How to incentivise new provision of UK public service media

July 2021

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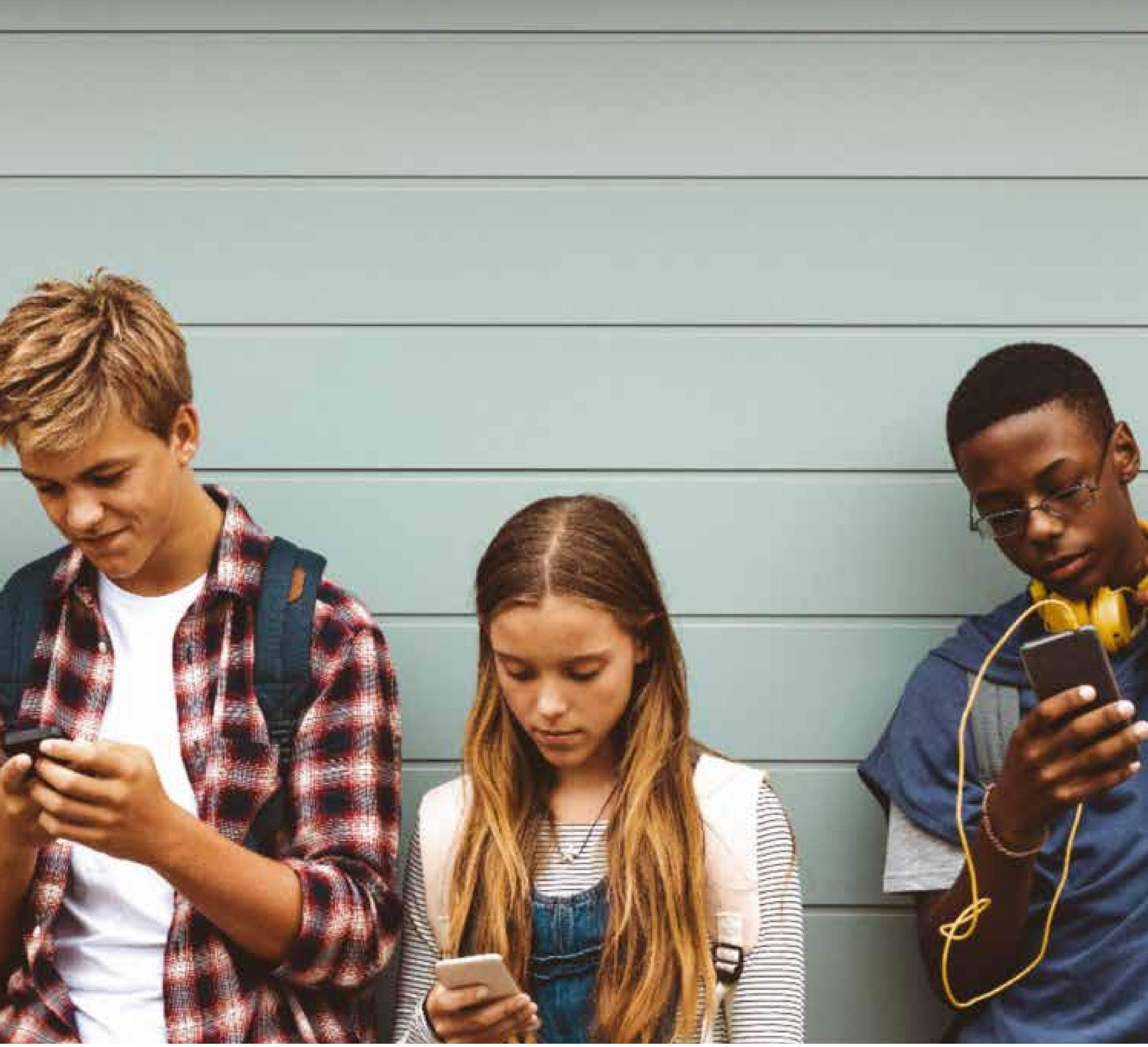

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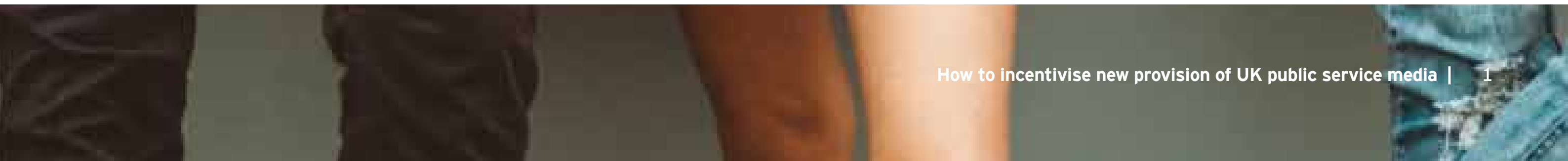

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Section 1:

Executive summary

In the long term, there is a risk that audiences move away from public service media as they adopt new technologies and develop new viewing habits.

Encouraging new provision of public service media, complementary to the core role of the public service broadcasters, could build the future resilience of the system to strengthen and maintain it for the future. New provision provides an opportunity for:

- Innovation in the types of content produced by the public service broadcasters
- Innovation in the way public service broadcasters distribute their content to audiences
- New provision of public service media from broadcasters and content creators in addition to the traditional public service broadcasters
- New partnerships between broadcasters

As Ofcom looks to the future of public service media and considers how to oversee a fast-changing industry, one of the most important issues is to how to ensure that audiences continue to benefit from the best content, the creative economy continues to thrive, and the UK maintains its reputation as a globally-recognised hub for content.

In this context, we have analysed how incentives are applied in sectors outside broadcasting to see what lessons could be learnt about how incentives might encourage new provision of public service media.

Our main findings

1. **Clearly identifying the desired outcomes is crucial** to effective incentive design. Different types of incentives will be more appropriate depending on the outcome desired.

2. **Effective incentives must also be carefully tailored to the organisations targeted.** Broadcasters have significantly different business models and content strategies and are likely to respond differently to incentives.

3. Given the above two findings, a **combination of incentives may be required** to deliver the best outcomes for audiences and the creative economy. Incentives can't be considered in a vacuum: actions taken to strengthen the production sector across the UK will increase the effectiveness of incentives.

4. **Taking an innovative approach to incentive design,** learning from sectors outside broadcasting, could support a new system of public service media that supports more collaboration across the industry.

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Section 2:

Background and scope

Ofcom is conducting 'Small Screen: Big Debate', a national conversation to prompt discussion on how to make sure the UK has a resilient public service media system that continues to adapt to meet audience needs.

To support its review, Ofcom previously commissioned EY to carry out a piece of research to understand international perspectives on the UK system for public service media[1]. Our research found that the UK public service broadcasters — the BBC, ITV, Channel 4 and Channel 5 — create content that is recognised for being among the best in the world in terms of quality, but public service broadcasters need to do more to remain relevant to younger audiences to support the long-term sustainability of public service media.

In December 2020, Ofcom published a consultation on the future of public service media. The consultation considered how to strengthen public service media provision across the next decade and beyond. As part of the consultation, Ofcom sought views on whether new providers, complementary to the existing public service broadcasters, could strengthen the system for the future.

In this context, EY has been commissioned by Ofcom to analyse how incentive structures apply in different sectors and what learnings might be applicable to incentivise new provision of public service media. Our report is structured as follows:

- In **Section 3**, we set out the rationale for incentivising new provision of public service media and look at how new provision could help to deliver certain policy objectives.
- In **Section 4**, we set out our case study analysis of how incentives apply across five different sectors to encourage commercial providers to deliver public policy objectives.
- In **Section 5**, we describe the organisations operating in UK broadcasting, outside the traditional public service broadcasters, and set out their current activities within the UK.
- In **Section 6**, we set out our findings on the applicability of different incentives to UK broadcasting.

Our findings in this report are based on a combination of our own research, EY expertise, publicly-available information and interviews with industry experts.

[1]https://www.smallscreenbigdebate.co.uk/__data/assets/pdf_file/0026/204587/international-perspectives-on-psb.pdf

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Section 3:

Why incentivise new provision of public service media?

The way that people watch television has fundamentally changed

The media industry continues to evolve at a rapid pace, with significant changes driven by new market entrants, the development of new technologies and changes in viewing habits.

Many people are moving away from traditional viewing and towards on-demand platforms, with live TV now comprising just 50%[2] of daily viewing. Younger audiences in particular are embracing new types and providers of content.

Public service broadcasters have adapted their offerings by expanding their on-demand streaming platforms. In our previous report for Ofcom, 'International perspectives on public service broadcasting', we found that many international public service broadcasters felt that the UK public service broadcasters, particularly the BBC, had found some success in attracting online audiences through their on-demand platforms. However, the multinationals we spoke to generally thought the UK public service broadcasters should be doing more to compete online in a fundamentally changed market.

In the long term, there is a risk that audiences — particularly younger people, but increasingly older people too — move away from public service media as they adopt new technologies and develop new viewing habits. These trends could risk undermining the future sustainability of the public service media system.

New provision could strengthen public service media for the future

New approaches may be required to ensure all groups in society are reached by public service media in the long term.

Research undertaken by Ofcom finds that "there is still a clear case for intervention to support public service broadcasting, as it plays a key role in securing types of programming which are important to society, creating shared national experiences and reflecting the UK back to itself in all its diversity.[3]" Ofcom is considering whether new provision of public service media could strengthen and maintain the system in the long term.

New provision involves both the existing public service broadcasters innovating in the types of content they produce and the way they distribute it to audiences, as well as new provision of public service media from broadcasters other than the public service broadcasters. New provision should strengthen the resilience of the public service media system for the next decade and beyond.

[2]Ofcom — Small screen: Big Debate

[3]Mediatique: Future models for the delivery of public service broadcasting

A broader system of public service media

The UK already has a strong existing public service media system, with a positive global reputation. There are a wide range of existing commercial incentives to invest in the UK and to produce public service media-like content. We discuss these existing incentives further in Section 6.

Any intervention to support new provision of public service media will need to be carefully designed to avoid any unintended consequences that could risk diluting the existing system, and to instead strengthen the system for the long term.

New provision of public service media could take a range of forms. New provision could occur:

- Through innovation in the types of content produced by the public services broadcasters and in the way that content is distributed to audiences.
- Through the provision of public service media from broadcasters and content creators other than the traditional public services broadcasters, complementary to existing provision.
- Through new partnerships between public service broadcasters and other content creators.

Policy objectives for new provision of public service media

The purpose of new provision is to build the future resilience of the public service media system by broadening provision beyond the existing public service broadcasters.

In this context, new provision should aim to reach audiences that the current system may struggle to engage both today and in the future, as well as to contribute more broadly to the UK creative economy, driving economic, social and cultural benefits across the UK and its Nations and Regions.

Potential objectives for new provision of public service media could include on-screen aims, off-screen aims and incentivising more innovation.

Potential objectives for new provision of public service media

To increase incentives for **innovation**

On-screen aims

- To reach audiences whose needs are not met by, or who do not engage with, the existing public service broadcaster services. Reaching these audiences could involve any combination of:
  - New brands or providers.
  - New content formats.
  - New ways of distributing content.
- To increase on-screen diversity.

