

Ofcom PSB Review – Public Consultation (2008 – 2013)

Consultation Response from The Children's Media Foundation

1. Background and Introduction

The Children's Media Foundation www.thechildrensmediafoundation.org is a not-for profit organisation supported by public donation, which campaigns for greater range and variety in the content provided for children and young people in the UK, advocates a research-based approach to policy and regulatory decision-making, and supports the production of UK-based programming that offers British children the opportunity to hear their own voices, experience their own stories and explore their own culture and society.

Our response to the consultation has been considered in the context of the Ofcom Channel 4 Review and the BBC Trust consultation on the future of BBC Three and proposed associated changes to BBC services such as the CBBC Channel.

The response will answer the questions asked by Ofcom in its public consultation document, and the findings and recommendations of the review as they relate to the children's audience.

2. Response to Section 2: The context for Ofcom's review

Question 1: Do you agree with our assessment of the context in which the PSB system operates, and how the trends identified might affect the PSB system? In particular, do you agree with our analysis of the independent production sector?

The Children's Media Foundation agrees with Ofcom's description of the purposes and objectives of public service broadcasting. In recent years changes in the children's media market landscape have led us to focus on the characteristics of PSB which could be said to be most under threat - i.e. high-quality, original, innovative and challenging. This consultation response will be mainly aimed at maintaining or developing those characteristics in content for children and young people.

At the outset we should make it clear that the Children's Media Foundation perceives market failure to be the basic issue when discussing provision for children. Public service broadcasting is currently the dominant supplier of new originated programming for children, almost entirely at the BBC. So the future of public service content in the UK is particularly

relevant to the children's audience. The increasing difficulty of funding original programming in the children's sector in the UK is indicative of the way in which broadcasting in general could develop without sufficient support for public service content and the competition and diversity that brings to the marketplace. It has been said before, in the context of Ofcom's previous (2007) report on the decline in commissioning of first run UK originated children's programming, that the children's sector is "the canary in the coal mine" for what might occur in other genres when advertising revenue is fragmented and funding for programming at the commercial PSBs dries up.

The structural changes identified by Ofcom are evident in the children's sector.

Rapid growth in the number of children's channels, a lack of first run commissioning amongst them, increasing globalization of the content, greater reliance on co-production to produce long runs of animated series, lead to a situation in which UK-produced origination is almost solely the domain of the BBC, especially since the commercial public service broadcasters are able to avoid commissioning because children's provision was placed in Tier 3 of the 2013 Broadcasting Act.

Further responses to specific observations on changes in the media landscape in Section 2.

2.10 The PSB system supports the film industry both directly, through funding of films, and indirectly, through the expertise and talent they foster.

This is not true for the children's sector. Neither BBC Films nor Film4 support children's film specifically, and neither organisation factors film into their public service obligations for the younger audience. There is little communication between BBC Films and BBC Children's, and Film 4 has not been cited as a partner in addressing the 10-14 audience to which Channel 4 committed.

The CMF would encourage both the BBC and Channel 4 to consider their relationship with the children's film industry and develop policies to stimulate film for families, children and older children as part of their public service obligations to the younger audience.

2.16 As well as benefitting certain industries, the PSBs also work in partnership with specific creative sector organisations, such as the Arts Council, the British Museum, and the Tate.....

While BBC Children's connects children to cultural institutions through partnerships, such as their recent project with the Northern Ballet there are few examples of this amongst the other public service broadcasters as they do not produce home-grown content for children. The multi-channel broadcasters have made some steps by partnering with organisations concerned with developing awareness of healthy eating, charitable causes and citizenship development when they make some of their UK-focused content, indicating that this could be a fruitful area for development of cultural, sporting and other links, if the commercial PSBs would return to children's commissioning.

