (about autism), Magic Hands (sign language), Treasure Champs (values), Dixie (interactive drama with diverse cast) and Apple Tree House (set on inner city council estate).
- 1.2 Children are increasingly consuming content across a range of devices, with content originally commissioned by PSBs then appearing or acquired by a range of other channels and platforms including Nickelodeon, YouTube or Netflix. The only way to secure a sustainable supply of public service content for British children on a range of platforms is to invest more in PSB content. The initial PSB commission is vital.
- 1.3 US platforms are showing UK commissions from several years ago today but if the supply continues to dwindle, those future PSB commissions will be even less evident. In a crowded marketplace of often low quality content, PSB content has the potential to be even more important to content-hungry children in the future.
- 1.4 In terms of characteristics, we should not underestimate the entertainment value of content for older children. The *Media Use and Attitudes report* shows that 70% of 12-15 year olds value content that makes them laugh, relaxes them or gives them something to talk about with their friends. An important contribution at a time when mental health issues amongst children are on the rise. Children (53% of 12-15s) particularly welcome content including people of their own age or about the sorts of activities that their friends do (48%).

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 TV content and PSB channels can provide safe environments for both children and parents. Ofcom's research shows that parents in particular value this with, with 87% thinking that the UK's public service broadcasters are providing a range of high-quality UK-made programmes for children. Introduction of PSB criteria would ensure that the industry is in a position to supply this into the future.⁶
- 2.2 In terms of genres that are valued, the media attitudes report shows that the majority of children watch content that is not specifically made or tailored to them. 53% of 4-9s weekly viewing is to programmes not specifically made for children. This increases with age; 79% of 10-15s weekly viewing on a TV set is to programmes not specifically made for children.
- 2.3 Of the top twenty programmes that children aged 4-15 watched in 2016 there is only one programme from the genre of children's programming. This communicates the

⁶ PSB Tracker, 2016. Published in Ofcom, 2017. PSB Annual Research Report 2017, Section 4

lack of tailored content for children. Post-watershed programming such as ITV's *I'm a Celebrity Get Me Out of Here*, is not suitable for a younger audience, who should expect to have more programming tailored to them.

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 The media attitudes report points to the popularity of YouTube amongst older children, for example that 48% of 12-15s would miss YouTube the most of all the content providers, however Ofcom should do further analysis on what children are actually watching on YouTube particularly as many well established PSB brands have YouTube channels of their own. Without that original PSB commission, the content would not exist as monetization on YouTube is a challenge for producers.

3.2 The YouTube platform shows a range of educational content but there is an argument that the PSBs provide a more 'safe and trusted space' particularly for younger children. We recognize from the research report that half of YouTube users aged 3-4 (48%) and a quarter (25%) aged 5-7 only use the YouTube Kids app rather than the main YouTube website or app, providing a safer space.

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 The media attitudes report shows that whilst no provider is seen as being aimed at 'people my age', YouTube, Netflix and Amazon Prime are mostly seen by 12-15s as being aimed at 'everyone'. It could be argued that this age group of children do not prefer the platform, so much as they find there is more content on these platforms for them to watch.

4.2 We would point to the fact here that viewing television together plays a role in family life and the social development of children. There is a body of academic research on this topic including that social interaction is a key component in the construction of knowledge. Children will react to content differently if they watch it alone rather than with family and parents/carers which can provoke important conversations promoting their development and understanding.

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 We agree that discoverability is a key issue. If the commercial PSBs are to invest and commission more original content it is important that quality PSB content is visible and able to be found on a range of platforms in a range of formats including interactive and short form.

5.2 The PSBs benefit from the discoverability that EPG prominence provides them with; a benefit that they receive for delivering on their public service commitments, one of

which is to provide content on their PSB channels for the full breadth of the UK audience, including children.