Off-screen aims

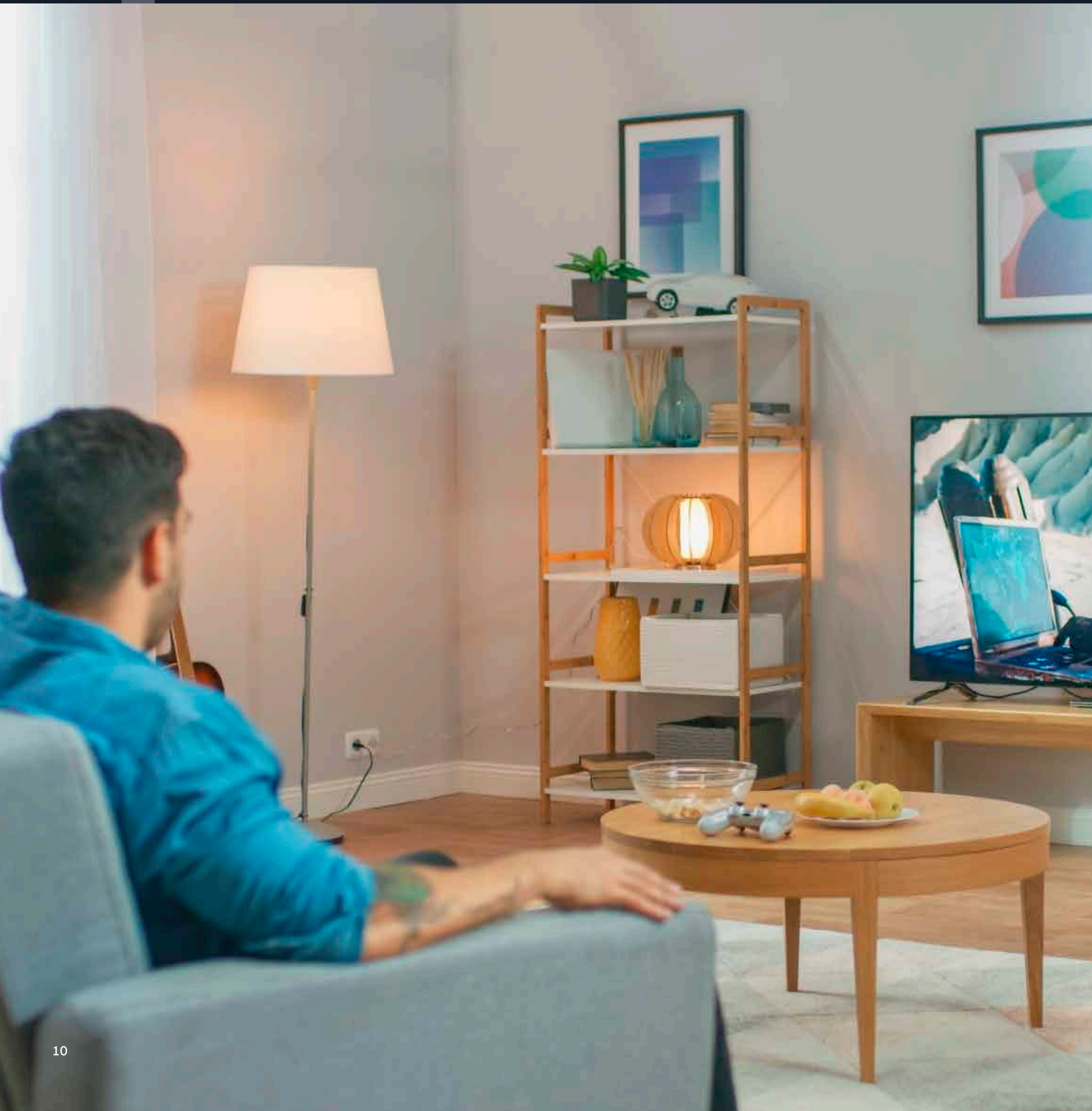
- To incentivise commissioning and production of content across the UK's Nations and Regions.
- To incentivise greater off-screen diversity.
- To encourage investment in skills and training.
- To support the success of the UK production sector.

These aims could be delivered by individual broadcasters or through strategic partnerships between different broadcasters.

In the remainder of this report, we consider how different incentives could be used to support new provision of public service media.

Section 4:

How do other sectors use incentives?



What are incentives?

Incentives are factors that influence the behaviour of both individuals and organisations. They range from internal incentives – personal preference or commercial motivation – to external factors that are designed to influence actions and behaviours.

External incentives can be put in place by a third party (such as an employer or government) to influence the behaviour of others. External incentives are an important part of the way the Government achieves its goals.

As illustrated below, external incentives can include legal or regulatory obligations, financial incentives, and non-financial incentives. Typically, a combination of incentives is used to encourage the delivery of public policy goals.

Additionally, investment in non-industry specific areas such as education and infrastructure can increase commercial incentives to invest in the UK across a wide range of industries.

Types of incentives	
Legal or regulatory obligations	A legal or regulatory requirement to perform a certain duty or deliver a certain outcome.
Negative incentives	A penalty for engaging in undesirable behaviour, such as a tax, duty or fine.
Financial incentives	Subsidies or grants to contribute to the funding of desirable behaviour or outcomes, including contestable funds
Tax incentives	Mechanisms to lower the tax associated with desirable behaviour or outcomes.
Benefits-in-kind	Non-cash benefits such as prominence and discounted spectrum for public service broadcasters.
Reputational incentives	Public reporting or public ranking of companies against certain metrics to encourage improvement.
Behavioural incentives	Actions taken to make it easier for people and organisations to engage in desirable behaviour.
Purely commercial incentives	Companies' internal incentives and strategies, driven by factors including customer demand and profit.

The purpose of our case study analysis

In this section, we carry out case study analysis for five different sectors to consider how incentives influence behaviour in line with public policy goals. We have focused our analysis outside broadcasting to understand whether there are any findings that could be relevant to support new provision of public service media.

The purpose of our case study analysis is not to form a view on whether the incentives applied in other sectors have been successful or not at achieving their objectives. Rather, we are considering whether there are any learnings that could be tailored for broadcasting and that could support an innovative approach to supporting new provision of public service media. As such, we have not formed a view on the effectiveness of incentives as applied in other industries.

Our focus is generally on incentives that apply to organisations, rather than individuals, though we have considered intervention taken to encourage take-up of electric vehicles one of the examples in our case study for transport.

The sectors considered in our case study analysis

The remainder of this section sets out our case study analysis. Within each case study, there may be several different types of incentives that have been introduced either to support different public policy goals or with the intention of layering incentives to strengthen their impact. Our analysis seeks to highlight examples of different types of incentives and their differing purposes.

For each case study, we outline the rationale for introducing incentives, describe a number of examples of how different types of incentives operate within the sector, and set out our main findings.

The five case studies we have considered in our analysis are set out below:

The rationale for inclusion in our case study analysis

The UK's legal and regulatory framework is generally recognised as providing a strong reference point for good intervention. We include the above five sectors in our case study analysis due to their parallels to broadcasting:

- In sport and life sciences, incentives have been introduced in part to maintain the UK's leading position on a global stage. There is a parallel with the rationale for new provision, which is to strengthen and maintain the UK's global reputation in public service media for the long term.
- In transport and energy, public policy objectives are delivered by commercial providers in response to obligations, financial and reputational incentives. There is a parallel with the idea that in future new providers, complementary to the existing public service broadcasters, could contribute more to the public service media system.
- The music industry is experiencing many similar changes to broadcasting, with changing audience behaviours, changing financial flows, and developments in the way music is distributed. There are learnings from how the industry has responded to these similar changes.

Case study Sport

Why are incentives required in sport?

Sport has many benefits to society, beyond simply the benefits to the individual participating in sport. For example, participation in sport has been linked to social integration and improved physical and mental health. Like broadcasting, sport also has an impact on local economies, creating jobs and contributing to the economy.

The Government has said that international sporting success helps generate pride and a sense of national identity[4], and it can contribute to the UK's international reputation. In this way, sport plays a similar role to broadcasting by contributing to UK culture and values, and by showcasing the UK to the rest of the world.

However, many sports are not commercially viable without government support. As such, there are a number of initiatives taken to support sport and to deliver favourable public policy outcomes. Again, a comparison can be made to some genres of public service media, which would be unlikely to made on a purely commercial basis.

Types of incentives covered in our examples for sport

Financial and reputational incentives are an important part of incentivising organisations to deliver public policy objectives in sport. For this case study, we have considered three different examples:

- UK Sport and Sport England funding, which covers **financial** incentives.
- eventIMPACTS, which covers **financial** incentives combined with **reputational** incentives.
- The Premier League Charitable Fund, which covers **reputational** incentives.

[4]DCMS: Game Plan

Example 1: UK Sport and Sport England funding

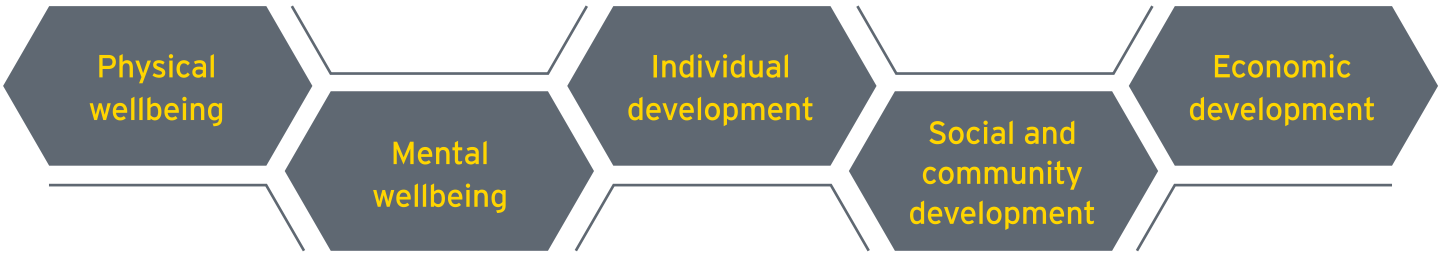
Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

The mid to late 1990s marked the beginning of an objective for successive governments to improve the UK's international sporting performance and to encourage more participation in grassroots sports.

Public funding for sport was increased, made available from the Exchequer and the National Lottery, which was established in 1994 by the Government in part to fund social and cultural causes. Funding is administered by two distinct organisations, UK Sport and Sport England, on behalf of the Department for Digital, Culture, Media and Sport (DCMS). UK Sport is responsible for elite sport and Sport England is responsible for grassroots sport in England. Sport Scotland, Sport Wales and Sport Northern Ireland have responsibility for the devolved Nations.

In 2015, the Government defined five main outcomes for success in sports and physical activity:



Description of incentives for UK Sport and Sport England funding

- By linking funding decisions to the Government's five main outcomes, the approach taken by both UK Sport and Sport England provides an incentive for organisations to consider how they can maximise their impact in line with the Government's strategic objectives.
- UK Sport provides funding to maximise the performance of UK athletes in the Olympic and Paralympic Games:
  - UK Sport provides funding to sports targeting the most medals, incentivising performance. Funding can be cut for sports that fail to achieve the number of medals targeted.
  - Where two sports are targeting an equal number of medals, UK Sport considers which better delivers the Government's five main outcomes outlined above.
- Sport England was established to encourage more participation in sport and physical activity. It administers public funding to organisations that can best demonstrate they will deliver some or all of the five main outcomes set out by the Government, outlined above.
- To increase participation, Sport England engages communities who do not usually participate in sport. To do this, Sport England conducts detailed surveys measuring the activity levels of different demographic groups. It forms partnerships with a range of organisations embedded in local communities to support initiatives to improve participation in sport and physical activity by under-served groups.
- These partnerships include organisations beyond the traditional sports sector, such as community organisations, faith groups, local authorities, businesses and schools. These partnerships allows Sport England to work with organisations that already have trust and credibility with communities that are unlikely to have existing relationships with sport bodies.

Learnings from UK Sport and Sport England funding incentives

- Funding is directly linked to **specific outcomes** defined by the Government, including performance for elite sport, participation at a grassroots level for non-elite sport, and broader outcomes like **wellbeing, social and community development, and economic development**. Public service media makes a similarly broad contribution to society.
- **Partnerships with organisations outside of the sports sector** allow Sport England to reach people who are less represented by sport. This has parallels to the objectives for new provision, to reach audiences that are under-served by the current public service media system.

Example 2: eventIMPACTS

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	**Reputational incentives**
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

eventIMPACTS is a collaboration between DCMS, UK Sport, the Welsh Government, London & Partners, Discover Northern Ireland and EventScotland, intended to measure the impact and success of sporting and cultural events in a consistent way.

The project sets out best practice principles for impact assessments for events and provides a toolkit for measuring and evaluating the impact of an event using both qualitative and quantitative metrics. The toolkit provides guidance on how to measure five main impact types:

- Event attendance
- Economic contribution
- Environmental impact
- Social impacts
- Media response

eventIMPACTS does not itself issue funding for events. Its best practice principles are used by other organisations that provide funding, including DCMS and UK Sport, to supporting their funding allocation reviews by implementing a consistent approach to measuring impact across different types of events.

Description of incentives for eventIMPACTS

- The toolkit provides best practice principles for the types of metric that should be measured when assessing the overall impact of an event.
- The types of metrics that eventIMPACTS recommends are collected include:
  - **Event attendance:** Unique attendance, total attendance, attendance numbers at ticketed and non-ticketed events, and attendee profile (age, race, socio-economic group and similar).
  - **Economic contribution:** Direct additional expenditure, attendees from outside immediate geographic area, duration of event, and total economic impact.
  - **Environmental impacts:** Presence of sustainable events management plan, presence of waste transportation plan, CO_2 emissions per attendee, total energy consumption per attendee and change in consumption behaviour following attendance.
  - **Social impacts:** Attendee social satisfaction, pride from event, and the number of volunteers from the local area.
  - **Media response:** Volume of social media coverage, tone of media coverage, and the equivalent advertising value of media coverage.
- For each of the five main impact types, the eventIMPACTS toolkit sets out basic, intermediate and advanced approaches to assessing the impact, categorised based on their potential complexity and cost to measure. Approaches of differing complexity will be appropriate for different events depending on their size.

Learnings from eventIMPACTS

- Event organisers are incentivised to **maximise and demonstrate the value they deliver** to better attract funding. Applying a consistent set of best practice principles to measure the impact of events helps funding providers allocate investment to maximise economic, social, and environmental benefits.
- Measuring and reporting impact in a comparable way can also act as a **reputational incentive**, encouraging organisers to think about how to maximise the impact of their events.
- Impact is defined broadly to capture a **wide range of benefits**, with a mixture of qualitative and quantitative metrics used to evaluate impact. Like sporting and cultural events, broadcasting also delivers a wide range of economic, cultural and social benefits to the UK, some of which are more difficult to measure than others.
- The measurement framework is adaptable to events of different scales, which makes the framework **more proportionate** and improves comparability between different events.