***There has been a high degree of structural change in the communications industries
People have access to a greater range of platforms and devices than ever before,
increasingly internet-connected as standard.***

The growth of broadband, and tablet and mobile devices has had a significant impact on consumption patterns in the children's sector, particularly on VOD viewing. We would urge Ofcom to take into account the figures in its Media Literacy Tracker which indicate widespread use of multiple devices to access content and consider the implications of this for children's current and future adult consumption decisions. This also warrants additional research to establish the extent to which the habits of the young translate into new consumer practice in years to come. Children are more than simply current consumers, they are the licence-fee payers and advertising market of the future.

The UK market for new programme commissions has experienced some challenging economic conditions over the past few years

2.28 Spending by broadcasters on all new UK TV content was broadly flat since 2009, before falling in 2013.

The decrease in spending in the children's sector is documented in the report, and in detail in the Ofcom PSB Review 2014 Children's Analysis. It is at a higher rate than the industry average. Overall spend has decreased from the high point in 2002 by over 50%. Spending on first run originations fell by fractionally less. These figures alone indicate market failure in the children's sector, especially as they are not balanced by significant increases in spend in the non PSB broadcasters.

The arrival of powerful VOD services such as Netflix, with dedicated children's offerings and large budgets spent on content, indicates a shift in the powerbase in the children's sector. Initial figures from the USA for the last three months suggest significant loss of share to Netflix and Amazon amongst at least two of the dominant children's multichannel providers. With viewing figures approximately 25% down on the same quarter in the previous year, this is a trend which needs to be monitored in the UK.

If this trend is moving more quickly than anticipated it will have implications for one of the further contextual findings in the Report, which is of concern in the continuing health of PSB in the UK. That trend is outlined in the next section.

Since our last review, the PSBs have lost some of their distinctiveness, particularly for younger people

2.51 While the purposes and characteristics of PSB are still viewed as important, Ipsos MORI's report shows that many people find it difficult to understand the concept of the PSB system itself, believing that all television services meet (or should meet) these aims. This is particularly true among younger and tech-savvy consumers, who no longer appear

to distinguish between PSB and non-PSB channels.

The decrease in conventional TV viewing by the younger audience, the take-up of mobile devices, the propensity to get news online etc. are all symptoms of a long-term shift in consumption and attitudes amongst the younger audience. It is important these trends are taken into account in the final analysis. When policy comes to be developed from the findings of the PSB review the special case which is the children's and youth audience may need special measures, both in the short term to ensure plurality of public service provision, and in the long term as the children become adult consumers potentially less connected to the PSB services and ethos which exist now.

Conclusion to Section 2

The public service "compact" has broken down in the children's sector. Plurality of supply of relevant, UK-produced originated content has ceased to exist and provision is almost totally the preserve of the BBC. This is essentially the result of the 2003 Broadcasting Act, coming together with a fragmentation in advertising revenue, and a proliferation of competing platforms, in television, and online. All of these factors contribute to the erosion of awareness and appreciation of public service values amongst the young identified in the Report. They also, in our view, contribute to a generation of children and young people less engaged with their own culture and the society in which they live.

That is a vital additional contextual consideration, which the PSB Review should take into to account.

3. Response to Section 3: PSB Performance

Question 3: Do you agree with our assessment that the PSB system remains strong overall?

The Children's Media Foundation does not agree that The PSB system remains strong while the children's market, amongst others, is clearly in severe decline. The health of the system in the future depends upon committed citizens who value what they receive through the public service compact. Ensuring consumers receive and understand public service content is vital for the health of the system going forward.

Question 4: Given the resources available, to what extent is the system meeting the needs of as wide a range of audiences as practicable?

"As practicable" in this case is only a matter of additional funding or regulation. We would contend that it is the duty of this PSB Review to report market failure and the need for intervention. While we recognize the political realities preventing "re-regulation", quotas or

levies, we would also point out that there has been some success in organisations such as our own using the information in the Ofcom Report of 2007, to influence political decision-making, which has led to the introduction of a tax incentive for UK-produced children's programmes in the 2015 budget.

While the tax break is not the solution to the issues we are highlighting, it will go some way to alleviating the situation. More importantly in the context of this review, the tax incentive stands as a marker for the potential for radical political action. Action and change is possible.