5.3 BBC Children's is developing personalisation for children to build brand loyalty and encourage children to come back again making it easier for them to discover content of interest to them across the BBC. The commercial PSBs could put more thought into how to use their iPlayers or apps linking to other platforms to drive an audience to PSB content through the ITV hub, All4 player and Channel 5 player. Channel 5 is building the online presence of the Milkshake strand through its website and app.

5.4 Arguably, children are more likely to go to online platforms like YouTube or Netflix, as their algorithms mean that content they might enjoy is directed to them.

Questions on availability of children's content

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 As outlined, Pact is highly concerned with the current lack of plurality in commissioning in terms of both volume and diversity overall of children's public service content and the dramatic reduction in investment by the commercial PSBs.

6.2 The media attitudes report evidences that there are specific gaps in provision for:

- Older children; 8-11s and 12-15s including live action, drama and entertainment.
- News, current affairs programming and factual beyond current provision by the BBC.
- Content for children from lower income households with no access to pay TV.

Content for older children

6.3 The media attitudes report makes it clear that a sizeable proportion of 8-15s feel that there are not enough programmes that reflect them and their lives. Only half say there are enough programmes that show children who look like them (52% and 50%) and less than half (48% and 45%) say there are enough programmes that show children who live in the same part of the country as them'.

6.4 Children aged 8-11 are most likely to say that there are not enough programmes that show children who look like them (35%) and 12-15s are most likely to say that there are not enough programmes that show children who live in the same part of the country as them (41%).

6.5 These findings show a lack of diversity in children's content and that we are failing in provision of public service content to these two age groups of children. It is also clear from the report that none of the providers listed were seen by a majority of 12-15s as aimed at 'people my age'.

6.6 The results show a lack of children's live action reflecting the diversity of children's voices around the UK. Live action commissions largely come from the BBC including dramas that reflect the diversity of children in the UK; Apple Tree House; Dixie and Jamilla and Aladdin.

6.7 Channel 4 has a specific remit to produce content that appeals to older children. Parents agree in the media attitudes research that provision for older children was seen as an area of under delivery and that there was a lack of bespoke content for this age group. This applies to both Channel 4 but also across the PSBs. We note

that children say that Channel 4 shows programmes that they like but would at the same time point out that Channel 4 has claimed *Benefits Street* as a popular programme with children. This shows an important difference between the content that children like and what is appropriate for their needs.

News, current affairs and factual

6.8 News and current affairs programming is currently only supplied by the BBC (page 20); there is no provision for children that do not watch the BBC. It is a similar picture for children's drama, factual, news and with the commercial PSBs providing modest numbers of hours of entertainment and animation also. As we have raised, plurality of commissioning of children's PSB content is clearly an issue.

6.9 It is notable from the media attitudes research that TV is the most popular source of news amongst 12-15s who say they are interested in news (64%). This age group also recognise that TV news is more likely to be truthful than news over social media. This is important in the context of concerns around fake news and an opportunity for the commercial PSBs to build brand loyalty around their news provision in the future.

Lower socio-economic households

6.10 A third (33%) of all households in the DE socio-economic group do not have access to video-on-demand and pay TV services and 10% of these households are without access to the internet. These children are then reliant on provision by the PSBs that are not providing a full diversity of quality content for children.

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 groups

7.1 The Ofcom review highlights that both parents and children have a high regard for PSB programming with 87% believing that the UK PSBs are providing a range of high-quality UK-made programmes for children.⁷ There is no guarantee that this can be sustained into the future based on current levels of investment – parents and children are in many cases benefitting from first-run UK originated commissions from several years ago or more.

Value for audiences

7.2 The Ofcom review highlights that repeats are a highly dominant feature of children's TV, making up 98% of the schedules on commercial children's channels in 2016.

7.3 Pact accepts that, to a certain extent, repeats are more normal in children's programming as the audience outgrows content, it is found by new children, and the content naturally refreshes itself. There are also benefits from a learning perspective in recognition of repeated sounds and content for children's development.