Example 3:
Premier League Charitable Fund

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	**Reputational incentives**
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

The final example we have considered for sport differs from the other examples in that it is an initiative that has been put in place not by the Government, but by the Premier League, the organising body responsible for the Premier League football competition. The Premier League is a private company wholly owned by the 20 member football clubs that make up the league.

While football clubs have historically made charitable contributions to their local communities, clubs began to set up dedicated community organisations from around the mid-1980s. Over time, Premier League clubs were increasingly encouraged by the organising body to establish charitable foundations, and charitable and community-focused activities have become a significant part of the Premier League.

Description of incentives for the Premier League Charitable Fund

- The Premier League Charitable Fund distributes funds to clubs and provides central support from the Premier League. Each club also has a charitable foundation that runs programmes supported by the Premier League Charitable Fund, but which also raises independent funds and coordinates programmes specific to the needs of their communities.
- Individual clubs carry out a range of initiatives in their local communities targeted at football development, employment, education, social deprivation and integration, crime reduction and more.
- In some ways, these foundations are aligned with the commercial incentives of the Premier League. By engaging with local communities, clubs aim to support a pipeline of future fans.
- The charitable activities of clubs can also be seen as a reputational incentive to contribute to the local community, as each club reports publicly on their foundation's activities.
- The Premier League also monitors and reports on the overall impact of its charitable activity to demonstrate its value to communities.

Learnings from the Premier League Charitable Fund

- The Premier League Charitable Fund was set up by the Premier League, a private organisation with no government affiliation. It formalised the charitable work undertaken by Premier League football clubs.
- The Premier League Charitable Fund incentivises football clubs to **improve the benefits** they generate to improve their reputations.
- Part of the purpose of the fund is tied to the **future sustainability of clubs**, supporting a pipeline of future fans. There are parallels with taking a forward-look to broadcasting to ensure the sustainability of future audiences and talent.
- **Reputational incentives can lead to commercial benefits**, although these are often difficult to measure directly. For example, the reputational incentive of charitable foundations in the Premier League could improve local support, increase match attendances, and improve merchandise sales.

Case study Life sciences

Why are incentives required in the life sciences?

The UK life sciences sector is a major global hub for research and development (R&D), attracting talent and investment from across the world. In this way, it is comparable to UK broadcasting, which also has a strong global reputation.

Supporting life sciences has been an important part of the Government's industrial strategy for several years, with the objectives of delivering world-leading patient and health outcomes, providing high-skilled employment across the life sciences value chain, and becoming a world leader for R&D and innovation.

Like parts of today's broadcasting industry, the life sciences sector is characterised by the presence of large multinational corporations. Given the global nature of these firms, attracting UK investment is an important policy goal. Additionally, collaboration is highly important, as pharmaceutical companies work with the public sector (the Department for Health and Social Care and the National Health Service (NHS)), research bodies and universities to develop drugs and medicines. Life sciences is also characterised by long lead times for R&D, which often involves significant investment risk.

Life sciences companies invest in the UK for a variety of reasons, including access to talent and skills, a robust regulatory regime and strong links with the NHS. Similarly, there are strong existing commercial incentives for broadcasters to invest in the UK, which we discuss further in Section 6.

There are also a wide range of more targeted interventions taken to incentivise life sciences investment in the UK. We discuss some examples in this case study.

Types of incentives covered in our examples for life sciences

For this case study, we have consider three different examples:

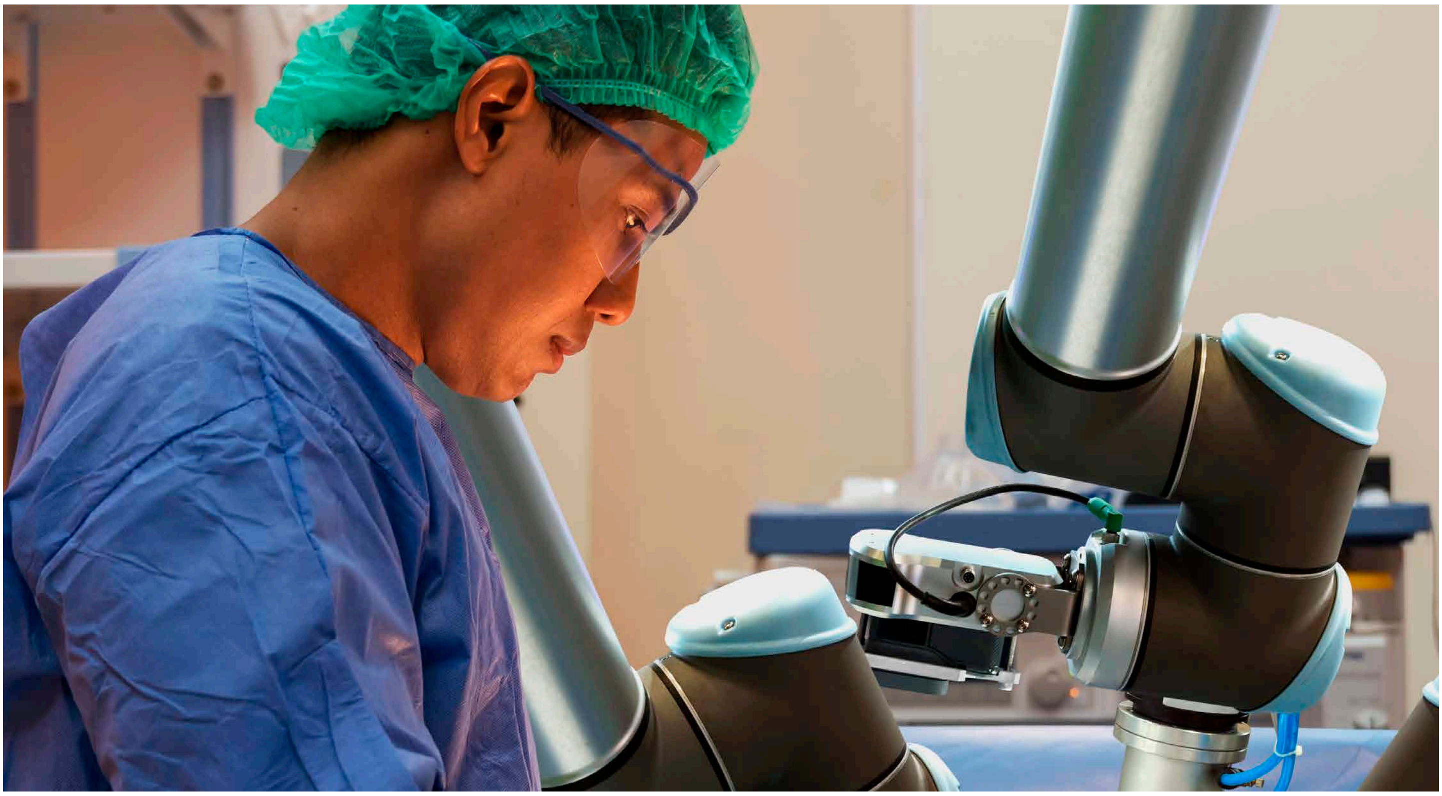
- Research and development (R&D) funding, which covers financial incentives;
- R&D tax incentives; and
- Translational research collaborations, which covers behavioural incentives.

Example 1: R&D funding

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

A wide range of grants and funds is available to subsidise R&D activity in research areas where there is a high medical need for R&D but where investment is unlikely to materialise on a purely commercial basis. Public funding can help to de-risk important investment in R&D. Public funding for R&D is often set up to incentivise collaboration, which is important for life sciences to effectively leverage expertise that sits across the industry. In this case study, we highlight two examples of funds available to life sciences organisations, as well as to industries undertaking research more broadly.



Description of incentives for R&D funding

UK Research Partnership Investment Fund (UKRPIF)

- The UKRPIF was established in 2012 to incentivise investment in R&D in response to a decline in activity following the financial crash.
- The UKRPIF provides capital investment to universities to fund the building of advanced research facilities. It will have provided £900 million of capital funding to 54 research centres by the end of 2021[5].
- Applicants to the UKRPIF must demonstrate their compliance with the four objectives of the fund:
    - Enhance the research facilities of universities undertaking world-leading research.
    - Encourage strategic partnerships between universities and other organisations.
    - Stimulate additional investment in higher education research.
    - Strengthen the contribution of the research base to economic growth.
- The UKRPIF is characterised by 'doublematch' funding required from non-public investors: for every £1 awarded through UKRPIF, universities must attract £2 from other sources. This approach incentivises collaboration.
- Doublematch funding can be sourced from a single co-investor or from several partners, including SMEs and local community groups.

Strength in Places Fund (SIPF)

- The SIPF was established in recognition of a historical trend of research activity and associated economic benefits tending to be concentrated in South East England.
- The SIPF invests in research projects that aim to drive significant regional economic growth in specific geographic areas of the UK.
- The SIPF aims to enhance local partnerships. Bids to the SIPF must be submitted by a consortium of businesses and research organisations located within the local area, and need to demonstrate that the project represents a genuinely meaningful collaboration.

Learnings from R&D financial incentives

- R&D financial incentives are intended to **encourage innovation**. In broadcasting, innovation sits at the heart of the UK's creative sector but development of new ideas and formats carries a risk that investment may not be successful.
- Incentivising short-term collaboration on specific projects can help to support longer-term **strategic partnerships**. The UKRPIF can be most effective where it strengthens existing incentives to collaborate.
- As well as incentivising collaboration, funding can support **incremental investment**, rather than simply administering a fixed fund.
- The SIPF provides an example of how financial incentives can be linked to **location-based objectives**.

[5]Research England

Example 2:
R&D tax incentives

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

The R&D tax incentive regimes in the UK are used to encourage scientific and technological innovation within the UK. R&D takes place when a project seeks to achieve an advance in science or technology through the resolution of scientific or technological uncertainty.

The definition of R&D for tax purposes extends beyond the traditional understanding of R&D and is broader than many companies realise, with R&D taking place across businesses of all sizes and in all industries. Life sciences is an example of a sector where R&D incentives are commonly used to fund ongoing R&D activities, but the same R&D tax incentives are also available to companies in the creative industries.

Description of R&D tax incentives

- There are currently two regimes available to companies in the UK depending on their size and the nature of the R&D project.
- Under the small and medium sized enterprise (SME) R&D enhanced tax relief scheme, an SME calculating its yearly taxable profits is permitted to deduct an extra 130% of qualifying costs spent on R&D from its yearly profit, as well as the normal 100% deduction of costs from revenues to calculate taxable profits, to make a total 230% deduction. This means that the SME pays less corporation tax if it invests in R&D.
- SMEs can also claim a tax credit if the company is loss-making.
- The R&D Expenditure Credit (RDEC) regime is available to large companies, or to some SMEs that are not eligible for the SME enhanced tax relief scheme.
- The RDEC regime offers a 13% taxable credit that is taken off a company's corporation tax liability.
- Companies without a sufficient tax liability would instead benefit from a cash repayment (subject to certain conditions).
- The RDEC regime is available to companies regardless of any grants or funding that may have been received in relation to the same projects.
- The Government is currently consulting on updating the R&D tax incentives regimes. As part of this consultation, the Government is also consulting on whether it would be beneficial to simplify the R&D tax reliefs by having a single coherent system instead of two.
- The Government has said the scheme could potentially have a higher rate for SMEs to ensure the incentives remain targeted.

Learnings from R&D tax incentives

- R&D tax incentives can act as a lever to **encourage investment** in the UK by large multinationals across a wide range of sectors. R&D tax incentives can be particularly effective when used in combination with a wider funding opportunities. For example, companies investing in R&D in the UK may benefit from both the RDEC and from financial incentives in the form of public funding.
- Incentives can be tailored to appeal to **businesses of different sizes** but this tailoring can introduce complexity into the design of the incentive.
- Businesses claiming the R&D tax incentives must demonstrate that their R&D activity is intended to benefit the overall field in which they operate, rather than simply benefitting the business itself. Businesses in any industry can claim R&D tax incentives, including broadcasters, providing they are seeking to achieve an advance in science or technology through the resolution of scientific or technological uncertainty.

Example 3:
Translational research collaborations

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

Expertise in life sciences sits across the whole sector. For example, universities have the expertise to apply academic rigour to clinical research. Academic involvement with research can also lend legitimacy to findings. However, academic institutions lack the resources and infrastructure to develop treatments. The life sciences industry, in contrast, has the resources required to develop treatments but requires academic input on study design. As such, facilitating collaboration is a key objective.
A comparison can be made with broadcasting, where similarly expertise sits at different parts of the value chain: with different types of broadcasters, producers, technology specialists and distributors.

In life sciences, translational research collaborations act as a behavioural incentive by making collaboration easier. The collaborations are set up and managed by the National Institute for Health Research (NIHR), which is funded by the Department of Health and Social Care.

Description of incentives for translational research collaborations

- Translational research collaborations have been introduced in recognition of a pain point for life sciences: namely, that industry and academic institutions work to different timelines. Delays in obtaining research agreements can result in projects becoming commercially unattractive and can reduce incentives for industry to collaborate.
- Translational research collaboration have been established to make it easier for organisations to collaborate and form strategic partnerships.
- Under the collaborations, leading UK academics sign agreements to work together on a certain disease area. The disease areas are prioritised by the NIHR in response to requests from the Government, industry or charities.