However what is needed is a clear statement in the PSB Report that children's is a special case and needs further support, to set down new objectives for policy makers.

Question 6: Is declining investment affecting the quality of PSB and is it a cause for concern?

The quality of BBC UK-produced programmes remains high. The range and diversity of the content is affected by declining investment – particularly in terms of lack of provision for the 10+ audience. The quality of the acquired programming on the BBC and other channels is also high. But it is not British made, does not reflect UK children's lives in detail, does not give them a voice and, does not encourage them to engage in the society and culture in which they live. This is a departure from public service purposes and must be addressed.

Question 7: Do you agree with Ofcom's provisional findings in the Review of C4C's delivery of its media content duties?

We have outlined in detail our response to Ofcom's findings on Channel 4's delivery of media content, in our response to the separate consultation on C4C Delivery. In summary, we agree that Channel 4 is failing to deliver anything more than a perfunctory service for 10-14 year olds, despite their commitment to this audience.

However, our question remains the same as above. At what point in the cycle of decline will Ofcom intervene, or recommend intervention?

Further responses on specific areas of concern:

Sector revenues and the key sources of funding for PSB have recovered well from recession and continue to grow

3.5 Despite the significant pace of technological change, the key sources of funding for the TV market more broadly, and commercial PSBs in particular, have begun to recover from the recession. At the same time public funding has decreased in real terms, as the BBC licence fee has remained flat in nominal terms.

While there is scope for general optimism as we come out of recession, the general trend revealed in the above statement is of significant concern for the children's audience. Since the BBC is the only provider of first run indigenous content, the increase in advertising

revenues to offset declining BBC budgets has no relevance for them unless children's advertising revenues improve to the extent that the commercial PSBs will be able to commission again. The advent of the tax incentive will be a valuable indicator of the likelihood of greater investment in children's content by ITV and Channel 5 (and Channel 4) as ad revenues improve.

The Children's Media Foundation has canvassed market intelligence on what independent producers and analysts think is likely to happen.

1. The tax incentive will create a small market for UK based studios and facilities amongst US shows looking to cut their costs. This may feature live action comedy and factual formats created for Nickelodeon, Cartoon Network and Disney. But the numbers will be small and this will have little impact on UK-programme provision other than to provide work for companies which also make UK-content.
2. There will be a growth in co-production in live action drama and possibly some factual formats. Potential partners in Australia, Canada, the USA and public service broadcasters in Europe will seek to lower the costs of production and use UK expertise. This could lead to an increase in the volume of first-run content coming from outside the PSB providers, or from commercial PSB companies. But this still requires considerable commitment of resources. It will be interesting to discover whether this forms part of the commercial PSB business plans going forward. The Children's Media Foundation would welcome the increase in choice this development might bring, but the impact on delivery of UK-centric programming will be small, as programmes will be international to ensure all parties are satisfied.
3. There may be an increase in funded commissioning of indigenous content by the commercial PSBs. Even if this were to occur it seems likely that budgets and therefore ambition will remain low, and that they may not be adequate to fully fund so that other source of financing will have to be brought in, with inevitable commercial pressure as a result.

The most likely scenario is a mix of 2 and 3 – which unfortunately suggests the likelihood that investment from outside the British broadcasters will lead to internationalisation.

However there are examples in the children's space of series which retain a strong British identity while selling well abroad. So there is scope for some optimism in the tax incentive.

We would urge Ofcom to research/ascertain the extent to which the commercial PSBs intend to re-enter the children's commissioning space as a result of the tax-incentive. In terms of the children's audience the extent to which the tax incentive mitigates market failure is an important factor in the decisions to be taken by policy makers for PSB and regulation going forward.

The generation gap is negatively affecting PSB consumption

3.40 Older people spend more time than younger people watching PSB channels...

The reported 10.8% decline in PSB viewing by children is indicative of the intense competition faced by the BBC in a crowded marketplace (of channels, internet, apps and games) and a testament to the continued strength and value of public service and UK-

produced content for the younger audience. It could easily have been a higher rate of defection.