7.4 However, children of all ages should have the opportunity for fresh voices and faces that reflect themselves, their friends and their way of life on screen – and to have and enjoy their own cultural references unique to them, not always recycled content.

7.5 Older children are not well served by the high levels of repeats in the limited programming available to them, which could explain in part why Ofcom's research of children's media attitudes finds that they are turning to other platforms.

7.6 The innovation, originality and distinctiveness that we get from original programming are all important PSB characteristics and a vital part of ensuring a healthy, plural supply of PSB children's content.

⁷ PSB Tracker, 2016. Published in Ofcom, 2017. PSB Annual Research Report 2017, Section 4

7.7 This innovation and risk is the life blood of all content. It is important in all age groups but particularly important in genres where UK experience and authentic UK voices/faces from a variety of communities around the UK need to be seen e.g. live action drama, factual and news. It is important, however, that we take a holistic view in terms of the provision of children's content from early years to later years.

7.8 In this regard, we would also guard against a feeling that the under 5s are catered for in terms of original UK content. Pre-school is mainly provided by the BBC with some Channel 5 Milkshake commissioning (largely acquisition) but the BBC should not be the only commissioner in this space.

UK cultural values

7.9 Asserting original content from a UK culture and values point of view is important, particularly in promoting the English language and a range of regional accents. European culture can often differ from what is deemed age appropriate for UK children in terms of for example, emotional relationships and age of sexual awareness.

7.10 US content and stereotypes can also lean towards celebrities or showbiz, commercialised and product driven storytelling, with different notions of diversity and open-mindedness from those in the UK. Producers have raised recent examples of international buyers declining programmes with diverse faces claiming it would not sell internationally. It cannot be guaranteed that the US platforms will represent the breadth of UK diversity.

7.11 In addition, OECD figures presented at the Global Children's Media Summit in Manchester in December 2017 demonstrated that children that have an above average exposure to digital have a lower than average reading ability. An argument could be made that it is even more important that PSB commissioned content rises to the surface.

Value for broadcasters

7.12 When broadcasters commission original content, they contribute to the creative process. In TV for adults, broadcasters take care to curate their content, programs have a distinctive feel when they are commissioned by BBC, ITV or Channel 4. This contributes to plurality and different creative approaches and is as important for UK children as it is for adults.

7.13 The BBC embrace the opportunities of origination in their pre-school to 11s programming (with more investment planned for 12-16 content). ITV's first run is so limited as to have little significance. Channel 5 invest very small amounts and therefore have to share creative input with other funding partners. Channel 4, as has been articulated, could be investing more in content for older children.

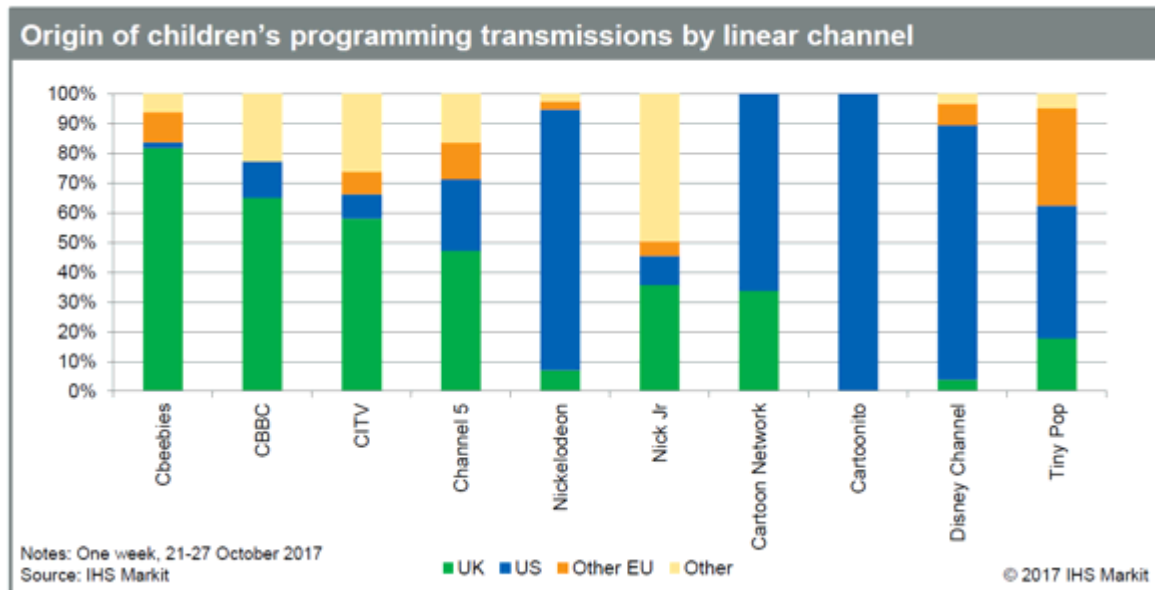
7.14 S4C as a PSB providing Welsh language programming to all sections of its audience including children is one of the largest investors in original British content for children. In Wales, S4C's pre-school service Cyw has a crucial role in the promotion and learning of Welsh and as such is regarded as one of S4C's most valued brands.