- Pharmaceutical companies and other companies can approach the group of academics to help design studies for research on the disease area, and to collaborate on research.
- The translational research collaboration initiative is intended to streamline the process of collaboration by decreasing the need for all the different parties to enter into negotiations around the terms of their partnerships. As the academics in the collaboration have already agreed to work together, in theory there should only be a single collaboration agreement for industry partners to sign (though in practice, negotiations can be more complex).
- The initiative also provides industry with access to leading experts who can design robust research approaches.
- The collaborations can be considered to be a behavioural incentive, in that they are intended to remove barriers to make collaboration across the research value chain easier.

Learnings from translational research collaborations

- Behavioural incentives can play a role in **incentivising collaboration** by making it easier for different organisations to work together. For example, translational research collaborations aim to simplify complex negotiations that could otherwise act as a barrier to forming **strategic partnerships**. This is relevant to the future of public service media, where more collaboration could unlock expertise and talent that sits across different types of broadcasters and online platforms. There may also be barriers to collaboration in broadcasting.
- Barriers need to be **clearly understood and defined** for behavioural incentives to be effective in addressing them. Incentive design must be targeted to the specific requirements and barriers identified.
- Behavioural incentives tend to be most effective where they **strengthen existing commercial incentives**, rather than where they attempt to create entirely new incentives for organisations.

Case study Transport

Why are incentives required in transport?

- Transport connectivity provides a wide range of economic and social benefits to the UK and local communities. Transport links facilitate the movement of goods and services, help people access jobs and education, support social interaction, and support tourism. Public transport can also have environmental benefits by reducing traffic emissions.
- However, transport infrastructure is costly. Some transport links are uneconomic and loss making, particularly transport links in rural areas where there is less demand for service. As such, the UK transport sector is characterised by a mix of private investment and government intervention, regulation and subsidy. Obligations to achieve certain delivery standards or to provide certain services are imposed on operators through contracts, with uneconomic delivery subsidised by public funding.

Types of incentives covered in our examples for transport

Financial incentives and obligations are an important part of the way the Government incentivises commercial providers to deliver public policy outcomes in transport. For this case study, we have consider three different examples:

- Bus franchising, which covers obligations combined with financial incentives.
- Public service obligation airline routes, which covers obligations combined with benefits-in-kind, financial incentives and tax incentives.
- Electric vehicles, which covers financial incentives combined with tax incentives.

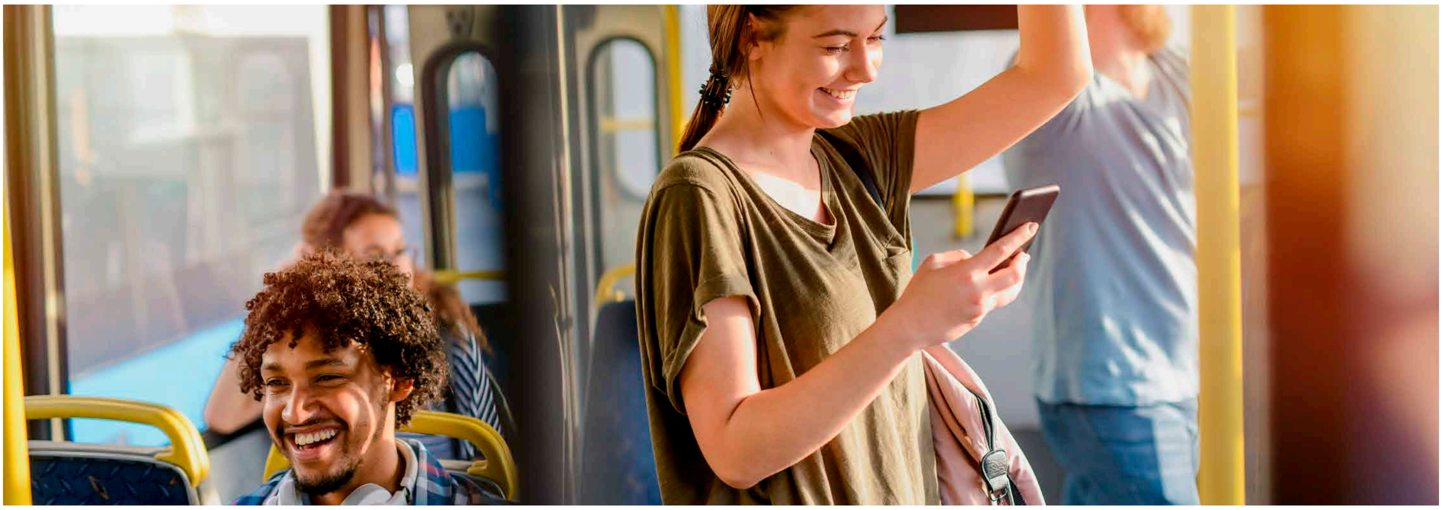
Example 1: Bus franchising

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

Bus travel outside London was deregulated in the 1980s, with bus operators deciding which services to run on a commercial basis. Profitable routes had several bus services while non-profitable routes were discontinued, with public subsidy for services that the local transport authority considers to be 'socially necessary'.

However, the Government has recently published a new national bus strategy for buses in England, which aims to support bus travel outside London by making buses cheaper, more frequent, more reliable and easier to use[6].



[6]Department for Transport, Bus Back Better

Description of incentives for bus franchising

- Historically, buses outside London were run on a purely commercial basis. However, the Government has said that private sector bus delivery historically focused on the most profitable routes, leaving rural areas underserved in some cases.
- The Government plans to introduce a franchising system for buses outside London, where bus operators can apply to deliver contracts for bus services for different areas, and where local transport authorities will have more control over the network of services provided.
- Additionally, the Government is encouraging more Enhanced Partnerships, where local transport authorities work with operators to improve bus services.
- Bus operators running services will need to meet targets defined by the local transport authority around reliability and improvements for passengers.
- Public funding is used to incentivise bus operators to take on these obligations: public funding will only be available to local transport authorities and bus operators who co-operate with the new approach.
- Government grants will include additional incentive payments, for example payments for low carbon buses.

Learnings from incentives in bus franchising

- The franchising system imposes obligations on operators to deliver a specified service in return for financial incentives in the form of public funding. This provides one example of how new providers could contribute more in future to public service media.
- The Government's overall goal is that improving buses will create a 'virtuous circle', where usage increases and operating costs reduce so better services can be sustained without permanently higher subsidies. Incentives for new provision of public service media should also focus on the sustainability of new provision of public service media and result in a long-term commitment to the UK.
- The new strategy is also intended to incentivise more collaboration between local transport authorities and bus operators.

Example 2:
Public service obligation airline routes

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

EU Member States can impose public service obligations on airline rotes that are considered to be vital for the economic and social development of a region. For example, PSO routes in the UK include flights to rural or remote regions in Wales, Northern Ireland, Scotland and Cornwall where demand is too low for the route to be profitable without public subsidy. There are currently around 18 PSO air routes in the UK.

Description of incentives for PSO airline routes

- Local communities requesting a PSO route must demonstrate the economic and social advantages that the route would bring, and must specify why existing transport is inadequate.
- If a 'socially vital' route is not served on a commercial basis, the Government may offer, through public tender, a contract for an operator to serve the route on an exclusive basis. The guarantee of exclusivity acts as a benefit-in-kind for the operator, protecting them from potential competition.

- If no operators respond to the public tender to serve the route on an exclusive basis, the Government may judge that the guarantee of exclusivity is not enough to incentivise operators to provide the route. Public subsidy may be made available to cover the net costs related to delivering the PSO route to a specification set by the Government plus a reasonable profit.
- The level of public funding provided depends on the net costs of delivering the specific route to the defined service specifications. Annual subsidies for different routes range from less than £200,000 to around £2m depending on the route[7].
- Generally, PSO routes must provide a minimum of two return flights per day to ensure the possibility for a day trip, to support social or business trips to the area, and the Government also specifies the level of the fares.
- The specification for the PSO route – including frequency and fares – is developed in consultation with the local community to be served by the PSO route.
- In theory, the public tender process should incentivise operators competing for the subsidy to keep costs low. However, one problem with some PSO routes can be a lack of competition during the public tender process due to consolidation in the regional airline market across Europe.
- Additionally, there is a tax incentive associated with PSO routes. PSO routes are exempt from Air Passenger Duty (APD), a tax on passengers that is usually added to a ticket price by the airline. A PSO route's APD exemption is expected to lower ticket prices, increasing demand, without any cost to the operator but as revenue foregone (in the form of tax not taken) for the Government.

Learnings from incentives in PSO airline routes

- PSO airline routes provide an example of when an obligation is placed on an otherwise commercial organisation to deliver a specified public service in return for a benefit-in-kind in the form of guaranteed exclusivity or a financial incentive in the form of public funding.
- In broadcasting terms, PSO airline routes could be compared to content that has high social value but that would not be delivered by the market on a purely commercial basis.
- Lack of competitive pressure in the tender process can sometimes be an issue.

[7]European Commission, PSO Inventory Table

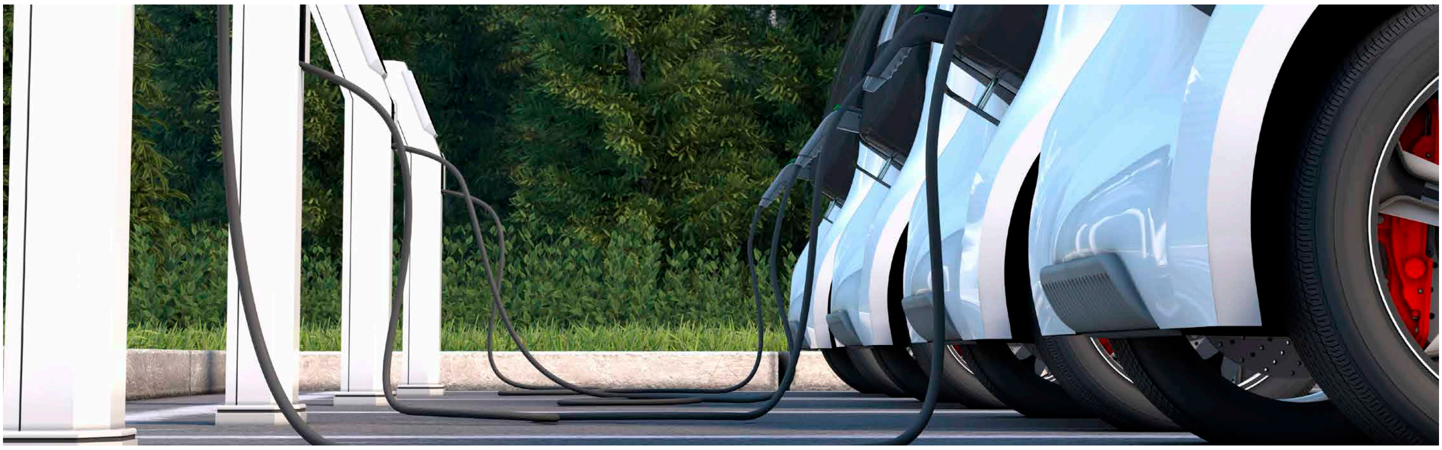
Example 3: Electric vehicles

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

In recent years, the Government has committed to reducing UK carbon emissions to help address climate change. The Government's most recent target is to cut emissions by 78% by 2035 compared to 1990 levels and to reach net zero emissions by 2050.

As part of its wider strategy to reduce emissions across the UK economy, the Government has introduced a range of incentives to encourage take-up of electric vehicles, including both financial incentives, tax incentives and behavioural incentives. Different types of incentives are targeted at consumers and businesses.



Description of incentives for bus franchising

- A range of public funds aimed at consumers, businesses and local authorities are intended to incentivise take-up of electric vehicles:
  - A government grant is available to reduce the price of buying a brand-new low-emission vehicle costing up to £35,000. The grant is made available to vehicle dealerships and manufacturers and is passed on to consumers.
  - The Electric Vehicle Homecharge Scheme provides grant funding of up to 75% towards the cost of installing electric vehicle charging points at home.
  - The Workplace Charging Scheme provides support towards the up-front costs of electric vehicle charging points for employers
  - An On-street Residential Chargepoint Scheme, provides funding for local authorities towards the cost of on-street charging points for electric vehicles.
- The public funding for electric vehicle charging points can also be considered to be a behavioural incentive, in that it seeks to remove a barrier to take-up of electric vehicles in the form of lack of charging points.
- Tax incentives also play a role in encouraging take-up of electric vehicles. Businesses buying electric vehicles can write down 100% of the purchase price against their corporation tax liability, and electric vehicles are exempt from vehicle tax.

Learnings from incentives in electric vehicles

- The Government's approach to electric vehicles provides an example of layering different types of incentives to achieve an overall public policy goal.
- Tax incentives can be used in combination with financial incentives to strengthen the impact of intervention.
- Once specific barriers to desirable behaviour have been identified, public funding or other forms of intervention can help to address those barriers – for example, by aiming to improve the number of charging points for electric vehicles at home, at work and within the community.

Case study Energy

Why are incentives required in energy?