It is clear from all the studies into the continued existence of a range of high quality, challenging, locally-relevant programmes for children and young people in Germany, Scandinavia, and the Netherlands, that home-grown content is appreciated. Ofcom's own research amongst children backs this up. And parental support for children's PSB has grown year on year from 72% to 85%.¹

Programming for children by the PSB channels has fallen since 2008

This section of the Report outlines in detail the decline in overall provision of public service programming and in plurality in the period under review (2008 – 13). It confirms the Children's Media Foundation in its opinion that the story is of decline and market failure in the children's genre.

Under the heading "output" the concluding paragraph states: *"3.107 The BBC is key to UK-originated content provision, broadcasting an increasing proportion of the PSBs' total first run UK originations (88% in 2013, up from 72% in 2008). In three genres (drama, factual and news) the BBC is now the only provider of new first-run original children's content among the PSB channels."*

Under "spend" it is clear that the BBC provided 95% of the funding for origination in the entire sector.

Our views on this decline have been made clear. We expect the PSB Review to pay particular attention to ideas about public service support and delivery which can alleviate the problem.

There are some questions about the extent to which the PSBs fully meet the needs of a range of audiences across the UK as a whole

We note with disappointment that this section of the Report assesses ethnicity, disability, gender, socio-economic group, and regional representation. But there is no reference to age. Children and young people are a significant minority statistically. But they cannot vote, nor do they pay the licence fee. However the extent to which their interests are served by the PSB system should be assessed and reported on.

The previous section shows that there is significant decline in provision. Audience research may show satisfaction with the overall delivery of content, but that is in the context of unprecedented intervention in the market by U.S. Pay-TV services with powerful access to content libraries, production funding, and brands, which are the envy of the world. This is not the case in any of the adult genres. Satisfaction may be relatively high, but that is not the entire equation when assessing a nation's cultural offering to its young people. In

¹ Ofcom: PSB Review 2014 Children's Analysis, p23

addition the 65% decrease² in spending on formal education content also affects children of all ages. Meanwhile Channel 4 fails to deliver against their promises.

Ofcom needs to be aware that the children's audience is a special case – developmentally, culturally and in terms of empowerment - and not least because they represent the consumers of the future. Serious consideration needs to be given to the capacity to create a public service vision for children which is well-funded, plural and competitive, which may require “special case” approaches to regulation, quotas or levies – in the way that the children's programme tax incentive is specific.

While the PSB system continues to deliver, investment is declining

The maintenance of audience appreciation of PSB, against declining budgets is not a mystery in the children's sector.

1. The vast majority of the output across all channels taken together is high production-value international (U.S.) animation and comedy. This is appreciated.
2. The pressure on production budgets which is glossed over as “efficiency gains” in the Report is extreme in the children's sector, with many companies prior to the announcement of the tax breaks in animation and subsequently live action reporting they would be unable to continue trading under the conditions imposed by Broadcaster tariffs.
3. Third party investment in content is a mature and highly developed form of funding in the children's sector, with distribution, licensing and merchandising, book and more recently VoD rights featuring extensively, often as the trigger for production to begin. This particularly applies to the pre-school market where long-running animations, puppet and skin shows require significant international funding. However, as stated previously, if this co-production model extends across the piece, for example to CBBC drama and factual then UK content will be increasingly diluted.

Conclusion to section 3.

Ofcom's assessment of PSB's capacity to deliver for the children's audience is a clear indication that something needs to be done. The children's audience is not surveyed in the satisfaction reports, and no specific questions on provision for young people were included in the research.

If surveyed, children would show strong loyalty to UK brands and content as evidenced by the shares for many popular BBC programmes on a weekly basis. We do not doubt that they would also express satisfaction with their media choice in general. This does not however mean that a market in which over 99% of the content offered is made outside the UK is one which does not require scrutiny – and support.