UK content on platforms and pay TV

7.15 Recent analysis presented by the consultancy HIS Markit shows that UK productions are not widely available on pay TV. Pact recognises that there are no PSB duties on the pay TV platforms and that this is appropriate.

7.16 The consultancy carried out analysis of UK programming across the PSBs and platforms over three days on Saturday, Sunday and Monday. They caveat the

results as a snapshot in time but also suggest that, based on their market knowledge, the findings give a fair reflection of the levels of original programming across the platforms.



Questions on incentives and disincentives to produce children's content

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 It is important to not overstate the current role of on demand and streaming services. The PSB criteria is about achieving quality public service content for children across the age groups and genres. The platforms are not lacking in volume of programming but the future supply of public service content cannot be guaranteed.

8.2 Pay per view channels such as the Disney Channel and Nickelodeon do offer broadcast children's programming and have done so for many years. However, spending on children's programming by pay per view platforms, such as Sky and Disney Channel, has fallen by 40% in real terms since 2004⁸.

8.3 The risk is that the PSBs become less able to compete with the platforms; as they broadcast less children's content and have fewer brands (e.g. the latest BBC Kids 2020 strategy points to fewer, bigger brands) in an attempt to compete with the online platforms for viewers.

8.4 Amazon Prime is not yet commissioning children's content. Netflix has started to invest in children's programming, however only two British children's shows have so far been commissioned; Free Rein by Lime Pictures and the acquisition The Worst Witch by BBC/ZDF.

⁸ Children's TV: a crisis of choice: the case for more commercial PSB investment in children's TV, Pact and the Ragdoll Foundation (2016)

8.5 This is also not simply about the quantity of children's programming. It is about ensuring the availability of a range of high quality original British children's content that can educate, entertain and inspire children in a way that is relevant to their lives. It is also important that British children's content is available free of charge, as not all parents are able to afford pay per view subscriptions or access to broadband.

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?

Overall investment

9.1 The market for producing children's programming is shrinking rapidly and struggling under the strain of a lack of investment; yet the consumer demand for quality children's programmes remains vigorous and children today are hungry for content.

9.2 The figures are stark; in 2002 PSBs spent a combined £192m on children's content, and £75m of this came from commercial PSBs (ITV, Channel 4 and Channel 5). By 2013, the overall spend by PSBs on children's content had fallen to £98m, with just £5m coming from commercial PSBs.

9.3 Spending on the production of original British children's programming has declined by almost half since 2002. Spending by commercial public service broadcasters in particular has fallen by 93%. Between 1998 and 2015, ITV's children's annual output fell from 1,005 to 325 hours, and Channel 4's from 971 to 311 hours. Less than 1% of children's television hours available for UK children are original, first-run, British programming – the rest are repeats and imports⁹.