Due to its nature as an essential utility, the energy sector is characterised by high levels of government intervention and regulation. Gas and electricity providers require a licence to operate and are subject to regulation by the regulator, Ofgem:

- Network operators are subject to price controls. Incentives in regulated pricing generally relate to cost efficiencies, quality of service and network reliability.
- Retail energy providers are subject to licence obligations generally relating to consumer protection and quality of service. Ofgem has statutory powers to levy penalties from retailers that fail to meet their licence conditions. These penalty payments go to charitable organisations.

In contrast, renewable energy generators, such as wind, solar and hydroelectric power providers, generally engage in contractual agreements with Government where the Government agrees to purchase energy from the provider at a certain price. Unlike gas and electricity, renewable energy generation can be subsidised by the Government as it seeks to support renewable energy in line with its goal to address carbon emissions.

Types of incentives covered in our examples for energy

Legal and regulatory obligations, coupled with financial incentives, are the main incentives in energy due to the heavily regulated nature of the sector, its importance as a utility and its centrality to the Government's climate change strategy.

We have considered two examples for this case study:

- The EU Emissions Trading Scheme, which covers a flexible approach to imposing obligations.
- Offshore wind, which covers obligations combined with financial incentives.

We have not considered price controls, as we do not consider price controls to be relevant to broadcasting.

Example 1: The EU Emissions Trading Scheme

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

The EU ETS is a core part of the EU's approach to tackling climate change and reducing emissions across Member States. The EU ETS aims to cut emissions by introducing an obligation on heavy energy users to reduce their emissions.

The scheme aims to balance the need to protect economic growth and domestic industry with the need to ensure strong incentives for carbon reduction. To balance these objectives, the EU ETS aims to take a flexible approach so that emissions are cut from the parts of the economy where it costs least to do so, and aims to protect industries that are most at risk of relocation outside the EU.

Description of incentives for the EU ETS

- The scheme covers more than 11,000 heavy energy users, such as factories and power stations, and sets a cap for total emissions across all users, which reduces over time.
- Within this overall cap, businesses trade emissions allowances among themselves: a business that is exceeding its emissions allowance will need to buy emissions allowances from one that has reduced emissions and has leftover credits to sell.
- Companies can also buy a limited amount of international credits from emissions-saving projects.

- Businesses in scope must report their emissions each year and can be fined if they fail to produce enough allowances to cover their total emissions. Member States may also 'name and shame' non-compliant operators by publishing their names.
- The scheme also aims to address 'carbon leakage': the risk that producers relocate production to areas that do not impose such requirements. The EU ETS has attempted to mitigate this risk by providing 'free allowances' to emitters most at risk of carbon leakage, understood to be businesses that are highly carbon intensive and are facing high levels of global competition.
- The EU is currently looking at options for better balancing its objective to protect industries at risk of carbon leakages with its objective to maintain the strength of the incentive to reduce emissions. To improve this balance, the EU is considering imposing a levy on carbon-intensive goods imported from markets without strong carbon incentives.
- There have been some challenges with the scheme. For example, over-allocation of allowances can reduce the price of emissions allowances in trading, which in turn can reduce incentives for industries to reduce emissions. However, in theory the scheme is designed in such a way that overall emissions reduce, but in a flexible way from the parts of the economy where it costs least to do so.

Learnings from incentives in the EU ETS

- The EU ETS provides an example of an obligation imposed on industry that is not combined with public subsidy or benefits-in-kind but where non-compliance is penalised through fines.
- The EU ETS demonstrates how flexibility can be built into obligations so that overall outcomes are specified but the way those outcomes are delivered can be responsive to developments within the market. Flexibility will be important to ensure any incentives for new provision of public service media respond effectively to a dynamic market.
- The scheme also demonstrates how incentives can be tailored to balance conflicting objectives.
- Compliance can be used as a reputational incentive by publishing the names of non-compliant operators in scope for obligations.

Example 2: Offshore wind production

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	Behavioural incentives
Tax incentive	Purely commercial incentives

Policy objectives

Building an offshore wind farm is highly capital intensive, requiring significant upfront investment recovered over 25+ year project lifetimes. Market revenues are also subject to regulatory risk as governments have a strong impact on the power market through their decisions on carbon pricing. Absent government support, investors would likely be unwilling to accept the commercial risks of developing an offshore wind farm.

However, the Government views offshore wind generation as part of the UK's climate goal of net-zero emissions by 2050, as well as its industrial strategy objectives of 'levelling up' by attracting the manufacture of production activities for offshore wind technologies to the UK.

Description of incentives for offshore wind production

- A key approach to incentivising investment in offshore wind is through private law contracts between the Low Carbon Contracts Company, a public entity owned by the Department for Business, Energy and Industrial Strategy (BEIS), and developers of offshore wind farms.
- These contracts ensure a fixed price for the energy generated by the offshore wind farm. BEIS pays developers the difference between the contracted price for energy and the market reference price, effectively providing a subsidy if the market reference price is below the contracted price.

- To qualify for one of these contracts with BEIS, potential offshore wind farm developers have to lodge a 'supply chain plan' with the Government, in which developers must set out how they plan to deliver on its economic objectives specified by BEIS. For example, developers must demonstrate that their supply chain plan is consistent with the industry target for 60% of offshore wind content to be UK-based by 2030.
- Other conditions within the Supply Chain Plan cover the proportion of the workforce that should be made up of apprentices, diversity in the workforce, and the developer's carbon footprint.
- In theory, developers are incentivised to meet these objectives in order to qualify for the subsidy. However, the only penalty that BEIS can currently impose on developers that fail to comply with the commitments set out in their supply chain plans is to exclude the developer from participating in future auctions for contracts.
- BEIS has said that the current supply chain compliance process is insufficient to deliver its supply chain objectives, and is consulting on strengthening the process through additional sanctions on developer that fail to meet their supply chain plan commitments[8].

Learnings from incentives for offshore wind production

- The Government's contracts with offshore wind providers impose obligations on developers in return for financial incentives in the form of fixed price guarantees.
- Offshore wind demonstrates how financial incentives for commercial providers to deliver a specific service can be tied to wider policy objectives, including using local suppliers and supporting diversity targets.
- Monitoring compliance and penalising non-compliance can require significant intervention.

[8]BEIS, consultation on changes to supply chain plans and the contract for difference contract

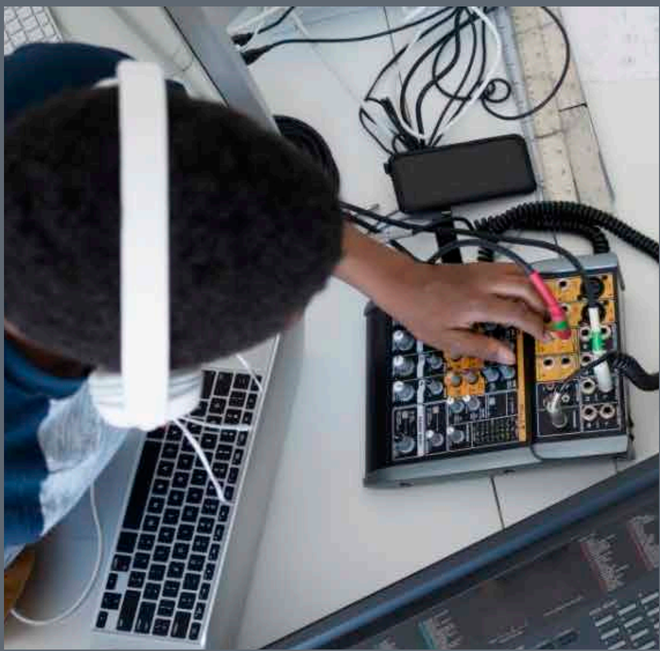
Case study Music

Why are incentives required in music?

- Our final case study, which focuses on the music industry, is different to the other case studies we have considered in this report, as it does not focus on incentives that have been put in place by the Government to encourage the private sector to deliver certain outcomes. Instead, we consider how commercial incentives to resolve an industry wide issue in a similar industry to broadcasting has had the effect of introducing new incentives for content creators.
- The music sector is a critical part of UK culture and the artistic industry. It has grown in diversity with different genres of music finding audiences in different communities. Beyond listening to songs, there is a vibrant industry for other types of music composition used in advertising, film, and TV. The way we listen to music has also changed, with the increase in digital streaming services like YouTube, Spotify, Apple Music and others complementing radio and TV listening. In this sense, the music industry has some parallels to broadcasting, responding to new forms of content creation and distribution.

Types of incentives covered in our example for music

In this case study, we have considered how the development of media rights management platforms, which were created as a commercial response to an industry wide issue, have had the effect of acting as a behavioural incentive, by making collaboration and new forms of distribution across the industry easier.



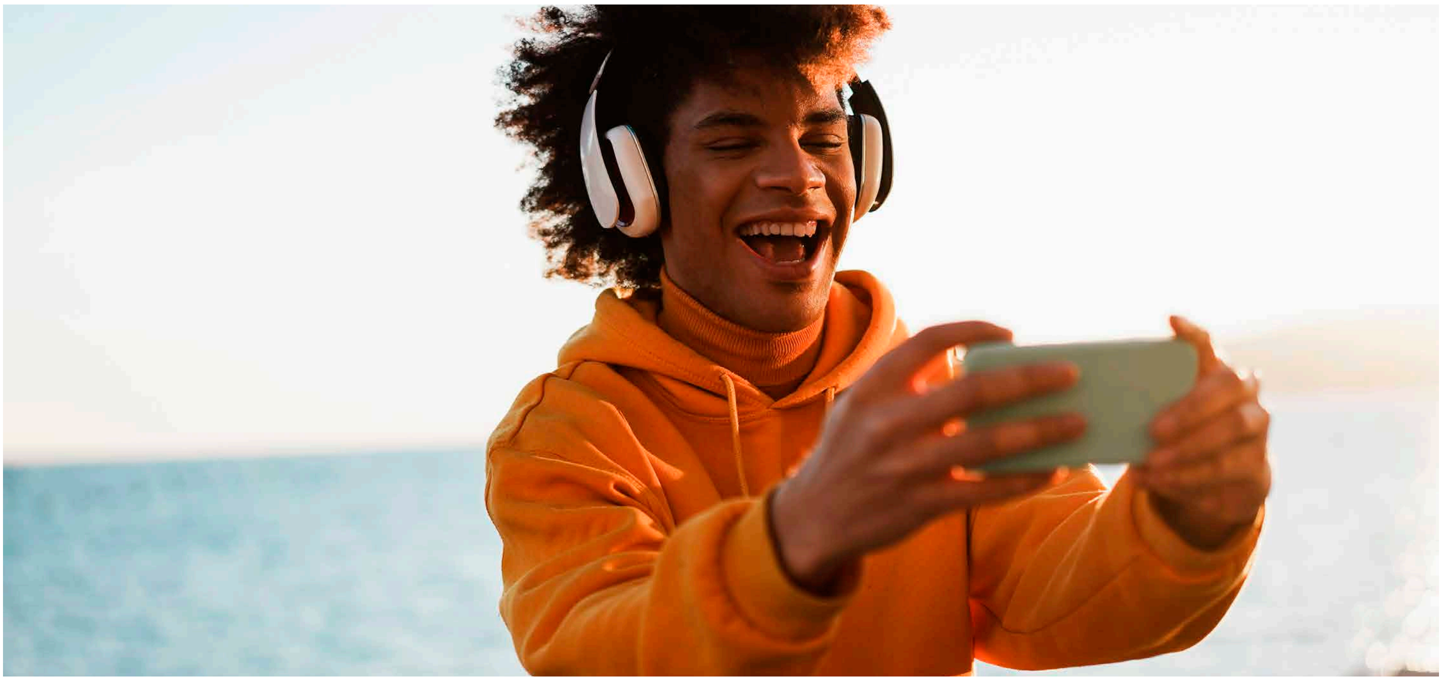
Example 1: Media rights management platforms

Legal or regulatory obligations	Benefits-in-kind
Negative incentives	Reputational incentives
Financial incentives	**Behavioural incentives**
Tax incentive	Purely commercial incentives

Objectives

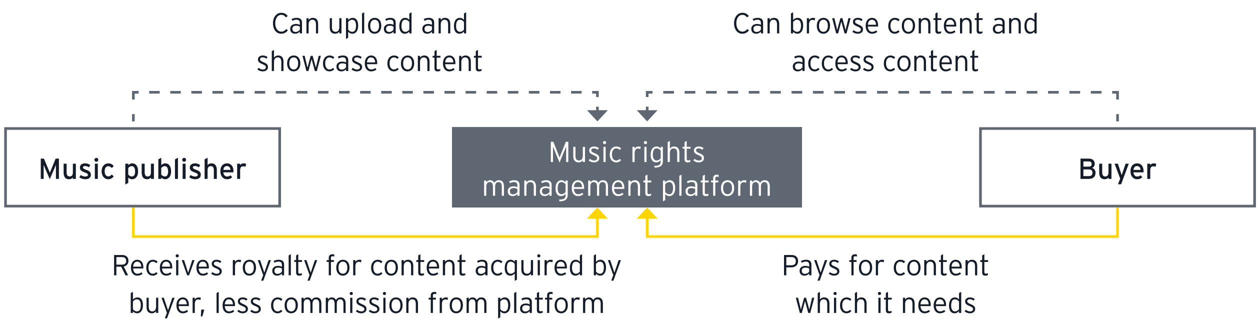
Historically, it has been difficult for buyers to trace rights owners for specific compositions and the effort required to identify rights owners has acted as a barrier for buyers in the market. In addition, the fragmented manner in which digital music is consumed through various streaming platforms, meant musicians and publishers struggled to record where their music was being used. This meant musicians and publishers had incomplete information when trying to negotiate licensing and royalty agreements, and could have prevented them receiving a fair deal for their content.