² Ofcom PSB Report Public Consultation p54

4. Response to Section 4: The delivery of public service objectives by the wider market

Question 8: To what extent do you agree with our assessment of the degree to which the non-PSB services play a role in helping to deliver the public service objectives? In doing so please set out your views on the delivery by the PSB portfolio channels, other non-PSB channels, on-demand and internet services and also radio services separately.

See below.

Spend by non-PSB channels has increased since 2008

4.2 Spend by the multichannel sector and PSB portfolio channels combined (excluding sport) has risen from £242m in 2008 to £345m in real terms at 2013 prices, an increase of 43% since 2008.

The amount of first-run origination produced by the Turner, Viacom and Disney is extremely low – so low that the hours for children's are not listed on the graph.³ All three channel operators from time to time produce content in the UK. In some cases this is UK-focused, usually factual or entertainment formats. In some cases it is drama or comedy aimed at the US audience but set in the UK with British actors, and usually some US performers. In some cases the companies produce animation in the UK but voice it with U.S. performers. The extent to which this fulfills public service purposes is debatable.

The Children's Media Foundation welcomes the contribution made to the UK children's media scene by the US operators. Their channels are entertaining, positive and well-crafted, and in some cases, particularly pre-school, their programmes are educational. Some of the locally produced content is factual and informative. But as stated previously the volume is not high. Pre-school provision is their main contribution to public service purposes, as that is almost always of an educational nature.

The role of the commercial PSB portfolio television channels is important

Again this role is less important in the Children's space. When broken down into genres⁴, it can be seen that the Portfolio channels provided only 41 hours of children's content in 2013. Most of this can be attributed to new programming on the CITV channel, with 8 hours coming from E4, which transmitted a series for 10-14s.

Online media services make an important contribution to the delivery of the public service

³ Ofcom PSB Report Public Consultation p79

⁴ Ofcom PSB Report Public Consultation p82

objectives

The Enders Analysis⁵ study into internet provision against certain public service genres, produced figures which indicate a large number of services dedicated to children – 156 to be exact, with 94 of them being on-demand services. The new VOD services are mainly using acquired content, though there is evidence of considerable commissioning budgets about to be brought to bear in the VOD arena – especially by Netflix – and some of this may be directed at children. Amazon currently commissions children's content, for example. While this is beneficial for the production community, it is likely that this content will need to be international, and therefore animated, so that as with Pay-TV services, this will not be a major contribution to the public service offering.

5. Response to Section 5: Potential Future Market developments

Question 9: How likely are we to see steady evolution and have we identified all of the potential alternative scenarios and risks to the system?

We are not equipped to comment on the broader questions of evolution or revolution. But we would refer to our previous comments on the increasing propensity of children and young people to default to VOD, mobile and social media services. Recent developments in audience choices in the USA are worth consideration – even if only to compare with relative reluctance in the UK. We would advise that a study into the changes occurring in the children's audience in the UK and in other developed territories could bring a new perspective to the decision making around future consumption trends.

5.16 The short-term performance of TV advertising shows no sign of structural weakness and is actually doing much better than many analysts had forecast...

5.18 An alternative view is that it is perfectly possible that online video platforms and services such as YouTube and Facebook could deliver bigger and more accurately targeted video audiences relative to traditional TV than currently expected,

Advertising revenue in the children's market has fragmented due to the large number of channels each chasing a limited pool of advertisers, due to regulation against High Salt, Sugar and Fat products and due in part to defection to the internet. It is not true to say that the advertising model produces commercial public service content. In the children's genre (and possibly other genres) further intervention is needed to ensure the supply.

This will become more acute as new international platforms take strong or even dominant positions in the market. The rise of Netflix and Amazon, with growing commissioning budgets, and the announcement by YouTube (February 23rd 2015)

⁵ Ofcom PSB Report Public Consultation p89

that they are officially entering the children's space with a dedicated YouTube app for kids, and partnerships with major brands and providers including, CBBC and CBeebies is potentially a "game-changers" in the competition for children's attention and loyalty. The new VOD services may rely on subscription rather than advertising, but the YouTube model has always up to now depended on ad revenues. If advertising is in the mix for funding the new service, this will further fragment the market. Once again the potential for UK-based content platforms in the commercial PSB space will be limited by these new developments, and consideration of levies on the international platforms and/or quotas for children's content need serious consideration in any overall exploration of possible future models for PSB.