9.4 As broadcasters invest less in children's programming, they are also less devoted to the success of the content that they have supported, and less likely to recommission a programme. Recommissions and series are the main way producers make a profit to reinvest in their company, and drive innovation as otherwise they have to start from the beginning with development of a new programme idea.

9.5 The growth of digital is also challenging the funding model for producers. The increase in digital platforms means there is more airtime to fill and less funding available to pay for extra content attached to original commissions e.g. apps, games, social media content. For new shows to become a success, they need a bigger marketing machine, social media, apps etc to drive audiences to it. Arguably, larger companies are in a better position to meet these demands. Companies report that pressures on BBC budgets means that they are asked to provide more outputs for the same or a smaller budget.

Funding models by genre

9.6 Producers report that funding models by genre have changed in the following ways over the last 5-10 years:

- *Animation*: typically broadcasters provide between 5-10% of programme funding (with 20-25% typical with BBC commissions) although there are cases where broadcasters e.g. Channel 5 offer nothing at all in the way of investment. This puts

⁹ www.savekidscontentuk.org.uk

an even greater strain on producers to fully fund through a patchwork of sources taking up valuable time.

Case Study

Illuminated Films produced an animation of the Michael Morpugo book *On Angel Wings* for a BBC Christmas special and secured 80% of the income from overseas.

- *Drama/Live action model:* producers report that the drama model has changed hugely over the last ten years. Ten years ago a relatively ambitious drama could be funded by the licence fee and the distribution advance. The distribution advance would be around 10-15% of the budget. The children's tax relief was very welcome yet has had a number of impacts on the funding models; as a result, the deficit in children's drama is now about 50% of the budget. The high end tax break has created a thriving working environment, however rates have gone up significantly and it is now very difficult to get some categories of crew on children's productions for the budget. Producers have to pay significantly more than five years ago. The licence fees have stayed still or even reduced.

Case Study

Kindle Entertainment received less on a recent teen drama than they did from Leonardo, a series from 8 years ago. Kindle make up the deficit by a combination of tax break, regional investment and distribution advance. Anne Brogan, Managing Director comments that 'the model is close to breaking point or even broken already'.

- *News/current affairs/factual:* As the review outlines, the BBC is the only commissioner of news programming for children. This is an area of programming that does not have a strong commercial focus but has great value e.g. documentaries. Producers comment that factual budgets have showed a gradual decline over the last six years and by 3% per year in some cases.

Case Study

Nine Lives Media, a Manchester based indie won multiple awards (RTS, BAFTA, Emmy) with *My Life, I am Leo* about a transgender boy which was entirely funded by the BBC and would not have been made otherwise. Some young viewers wrote to say how much it had helped them personally because they felt 'recognised' on Children's TV for the first time. The show benefited from the children's TV tax credit and even generated some international revenues.

Another show in the My Life series *Me, My Dad & His Kidney* (which also won a BAFTA) is used in hospitals with kidney units across the UK. Again, the only way it was made was through full funding from BBC Children's.

Merchandising

- 9.7 Pact refutes the claim made by Ofcom in the review that children's programming can also produce significant revenues from merchandising. As the Peppa Pig example demonstrates, this is more the exception than the rule. It cannot be taken for granted that pre-school content can be funded through merchandising. This is no longer the case and producers comment that income from this source has halved in recent years and is still falling.

- 9.8 Ten years ago the potential of a licensing and merchandise deal was enough to fuel and enable deficit funding to plug gaps in production funding. The retail space has narrowed, become more risk averse and fewer brands make it into fertile retail space after transmission. The brands that cut through and make money beyond the broadcast space tend to be backed by bigger corporations. The chance of independently owned content generating income beyond broadcast is limited. This all has an impact on plurality and diversity of supply in the market.
- 9.9 The other risk of overreliance on merchandising to generate revenue is the risk of over commercializing content as a programme itself becomes an advertisement for a product, and would mean that global toy manufacturers would be in the strongest position to dominate the children's TV market. However, for most producers this is not even an option; a programme needs to already be a success to generate high profits on merchandising. In this context, the value of PSB content becomes even more important.
- 9.10 Furthermore, many at risk genres in the children's space do not naturally lend themselves to merchandising, such as factual, news and current affairs.