The aim of media rights management platforms is to remove barriers to commercial agreements, by introducing a transparent and accessible space for buyers and sellers of compositions to interact.



Description of incentives for media rights platforms

- These platforms allow publishers to upload their music content at limited or no cost, and allow buyers to browse, sample and request the rights for compositions.
- Rights for each song are transparently logged, and payment terms and royalties are agreed when rights are purchased.



- Although initially set up as a commercial response to overcome rights tracking issues, music rights management platforms have had the effect of acting as a behavioural incentive for content creation by making it simpler to transact and supporting collaboration.

Case study of a media rights management platform: Blokur

- Blokur was founded in 2015, and is a music rights management platform aimed at streamlining the rights management process to reduce costs.
- Blokur has also played a role in increasing collaboration in the music sector. Its platform, along with ensuring royalty payments are distributed fairly, also provides a streamlined process allocated royalties between different contributors to a composition. This has incentivised collaboration by reducing the administrative burden of potentially lengthy contact negotiations.

Learnings from incentives for offshore wind production

- The Government's contracts with offshore wind providers impose obligations on developers in return for financial incentives in the form of fixed price guarantees.
- Offshore wind demonstrates how financial incentives for commercial providers to deliver a specific service can be tied to wider policy objectives, including using local suppliers and supporting diversity targets.
- Monitoring compliance and penalising non-compliance can require significant intervention.

5

Section 5:

Who provides content to UK audiences?

Public service broadcasters remain a core part of the broadcasting industry today. 94% of adults and 86% of younger people[9] consume content from the public service broadcasters every week, despite a rapidly developing broadcasting environment. New technologies and changing consumer behaviour have accelerated changes in viewing habits in recent years, particularly among younger audiences.

Outside the public service broadcasters, other broadcasters, subscription streaming services, and online video platforms contribute significantly to the broadcasting ecosystem. Some of the content they provide today has public service-like qualities. Many support the UK independent production sector and drive economic, social and cultural benefits across the UK.

In this section, we analyse providers outside the traditional public service broadcasters in greater depth to inform how they may respond differently to incentives. In this section we consider three different categories of providers:

1 Major commercial broadcasters:

Outside the public service broadcasters, commercial broadcasters are privately-owned companies that deliver linear TV content.

2 Major subscription streaming services:

Subscription streaming services provide users access to an online library of films and TV shows for a flat monthly rate, with no contract.

3 Major online platforms:

Online platforms are a popular method of streaming video content and are often free at the point of use. There is a huge amount of content available on such platforms, with many videos being short-form and/or user-generated.

For ease of reading, we refer to these three categories as ‘broadcasters’ throughout this report.

We look at the differences between the business models of major broadcasters in the UK. We compare broadcasters based on reach, geography, content strategy and their existing contribution to public service media and the broader media ecosystem.

[9] Ofcom – Small screen: Big Debate

1. Major commercial broadcasters

	Sky	Discovery	BT TV
Relevant services	‣ First satellite linear TV service in the UK ‣ Wide range of products, including subscription streaming service 'NOW'	‣ Operates multiple linear pay TV channels ‣ Launched its subscription streaming service Discovery+ in 2020	‣ Broadcasting division of UK-based telecoms group ‣ BT's core business is telephone, broadband and mobile telecoms
UK and global presence	‣ Subsidiaries throughout Europe ‣ 23.4 million pay TV and telecoms customers across UK and Europe[10] ‣ Acquired by US telecom and cable TV provider Comcast in 2018	‣ Multinational media company. Operates in 220 territories and reached one billion people during 2020[11] ‣ Discovery has agreed to merge with WarnerMedia, the content division of AT&T, a US telecoms company	‣ Focused on a UK audience. ‣ BT Sport attracts around five million UK viewing households during the sporting season[13]
Business model	‣ Generates majority of revenue from subscription fees (pay TV and Now) and some from advertising and content sales	‣ Generates revenue from subscription fees, advertising and content sales	‣ Bundles BT TV with broadband to attract and retain telecoms customers ‣ Currently undergoing early discussions to sell a stake in its BT Sports business
Content strategy and investment	‣ Mixture of acquisitions and originations with UK and European focus ‣ Shift to more originations and committed to doubling investment in original programming between 2019 and 2024	‣ Mixture of acquisitions and originations ‣ c.8,000 hours of original programming each year globally[12] ‣ Focus on unscripted content with global appeal and local content for its main markets	‣ Mainly acts as a content aggregator with the exception of BT Sports ‣ Holding preliminary talks to sell BT Sports
Contribution to UK public service media objectives	‣ Range of UK drama content and dedicated arts channel ‣ Sky News is the only major TV equivalent to the public service broadcasters ‣ Owns or has equity stakes in UK producers ‣ Commissions from UK independent producers ‣ Opening a new UK production facility, expected to generate an additional £3bn of production investment within five years ‣ Sky Academy Studios allows young people to explore a career in media ‣ UK campaigns on issues including environmental impact and anti-racism	‣ Content within public service media-style genres such as natural history and factual, though often with a global focus ‣ Reported to be the lead investor in GB News, a UK news channel set to launch in 2021 ‣ Owns or has equity stakes in UK producers ‣ Commissions from UK independent producers	‣ BT Studios is used to create sports programming and is also available for UK independent production companies to hire ‣ UK campaigns on issues including anti-racism
Relationships with UK public service broadcasters	‣ Long-term partnership with Channel 4 to secure distribution of Channel 4 content, further integrate All 4 in Sky's products, and for Channel 4 to deliver targeted advertising across Sky's platforms ‣ Partnered with Channel 4 to secure free-to-air coverage of Cricket World Cup Final and the Formula 1 British Grand Prix ‣ Campaigned with Channel 4 and ITV to encourage children to eat healthily	‣ Entered into a £300m deal with BBC Studios to broadcast BBC natural history content internationally[13]	‣ BT Mobile ran a learning support scheme with BBC Bitesize during the pandemic

[10] Comcast April 2021, [11,12] Discovery: Business and Brands, [13] Enders Analysis – BT Sport for sale: All change for the game changer

2. Major subscription streaming services

	Netflix	Prime Video	Disney+
Relevant services	• Subscription streaming service	• Subscription streaming service of multinational e-commerce and technology provider Amazon • One part of Amazon's broader Prime offering, which also provides subscribers with free delivery of goods from its e-shopping platform	• Subscription streaming service of US mass media and entertainment conglomerate The Walt Disney+ Company • Disney+ is part of much larger business including theme parks, US cable networks, merchandise and studios.
UK and global presence	• 12 million UK subscribers[14] and 208 million globally[15] • Operates in 190 countries[16]	• 9.5 million subscribers in the UK[21] and 150 million globally[24]	• 94.9 million subscribers worldwide[26]
Business model	• Generates revenue from subscription fee • Focused on driving subscriber growth via large content library	• Generates revenue from subscription fees and selected paid content • Charges 'lower rates' for content to drive sales in other Prime areas[23]	• Shift in strategy to launch its own subscription service, moving away from licensing the rights to its content to other platforms • Generates revenue from subscription fees
Content strategy and investment	• Mix of acquisitions and originations • Original content increasingly important: Netflix-produced content is forecast to grow from 5% to 47% of its content assets between 2015 and 2022[17] • Reported to have spend $17 billion on original content alone in 2020[18] • Large, broad content library of local and global content • Decentralised approach to decision making, with Netflix commissioners operating all around the world[19]	• Acquisitions and originations • Focus on global content but commissioning more local content for important markets • Spent a total of $11 billion on Prime Video and Music in 2020[24] • Announced acquisition of MGM Studios, an American media and entertainment company, in 2021	• Smaller content library, collating content from its core brands • Commissions original content that aligns with its brand • Expecting to spend $8-9bn on original content for Disney+ in 2024[27] • Global content focus but commissioning more local content for important markets
Contribution to UK public service media objectives	• Investment in public service media genres such as UK-focused drama and documentaries • £730m investment in UK-produced content in 2020[20] • Investing in dedicated UK production hub • Invests in UK diversity initiatives	• Added 11 UK-produced shows to its content library in 2020[25]	• Has announced initial slate of scripted UK originals • Long-term deal with Pinewood Studios as a dedicated UK production based
Relationships with UK public service broadcasters	• Commissions UK drama • Co-productions with UK public service broadcasters and acquisitions of their content	• Co-productions with UK public service broadcasters and acquisitions of their content	• No partnerships with UK public service broadcasters; focuses on content with a strong Disney+ brand

[14]DCMS select committee minutes: The Future of Public Service Broadcasting, [15,16]Netflix Investor Company Profile, [17]Enders Analysis – Netflix: Looking towards 2025, [18]Fortune, [19]DCMS select committee minutes: The Future of Public Service Broadcasting, [20]The Guardian, [21]Enders Analysis – Amazon and Sports Rights: Gaining Confidence, [22]DCMS Select committee transcript: The Future of Public Service Broadcasting, [23]Business Insider, [24]CNBC, [25]DCMS Select committee transcript: The Future of Public Service Broadcasting, [26] Disney+ Q1 2021 earnings report, [27]The Walt Disney+ Company – Investor Day 2020.

3. Major online platforms

	YouTube	Facebook	Snapchat	TikTok
Relevant services	‣ Online platform for short- and long-form video content ‣ Primarily designed for video sharing	‣ Largest social media platform with several uses, with video streaming being one aspect of a much wider service	‣ Social media app with multiple uses, including video sharing ‣ 'Discover' section contains short-form content from publishers	‣ Platform for short-form user-generated video content ‣ Primarily designed for video sharing
UK and global presence	‣ Over 2 billion users globally in 2021[28] ‣ 66% of adults use YouTube each month in the UK[29]	‣ 2.8 billion monthly users globally[31]	‣ 265 million daily users globally[33]	‣ 689 million users globally[35]
Business model	‣ Free at point of use ‣ Generates income from advertising, YouTube Premium subscriptions and paid content	‣ Free at point of use ‣ Generates 97% of income from advertising[32]	‣ Free at point of use ‣ Generates 99% of revenue from advertising[34]	‣ Free at point of use ‣ Generates revenue from advertising
Content strategy and investment	‣ Estimated 10 billion videos on YouTube ‣ Vast majority of content is user-generated ‣ Commissions some original content serving its large global audience ‣ Short-form and long-form	‣ Mostly user-generated content ‣ Facebook Watch, a video-on-demand service with a mix of short-form and long-form content, is available in the US	‣ Mixture of user-generated and publisher content ‣ Short-form	‣ Mostly user-generated content ‣ Short-form
Contribution to UK public service media objectives	‣ Focus on mostly user-generated but commissions some content from UK production companies[30]	‣ Focus on user-generated content	‣ Focus on user-generated content	‣ Focus on user-generated content
Relationships with UK public service broadcasters	‣ Public service broadcasters promote their content using short-form videos on online platforms ‣ Source of talent and innovation for public service broadcasters ‣ TikTok has partnered with Channel 4 to feature exclusive Channel 4 content on the platform. Channel 4 will also publish original content on TikTok as part of TikTok's initiative to create educational videos			

[28] YouTube, [29]Ampere Analysis/ Ofcom: The UK VoD market, [30]Royal Television Society, [31]Oberlo, [32]Facebook, [33], [34]Snapchat, [35]TikTok

Findings

What do different broadcaster business models suggest about how they might respond to different incentives?

Commercial broadcasters, subscription streaming services and online platforms already deliver public service media-like content

- Some activity by commercial broadcasters, subscription streaming services and online platforms is already in line with potential on-screen and off-screen objectives for public service media. For example, many broadcasters already produce UK public service media-like content.
- Many also make a significant contribution to the UK creative economy through their investment in UK productions. Some broadcasters have made long-term commitments to the UK through investment in production companies and studios.
- Defining desired outcomes for new provision of public service media will be key to effective incentive design. Any intervention should be to address public service media requirements that are not already being met by the market.

Different business models and content strategies are likely to mean broadcasters respond differently to incentives

- Commercial broadcasters, subscription streaming services and online platforms have significantly different business models and content strategies and are likely to respond differently to incentives for new provision of public service media:
  - Those who are focused on global audiences are likely to be less receptive to incentives in the UK than those who have an existing large UK presence.
  - Those who focus on content that strongly aligns with a consistent globalised brand and style are less likely to respond to incentive to create UK-specific public service media-like content that those who take a broader content strategy.
  - For some broadcasters, content production is a small part of their overall business and is unlikely to be their main focus. For example, some broadcasters have much broader portfolios including e-commerce and other activities.
  - Those who are focused on user-generated content are likely to behave and respond very differently to those who commission content.