Under these circumstances any erosion of the BBC licence fee will be hugely regrettable. We would advocate an increased licence fee coupled with a dedicated commitment to children's content as part of Charter renewal agreement.

Question 10: How might incentives to invest change over time?

We note from the Mediatique Report that Channel 5 makes a considerable profit on its children's content. Spend is very low and advertising returns run at 75% profit – the highest profit of all the genres they transmit. This suggests that stronger regulation to ensure provision of UK-specific content might not be as damaging as might have been previously believed.

With the new relationship with Viacom, owners of Nickelodeon, the plans for Channel 5's children's output may change. Whereas some of the content on their "Milkshake: block is UK-produced or UK-voiced animation, this may change over time if their acquisition slate falls into line with Nickelodeon objectives. i.e. we may see more USA-produced programming within the mix. While they will continue to comply with the broad public service objectives by offering some children's content, that content may be less relevant to UK kids than previously. Once again there is a danger in globalization of ownership of the platform and the production base, that range, choice, relevance and engagement will be diminished.

Strategic engagement with the children's audience is discounted for ITV in the Mediatique report due to the non-appearance of children's content on the PSB channel. However, ITV is still very much in the children's market, and advertising on the CITV channel produces revenue. There is a possibility the production and distribution arms of ITV are re-engaging with large-scale internationally viable children's content – though at present this is only one project. This suggests that proposals to include portfolio channels within PSB assessment may be a beneficial idea. If ITV can be persuaded through a combination of regulation, tax incentives and potentially a leveling of the playing field in terms of their obligations – i.e. levies or quotas on all commercial providers – then their general health in advertising revenue could potentially be brought back into the UK children's commissioning mix with a range of content partly subsidised through international successes.

6. Response to Section 6: Maintaining and strengthening the system

6.1 If market development is one of steady evolution, and because the PSB system may then remain broadly sustainable in its current form for at least the next five years, action to maintain or strengthen the system may not be an absolute necessity.

In terms of the children's market the CMF would profoundly disagree with this statement. As we have demonstrated in our previous responses, the crisis is already with us and has been building up since 2003. It must be addressed now.

Question 11: Have we identified all the relevant ways in which the PSB system might be maintained and strengthened?

Question 12: Does universal availability and the easy discoverability of PSB remain important and how might it be secured in future?

Question 13: Should we explore the possibility of giving greater flexibility to PSB institutions in how they deliver public service content, including examining the scope (in some or all cases) for regulating by institution, not by channel

Question 14: Do the current interventions in relation to the independent production sector need to change in light of industry developments?

Question 15: Have we identified the right options when considering potential new sources of funding, are there other sources of funding which should be considered, and which are most preferable?

This Ofcom Review may well be the final opportunity to ensure the future of children's PSB in the UK. Therefore all possibilities listed in this section and outlined in questions 11 to 15 should be thoroughly and seriously investigated as part of the ongoing review.

CMF would very much wish to contribute to that discussion

To sum up...

- Market failure in the children's sector is proven.
- The BBC is the virtual sole provider and is under budgetary pressure.... a reduction in the licence fee would be disastrous for this sector. But the BBC

cannot and should not be expected to solve the problem on its own.

- PSB content is vital for children to understand their own culture and to help them become responsible citizens and adult consumers of PSB.
- The way children consume media is changing rapidly, as are the providers of content. This brings new opportunities but also new threats.
- We strongly advise further study into the trends amongst the younger audience to inform thinking about the general future of public service content and media delivery.
- Globalisation of children's media, while positive in many ways, could lead to the loss of localism if not addressed.
- New flexible ways of thinking about PSB and regulation must be considered.
- Above all we need a new public service vision for children and young people which is appropriate in the evolving media landscape.