Evolving technologies and secondary rights

- 9.11 It is true that the platforms are providing new opportunities for producers but they are also presenting challenges particularly from a rights point of view. Producers of online first content in the form of short form, apps or games do not have control of their rights in the same way as linear content for broadcast under the Terms of Trade framework. The result is many small and innovative companies struggling to fund small budget content and invest additional resources in research and development. Lack of control over rights also minimises the control that producers have over the generation of secondary revenues in the international market place. Pact is calling for a fairer deal for online production in this regard.
- 9.12 It is also the case with Netflix commissions, that whilst they may offer reasonable upfront fees the producer will then give up all rights to the programme in certain territories and no longer has control over their rights.

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?

- 10.1 The broadcasters will have views here but we appreciate that they are operating in a challenging marketplace in terms of raising advertising revenue given restrictions.
- 10.2 The reality is that children's content (in the same way as news) does not generate revenue like other genres, but it is an important part of the PSB requirement. Neither should investment in children's be defined purely about profit. Broadcasters should implement an overall strategy that allows them to make additional investment in children's and meet audience needs whilst offsetting with profits elsewhere.
- 10.3 The commercial PSBs should not be identifying the rate of return per slot. The purpose of PSB is not to work on a slot basis and look at the loss made from

children's, news or current affairs, the fundamental point is that you cannot be a PSB without excepting the cross subsidy between different genres. The ITV decision to remove their specialist commissioner of children's content signals that their strategy is moving away from catering for a children's audience.

Broadcaster revenues

10.4 We would make the general point in this section that all of the three commercial PSBs are in good financial health at the moment and could afford to commission more as part of their channel strategy:

- ITV revenues; for the year ended December 2016, ITV reported a 3% increase of total revenues, to more than £3bn, with net advertising revenues of £1,672m and profits after tax of £452m.
- Channel 4: for the year ending December 2016, Channel 4 reported record-breaking corporate revenues of £995m and net assets of £477m.
- Channel 5: the financial position of Channel 5 is currently strong. For the year ending September 2016, the Channel reported pre-tax profits of £386.6million, an increase of a fifth from the previous year.

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

Advertising market revenues

11.1 Advertising revenue across the industry is strong and the threat posed by an increase in children's hours to this revenue is negligible. Research by WPP and Group M suggests that the TV advertising market is cyclical and they predict a return to growth in 2018. The Advertising Association/Warc Expenditure Report also predicts that TV advertising is expected to recover to reach 2.5% growth in 2018.

11.2 Pact considers that the longer term threat to these revenues is broadcasters' failure to commission programming for children.

Online revenues

11.3 Online, pay and interactive revenues are a growing source of revenue for most broadcasters – for ITV they totalled £118m in 2013 (STV and UTV are in addition to this). The Commercial Broadcasters Association (COBA) have modelled and demonstrated the direct correlation between parent channel viewing and online consumption with regard to online revenues¹⁰. We should be aware that ITV, Channel 4 and Channel 5 will take value from on demand services including children's content. We encourage Ofcom to require more data sharing from the broadcasters with regard to their online revenues to improve transparency.

11.4 *We're Going on a Bear Hunt* was one of the most popular Channel 4 shows on All4 in 2017 which demonstrates the potential value of children's content to drive audiences to broadcaster platforms. Ofcom should encourage the broadcasters to make online viewing figures available in addition to online revenues. Online revenues are likely to increase as on demand platforms grow in popularity into the future.