6

Section 6:

Would different incentives work for the UK broadcasting sector?

In this section, we set out the existing incentives for broadcasters to invest in the UK and to deliver public service media-style content. We then consider, at a high level, how the incentives that apply to UK broadcasters could be updated in future to strengthen and maintain the public service media system in the long term.

Our analysis considers how different categories of incentives could support Ofcom's on-screen and off-screen objectives for new provision of public service media, and also how strategic partnerships between broadcasters could be encouraged. Our analysis also considers how different types of incentives could apply to different parts of the media ecosystem.

This analysis represents our initial, high-level thinking on incentives structure to encourage new provision of public service media, complementary to the services provided by the existing public service broadcasters. Any preferred options would need to be thoroughly tested with broadcasters and producers to fully inform detailed policy design and to mitigate any risks to the UK's existing strong public service media system.

On the following pages, we:

- Outline the existing incentives to deliver public service media objectives
- Set out the principles for effective incentive design
- Set out the different categories of incentives that we have considered in this report
- Assess at a high level how these different categories of incentives could apply to UK broadcasters

A rich patchwork of incentives already work together to deliver the best content for UK audiences and support a thriving UK creative sector

The current system of public service media layers incentives for broadcasters with the objective of delivering the best content for UK audiences and creating a 'virtuous circle', where investment supports the wider media ecosystem, in turn encouraging further investment. The existing incentives in place today have supported the establishment of the UK as a global hub for content. Some of these existing incentives include:

Obligations	Public service broadcasters have varying obligations to broadcast first-run UK original content, to provide certain content genres such as regional news, and to commission from the independent production sector and from outside London.
Negative incentives	Ofcom can issue fines and revoke licences for broadcasters that breach its Broadcasting Code, which covers standards in programmes, sponsorship, product placement in television programmes, fairness and privacy.
Financial incentives	A range of different financial incentives currently exist in broadcasting. For example, the British Film Institute (BFI) awards funds to support the development and production of distinctive content for children. A number of funds are also available to support development and production of films and TV in the Nations and Regions.
Financial incentives	Companies can claim a payable cash rebate of up to 25% of UK qualifying expenditure for high-end television, providing the content qualifies as British via a cultural test. There is also a separate tax incentive for film productions. Productions that benefit from these tax incentives pay into a skills fund that supports training and support for people working within the screen industries and people who want to enter the industry. Broadcasters can also benefit from R&D tax incentives, which are available to UK companies seeking to achieve an advance in science or technology through the resolution of scientific or technological uncertainty. Cash benefit is available even to companies who are not in a tax paying position. Typical qualifying R&D activities in broadcasting can range from the development of bespoke software solutions to achieve special effects to development and improvement of streaming platforms to improve quality or allow content to be viewed across multiple devices.
Benefits-in-kind	In return for delivery of obligations, public service broadcasters receive benefits-in-kind in the form of prominence and discounted access to spectrum.
Reputational incentives	Publicly-available reports on performance act as reputational incentives to encourage broadcasters to improve their performance against their peers, for example: ‣ Ofcom publishes annual monitoring reports on workforce diversity in the broadcasting industry. ‣ Ofcom publishes annual public service broadcaster compliance reports that include data on the public service broadcasters' performances against a range of quotas. ‣ Project Diamond publishes consistent on-screen and off-screen diversity data for the BBC, ITV, Channel 4, Channel 5 and Sky.

The incentives outlined about interact with and strengthen existing commercial incentives to invest in the UK and public service media-style content, which we discuss on the following page.

There are already strong existing commercial incentives to invest in the UK

Beyond the incentives in place highlighted on the previous page, commercial incentives to invest in the UK include:

The strength, skills and talent of the UK production sector	Ability to export English-language content globally	The popularity of certain genres of public service media-like content, such as UK drama	Reputational benefits for some broadcasters investing in public service media-like content and engaging in social action activities

Below, we set out quotes from experts we interviewed at multinational media companies on the benefits of investing in the UK.

> “In a globalised world of content, the UK is probably in a really good place to exploit its domestic production sector because the UK probably has the second best pool of production talent in the world.

> “The benefits of being based in the UK are mostly the language, but also the infrastructure — it’s a mature market so it’s easy to roll services out and quantify how successful they are. But ultimately it comes down to costs.

> “Moving production hubs to wherever makes the most economic sense is a consequence of globalisation. The UK has actually done quite well out of this. You see the tax breaks that the UK offers to try to win this battle, to get producers to come to make content in the UK.

> “Production costs in the UK are lower than in some other major English language markets. The UK is going to be a hotbed for international content.

Any incentives to support new provision of public service media will need to be targeted, efficient and proportionate to ensure that the UK retains its position as a highly attractive market for global investment.

We have identified the main principles of effective incentive design

On the previous pages, we have set out the existing incentives, including commercial incentives, to provide public service media and to invest in the UK. In this section, we consider how the current incentives for broadcasters could be modernised to support the success of public service media for the future. Below, we highlight some of the general principles of effective incentive design, based on our case study analysis and research into the theory supporting incentives in public policy. Successful design of incentives should consider the following principles.

1. Define the area to be addressed

- The specific issues, gaps in delivery or additional requirements that incentives aim to address should be clearly defined to ensure incentives can be properly targeted.
- Intervention should be minimised to address areas where commercial actions alone are unlikely to deliver public service media outcomes.

2. Focus on defining outcomes

- Defining the desired outcomes is critical to ensuring incentives are properly tailored and targeted.
- Designing incentives that aim to achieve defined outcomes, rather than prescribing how an outcome is achieved, can be more effective and can promote innovation.

3. Be flexible and proportionate

- Incentives should be flexible enough to respond to market developments and avoid causing market distortions, particularly in fast-moving markets.
- Consideration of who the incentive could apply to, and how different organisations will respond to different types of incentives, supports proportionate incentive design.

4. Incentivise new behaviours

- Incentives should encourage behaviour that is differentiated to that which already exists.
- Incentives that encourage actions that would have happened absent intervention will not provide additional benefits and could displace commercial investment.

5. Focus on sustainability

- Incentives that could become self-sustaining in the future could encourage more participation by commercial providers.
- For example, if providing funding, developing mechanisms where commercial investment is encouraged through 'matched' funding could increase participation.

6. Employ the right combination of incentives

- Our research has found that incentives are not, in general, employed in isolation. A range of incentives are developed to support in achieving the defined outcomes.
- Because of this, design should consider the range of possible incentives and select the most appropriate combination of these to achieve the desired outcome.

7. Provide certainty and transparency

- Consistency and certainty in incentive models, regulatory independence, and transparency and ease of understanding are all important factors to ensure that businesses understand the intervention and respond with confidence.
- Reporting can support transparency.

8. Track and measure effectiveness

- Our case study analysis suggests that, for some incentives, there is limited publicly- available information on the measurement of the success of these incentives.
- Tracking the effectiveness of incentives will support understanding of whether change is required and will identify any unintended consequences.

For the new provision of public service media, this means that incentives should:

- Consider how the sector currently works and how existing incentives can be updated for the future
- Focus on targeting specific outcomes and be tailored to the broadcasters they are aimed at
- Focus on the sustainability of new provision of public service media and result in a long-term commitment to the UK and to public service media-style content, rather than a one-off production
- Build on the strong existing public service media system, working alongside the core provision of the public service broadcasters and strengthening existing commercial incentives to contribute to UK public service media

The main considerations for introducing incentives for new provision of public service media vary by incentive type

In the remainder of this report, we assess at a high level how different types of incentives could apply to UK broadcasting. Below, we provide a high-level summary of the main considerations for each type of incentive we have considered in our analysis. On the following pages, we consider each incentive type in more detail.

Main findings

Obligations	‣ There would be material considerations for applying new obligations to broadcasters outside the traditional public service broadcasters, including the practicality, proportionality and enforceability of these obligations. ‣ Existing obligations are a core part of the public service media system. Flexibility will be key to ensuring that existing obligations continue to deliver the best for audiences.
Financial incentives (funds, grants and subsidies)	‣ The more aligned the aims of the financial incentives are with broadcasters' existing content strategies, the more likely the financial incentives are to be effective. ‣ The design of financial incentives could encourage innovative approaches to strategic partnerships, including partnerships with companies outside the traditional broadcasting sector.
Tax incentives	‣ Tax incentives already play a crucial role in incentivising investment in the UK creative economy, delivering a range of economic, social and cultural benefits. ‣ In future, tax incentives could be tied to wider policy goals, such as encouraging investment outside London. However, this would need to be carefully designed to avoid diluting the success of existing tax incentives.
Benefits-in-kind	‣ An updated prominence regime could incentivise broadcasters to invest in new types of content or to distribute their content in new ways by ensuring this content is easy for audiences to find. ‣ Beyond prominence, the diversity of the broadcasters' business models may mean it is challenging to identify a benefit-in-kind that would appeal across the industry.
Reputational incentives	‣ Reputational incentives tend to be successful where a company has a commercial incentive to be seen to make a positive contribution, and would apply differently to different broadcasters.
Behavioural incentives	‣ Behavioural incentives are most effective when the desired behaviour is aligned with commercial incentives.

Negative incentives:

- Negative incentives play an important role when combined with obligations to penalise non-compliance. Negative incentives can also be combined with reputational incentives, to ‘name and shame’ non-compliant businesses.
- When considering more marginal types of negative incentives, such as fines and taxes intended to discourage undesirable behaviour rather than to punish non-compliance, the objectives for new provision of public service media are to encourage additional forms of provision rather than to penalise or discourage activities currently undertaken by broadcasters.
- We therefore do not consider more marginal negative incentives to be relevant for new provision and have not assessed this incentive type in detail.

Obligations

How could obligations support new provision of public service media?

In theory, obligations can be imposed:

- To require providers to show certain content genres or to show a certain amount of UK content; or
- To require providers to commission a certain proportion of content from UK producers or from the Nations and Regions.

Obligations are unlikely to be appropriate for delivering new strategic partnerships to deliver innovation in new provision of public service media, as for such partnerships to be effective, they need to be at least part borne out of mutually beneficial gain.

What are the main considerations for applying obligations to the UK broadcasters?

- Imposing new obligations on providers outside the traditional public service broadcasters brings some challenges:
  - Imposing obligations is an interventionist remedy, and could require significant resource to design, implement, monitor and enforce effectively.
  - Broadcasters may give up their obligations, and in an extreme scenario multinationals could exit the market, where obligations are seen to be disproportionate. Similarly, where obligations are imposed in return for benefits, broadcasters could give up obligations where they are not aligned to the benefits.
- The public service broadcasters are already subject to a range of obligations.

Would obligations work for new provision of public service media?

- There would be material considerations for applying new obligations to broadcasters outside the traditional public service broadcasters, including the practicality, proportionality and enforceability of these obligations, particularly for broadcasters based outside the UK. Consideration should be given to how to retain the UK's reputation as a highly attractive market for global investment; if obligations are disproportionate, multinationals may choose to invest elsewhere.
- We note that streaming services are being brought into scope for public service media-style obligations in Europe: for example, the EU now requires streaming services to ensure 30% of the content made available to European subscribers is European content. This obligation is in its early stages of implementation.
- We note that existing obligations are a core part of the public service media system but current legislation may not reflect today's ways of consuming content:
  - As consumer habits continue to change, flexibility will be key to ensuring that existing obligations continue to deliver the best for audiences and support new types of content and new ways of distributing it.
  - Public service obligations that are fit for the future will measure value in way that ensures public service broadcasters focus on delivering outcomes that really matter. Sport offers an example of how impact can be defined and measured in a broad way.

Financial incentives

How could financial incentives support new provision of public service media?

- Financial incentives, such as contestable funds, grants or subsidies, could be designed:
  - To encourage the provision of certain content types and genres.
  - To encourage the development and production of content from certain producers or from the Nations and Regions.
  - To support strategic partnerships, by making collaboration a requirement for applicants to the fund.
- Any fund could also be designed to encourage and reward innovation, both on-screen and off-screen.

What are the main considerations for applying financial incentives to the UK broadcasters?

- The more aligned the aims of the financial incentives are with broadcasters' existing content strategies, the more likely the financial incentives are to be effective:
  - Financial incentives to create UK public service media are likely to be most appealing to broadcasters with an existing UK focus, who are already active in UK content commissioning.
  - For broadcasters focusing on globalised content or with a strong content brand, a fund for UK public service media-style content may not be aligned with their current content strategy, which would risk weakening the effectiveness of financial incentives.
- The fund would need to be carefully designed so as not to displace commercial investment that would have happened even without support, as many multinationals already have significant content budgets

Would financial incentives work for new provision of public service media?

- Financial incentives could encourage production of public service media-type content but these incentives would appeal differently to different broadcasters depending on their existing content strategies. As such, financial incentives to produce certain types of content will be more appealing to some broadcasters than others.
- Financial incentives may also be effective in encouraging investment in the production sector, particularly outside London.
- The design of financial incentives could encourage innovative approaches to strategic partnerships. Partnerships with companies outside the traditional broadcasting sector could help public service media content to reach audiences that are currently under-served.

Tax incentives

How could tax incentives support new provision of public service media?

- Tax incentives could apply to the production of certain genres and types of content, as with the existing UK film and high-end drama tax incentives.
- In theory, qualifying criteria for tax incentives could be expanded to include off-screen aims, such as producing content in the Nations and Regions. This could link to wider industrial policy for 'levelling up' different regions of the UK.
- But other types of incentives, such as financial and behavioural incentives, are more relevant for encouraging strategic partnerships when compared to tax incentives.

What are the main considerations for applying tax incentives to the UK broadcasters?

- For multinationals who can produce content anywhere, tax incentives can be a reason to invest in the UK, rather than a different market, which could support the production sector and deliver economic, social and cultural benefits to the UK.
- For broadcasters prioritising globalised content or content with a strong and consistent brand, tax incentives to invest in some genres and types of UK-focused public service media-style content may not be sufficient to outweigh their existing commercial incentives.

Would tax incentives work for new provision of public service media?

- The current tax incentives for film and high-end TV drama are well-respected and are considered to be a main reason for broadcasters to invest in the UK creative economy. This investment delivers a range of economic, social and cultural benefits.
- In theory, tax incentives could be tied to wider policy goals, such as encouraging investment in the production sector outside London, and can also be tailored to appeal to broadcasters and content creators of different sizes. However, this tailoring can introduce complexity into the design of the incentive. Any tailoring of tax incentives would also need to be carefully designed to avoid diluting the success of existing tax incentives.
- In future, the existing R&D tax incentives could become more important as broadcasters invest in innovative technology to create new types of content and deliver it to audiences in new ways.
- Tax incentives may also be most effective when implemented in combination with other incentives, as well as initiatives to improve skills and production facilities across the UK.

Benefits-in-kind

How could benefits-in-kind support new provision of public service media?

- Benefits-in-kind could in theory be used to compensate broadcasters for new provision of public service media, in much the same way that the commercial public service broadcasters (ITV, Channel 4 and Channel 5) receive prominence and discounted access to spectrum in return for delivering their public service obligations:
  - Benefits-in-kind would likely be most relevant for compensating broadcasters for delivering on-screen obligations relating to new provision of public service media, for example broadcasting certain types or genres of content.
  - Benefits-in-kind could also be used to compensate broadcasters for delivering off-screen obligations, for example for meeting quotas for commissioning from the independent production sector or from outside London.
- Benefits-in-kind may be less relevant for encouraging broadcasters to enter into strategic partnerships.

What are the main considerations for applying benefits-in-kind to the UK broadcasters?

- There is significant variation between the business models of the public service broadcasters, commercial broadcasters, subscription streaming services and online platforms:
  - Discounted access to spectrum was historically valuable to broadcasters but today many broadcasters distribute their content online.
  - Some broadcasters are focused on gaining subscribers.
  - Others use broadcasting to attract customers to other core parts of their business.
  - Others are focused on generating advertising revenues.
- While in the past, there may have been more similarities between broadcasters, today's media industry is globalised and heterogeneous, with broadcasters having many different business models and priorities. As such, it may be difficult to identify a non-cash benefit that would appeal to a range of broadcasters.

Would benefits-in-kind work for new provision of public service media?

- Prominence is one example of a benefit-in-kind currently in place that remains valuable for public service broadcasters. Ofcom has made recommendations to the Government for a new framework to keep public service broadcasters' TV services prominent in an online world.
- An updated prominence regime could have a role to play in incentivising broadcasters to invest in new types of content or to distribute their content in new ways by ensuring this content is easy for audiences to find.
- Beyond prominence, the diversity of the broadcasters' business models may mean it is challenging to identify other types of benefits-in-kind that would appeal across the industry. Any new benefits-in-kind may need to be tailored to appeal to different types of broadcasters.

Reputational incentives

How could reputational incentives support new provision of public service media?

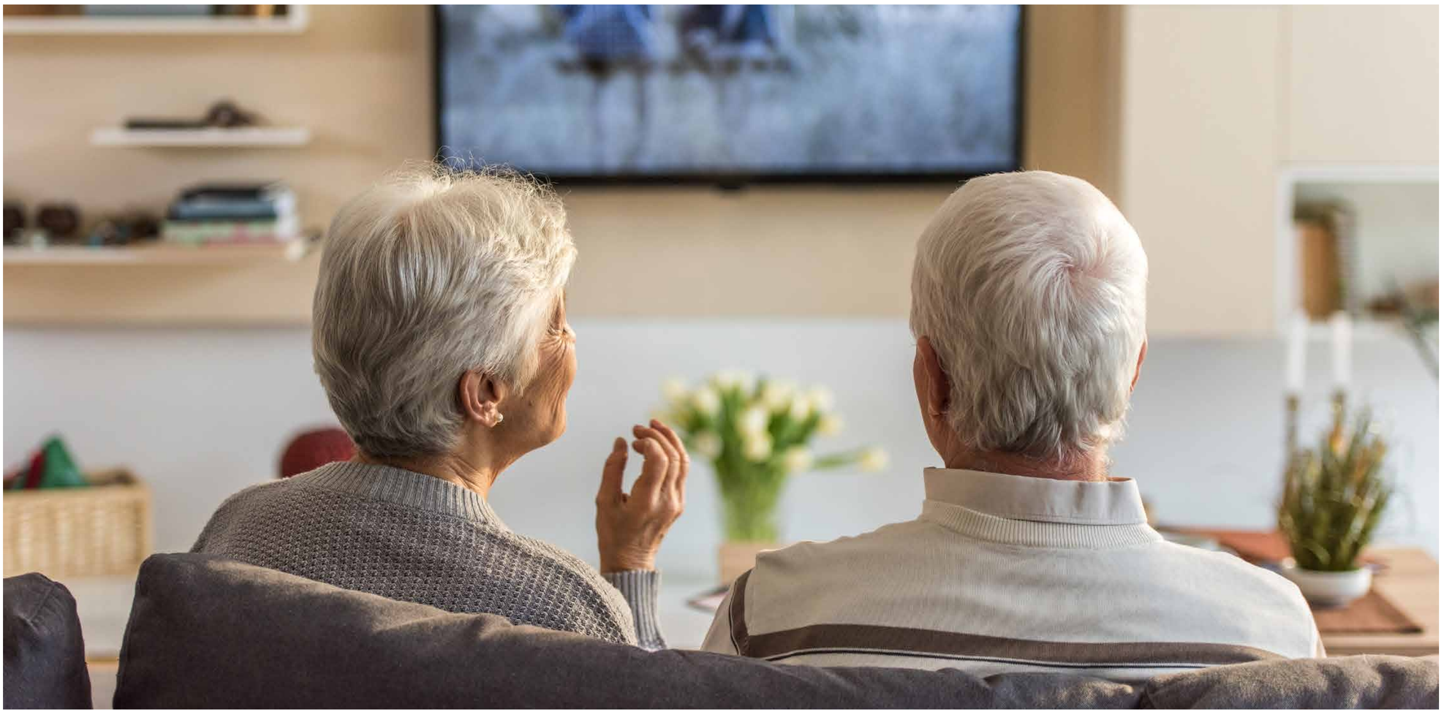
- Reputational incentives can be linked to on-screen objectives, such as reporting on the proportion of UK content available on a platform or on on-screen diversity targets. Reputational incentives are also linked to the production and broadcast of prestigious, high-quality content.
- Reputational incentives can also be linked to off-screen objectives, such as reporting on the proportion of content commissioned from the Nations and Regions or on off-screen diversity targets.
- Reputational incentives are less likely to encourage strategic partnerships as there is unlikely to be a strong reputational benefit to being seen to be in a partnership

What are the main considerations for applying reputational incentives to the UK broadcasters?

- Reputational incentives tend to be successful where a company has a commercial incentive to be seen to make a positive contribution, and would apply differently to different broadcasters:
    - Reputational incentives are effective for public service broadcasters who, given their status and their remits, have existing incentives to demonstrate their contribution to the UK and its Nations and Regions.
    - Outside the public service broadcasters, reputational incentives could be most effective for broadcasters with an existing strong UK presence and a commercial incentive to be seen to be contributing to the UK creative economy.
    - For some broadcasters, the UK is a small part of their overall business, with their focus being on a global audience. Large multinationals may be less concerned with their reputation for delivering UK public service media-style content, particularly where this is not part of their existing brand in any way. For example, some broadcasters may want to project a 'global' reputation, as opposed to a reputation for focusing on the UK.
- Reputational incentives can also be effectively when linked to a wider topic of public interest. Improving on-screen and off-screen diversity is part of a wider conversation in media and most broadcasters have made diversity and inclusion commitments.
- Publicity can be a key success factor for reputational incentives, with effectiveness increasing with how much publicity the broadcaster receives in response to their performance.

Would reputational incentives work for new provision of public service media?

- Reputational incentives could be effective in achieving some of the on-screen and off-screen objectives for new provision of public service media. For example, encouraging more broadcasters to contribute to Project Diamond for their UK activities could be effective for improving on-screen representation and portrayal, and off-screen diversity and equal opportunities.
- Encouraging broadcasters to report publicly on the amount of UK content they commission, or more broadly on their contribution to the UK creative economy, could act as a reputational incentive for some broadcasters with a strong UK presence and an existing incentive to be seen to contribute to the UK. Coupling reporting with ranking against peers can strengthen the effectiveness of reputational incentives due to the scale of competition in the industry.
- In the long term, given the wide range of content providers and increasing globalisation, reputation and brand are likely to become increasingly important for broadcasters looking to resonate with audiences. These changing priorities could increase the effectiveness of reputational incentives in future.
- Reputational incentives are likely to be most effective when implemented in combination with other types of incentives.



Behavioural incentives

How could behavioural incentives support new provision of public service media?

- Behavioural incentives could be effective in delivering on-screen aims, off-screen aims and strategic partnerships providing these objectives can be properly analysed, understood and addressed.
- For example, specific barriers such as lack of access to studio space are perceived to be constraints for more investment in UK productions, and could be analysed and addressed to support further investment.
- There may be specific barriers to strategic partnerships that could make entering these types of agreements complex; again, behavioural incentives could address these barriers.

What are the main considerations for applying behavioural incentives to the UK broadcasters?

- Behavioural incentives are most effective when the desired behaviour is aligned with commercial incentives.
- As such, the existing behaviour of broadcasters is an indicator of where behavioural incentives could be effective:
    - Behavioural incentives may be most effective for broadcasters who are already actively commissioning in the UK and who are open to strategic partnerships. Behavioural incentives can support these broadcasters in overcoming any barriers they face.
    - Behavioural incentives are likely to be less effective for broadcasters with a limited presence in the UK, who are not focused on commissioning their own content, or whose content strategies are focused on more globalised or content with a consistent brand, as the objectives for new provision of public service media are less likely to be aligned with their existing commercial incentives.

Would behavioural incentives work for new provision of public service media?

- The full range of barriers for broadcasters entering into strategic partnerships, investing more in public service media-style content, and commissioning more from the UK independent production sector, are not fully understood.
- Further research would be required to fully analyse these barriers and to design appropriate behavioural incentives. The scope of the research should be broad and could consider:
  - Barriers to partnerships between media organisations;
  - Barriers to innovative approaches to partnerships with new types of content creators or organisations outside the traditional media sector; and
  - Barriers existing within the production sector, such as access to studio infrastructure and rights complexity.
- However, given broadcasters' differing content strategies, behavioural incentives alone are unlikely to be effective in supporting new provision of public service media, as broadcasters will prioritise their existing commercial incentives.
- Behavioural incentives may therefore be more effective when implemented in combination with other types of incentives to strengthen their overall impact

Section 7:

Conclusions

Applicability of incentive types to the UK broadcast sector

Considering our findings for each of the different incentive types in the round, we set out our overall conclusions for supporting new provision of public service media.

Modernising the strong existing incentives to invest in the UK could maintain the strength of the UK broadcasting industry for the future

- There are many existing incentives to invest in the UK and to deliver public service media-like content. Modernising these incentives, ensuring they respond to a rapidly changing market, will secure the strength of the UK public service media system for the long term.
- Incentives can’t be considered in a vacuum: actions taken to support a thriving UK production sector can increase the effectiveness of incentives by increasing the commercial rationale for multinationals to invest in the UK.

Incentive design must be tailored to clearly-defined objectives

- There are a broad range of potential objectives for new provision of public service media. Different types of incentives will more appropriate depending on the specific outcome desired. Our case study analysis has demonstrated that there are potential learnings from other industries in terms of incentive design and defining desired outcomes.
- When considering desired outcomes for new provision of public service media, a long-term view should be taken, considering new types of content and distribution, and innovative approaches to reaching underserved audiences. Approaches to incentivise strategic partnerships could consider content producers outside traditional media organisations.

A combination of incentives may be required given diversity in broadcasters’ business models

- Incentives will not apply to all broadcasters in the same way. The significant variation between broadcasters in terms of their business models and content commissioning strategies means they will respond differently to incentives.
- Given the heterogeneity of broadcasters, a multifaceted approach combining different types of incentives may be most effective in achieving the desired outcomes. Incentives include a wide range of financial and non-financial incentives, as well as actions taken to support strategic partnerships.

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