Creative tax reliefs

11.5 Overall, the introduction of the tax reliefs for animation and children's live action have had a positive impact on the sector. The reliefs have made it easier for producers to fully fund shows and complete funding to quicker time.

¹⁰ The costs and benefits for the C3 licences, Communications Chambers (2014)

- 11.6 However, whilst the tax reliefs have increased the overall investment activity in original children's content in the UK, they do not increase the size of the overall investment pot and they are unlikely to deliver a significant increase in the commissioning of programmes specifically aimed at, and reflecting the lives of, children in the UK. It is difficult for the tax reliefs alone to offset the commercial cost for broadcasting (as opposed to producing) UK-originated children's content.
- 11.7 An analysis of the programmes that have qualified for both tax credits in recent years reveals a very small number of programmes commissioned by the commercial PSBs¹¹. This demonstrates that the tax credits alone have not increased the supply of commercial PSB commissioning in children's content and that they have not addressed the underlying market issues.

Contestable Fund

- 11.8 Pact welcomes the recent government announcement to fund £60m of public service content with an initial focus on children's content over three years. This demonstrates that the Government recognises the lack of investment in children's programming. The fund will arguably be more effective as it works hand in hand with the PSB criteria and encourages the commercial PSBs back to the table.
- 11.9 The contestable fund should not be used as an excuse by the broadcasters to claim that the PSB criteria are not required. The contestable fund is likely to be a short term solution over three years and not guaranteed to continue beyond that period, depending on future government policy. PSB criteria fixed over time would help build a sustainable supply of diverse and quality PSB children's content into the future. Pact has previously argued that the fund risks substitution of existing programme budgets and this is something that we will be working with BFI and government to make sure the fund is truly additional. Pact would not accept future top slicing of BBC budgets to fund a contestable fund into the future. It would also be difficult to ask the online platforms, as has been suggested by some organisations, to contribute to what is essentially a public service fund because this would not be possible without recourse to primary legislation. We look forward to working closely with the government and the BFI to ensure all policy levers are examined before the final detail of the fund is agreed.

Creative Europe – EU funding

- 11.10 As Pact has made the case before through the Creative Industries Council (CIC) the UK should to maintain participation in Creative Europe, alongside other non-EU partners. The Creative Europe funding programme is an important funding source for children's and animation producers. During its first three years (2014-2016) Creative Europe has supported 283 UK cultural and creative organisations and audiovisual companies, as well as the cinema distribution of 115 UK films in other European countries, with grants totalling 57 million Euro¹² including support to a number of animation projects.

¹¹ Animation: <http://www.bfi.org.uk/film-industry/british-certification-tax-relief/cultural-test-animation-programmes#certified> and live action: <http://www.bfi.org.uk/supporting-uk-film/british-certification-tax-relief/cultural-test-childrens-television-programmes>

¹² Creative Europe in the UK (2016), Support for the UK's cultural, creative and AV sectors (Creative Europe Desk 2017)

11.11 The EU fund typically provides 12.5% of the budget and through EU partners opens up access to wider tax credits and funding in other countries. The continuation of the fund is dependent on how Brexit negotiations progress. Given the fund's effectiveness particularly for cultural exports, as a net beneficiary the UK should continue to participate and if this is not possible, equivalent funding should be redirected for similar purposes within the UK.

Competitive, sustainable, global sector into the future

12.1 Finally, the British children's content sector is a successful UK brand and has been respected around the world for many years, particularly in pre-school. However, the global market is a competitive one with many of our direct competitors in Canada and Ireland with arguably stronger public interventions and state support than in the UK.

12.2 The lack of a competitive home market is a critical issue. Without a healthy competitive environment we do not have a marketplace to sustain an important creative industry. The government's amendment to the Digital Economy Act will help support Britain sell its content and soft power brand post Brexit. More investment in PSB content is needed to provide a strong domestic platforms to allow companies and UK content to thrive on the international stage, both in Europe and beyond.