Response to Ofcom’s review - The Future of Children’s Television Programming: Discussion Paper

pact.

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Executive summary

1. Pact strongly welcomes Ofcom's report on the future of children's television and its conclusions that parents are dissatisfied with the level of public service programming for children, and that the future provision of UK-originated children's content is at risk. In our view, this report represents the most thorough review of this key public service genre that has been undertaken in the UK, and provides a strong framework for debate over this issue.

2. As Ofcom is aware, Pact has consistently argued over the last two years that there has been a significant drop in investment in new UK children's programming from commercially-funded broadcasters, and we welcome the report's conclusion that this is indeed the case. We also welcome Ofcom's conclusions from its consumer research, which highlights the widening gap between what the market is able to provide and what the public wants:

   "While a clear majority of parents regard public service programming for children as very important, less than half think it is being delivered satisfactorily, especially in reflecting a range of cultures and opinions from around the UK."[1]

3. This is supported by consumer research commissioned from YouGov by Pact, in which 70% of parents agreed that UK-produced programmes contributed to the UK's cultural identity, as well as previous research by the ITC.

4. We note that Ofcom's research indicated that parents were concerned not only about the level of provision, but also the range of content on offer. For parents, genuine range of channels meant not just having the BBC compete with imported shows on commercial channels, but real choice in public service content across more than one outlet. Parents, Ofcom concluded: "felt that the BBC had a distinct tone of voice and that children would benefit from a variety of voices."[2]

5. Pact now believes that the issue of public service broadcasting for children is firmly on the agenda for policy-makers and Parliamentarians, and Ofcom's report has clearly informed and stimulated public debate. At a recent adjournment debate, for example, MPs from all three main parties

[1] The Future of Children's Television Programming: Research Report, Ofcom, page 1.
[2] Ibid.

called on the Government to consider urgent intervention such as a tax credit. We would therefore expect children's programming to be one of the key areas for Ofcom's Public Service Broadcasting Review, and welcome the recent terms of reference for this review that explicitly included this issue.

6. However, as we have expressed to Ofcom, our main concern is that the threat to children's public service programming is immediate. Ofcom's figures are essentially based on the value of programming on screen, and therefore include stock programming commissioned before ITV withdrew from investing in new UK shows completely. The production sector has already felt the full impact of this withdrawal – which in fact in our view amounts to a collapse of at least 80% in investment from commercial broadcasters since 1998.

7. Even factoring in the BBC, overall investment in first-run children's origination is on course to fall by 40% over the next two years, compared to 1998 levels. This is including the 15% overall fall that Ofcom has identified as having already happened, plus a further 25% decline due to ITV's withdrawal, restrictions on HFSS advertising and cuts in spending at the BBC.

8. This may or may not be slightly mitigated by a small return to investing by ITV, but nevertheless represents a significant drop in investment.

9. The decline to date is already having an impact on the production sector. Several leading children's companies have closed, been sold or face significant cuts over the last 18 months. Many others have also scaled back, resulting in a loss of the skills and expertise necessary in maintaining the UK as a creative force in children's and animation programming, as well as a leading exporter.

10. If requested by Ofcom, Pact will provide details of leading companies that have been affected by market contraction. As a point of principle, Pact is happy for its submissions to be public. However, as this involves sensitive commercial information, this additional information would be in strictest confidence.

11. Under the current regulatory regime, an entire channel, Channel 4, has a remit under the Communications Act to appeal to the tastes of a culturally diverse society. Yet we now live in a society where the only example of British-Indian family life on children's television – My Life As A Popat – has gone. This would seem to illustrate how the impact of a failure in public service broadcasting is already evident on television screens.

12. We therefore ask Ofcom to highlight in its final report on children's that intervention is a matter of urgency, and that the need for swift action informs Ofcom's recommendation on any suitable interventions.

13. In terms or urgent measures, we see tax credits for the production of certain types of public service programming for children (Proposal 3) and/or the return of Channel 4 to commissioning children's content (proposal 4) as the most practical and effective ways to intervene. Potentially, both would be hugely welcome steps: individually, each could enhance the level and range of public service content on offer to children, representing a significant step in delivering plurality in public service programming; together, their impact would be stronger still. Channel 4 could potentially provide the public with a clear alternative home for children's public service content, while the tax credit would stimulate competition across the growing number of cable and satellite channels, as well as current and future digital children's channels from ITV and Five.

14. This impact is necessarily dependent on the robustness of either measure. We have argued that a tax credit should be set at providing a minimum of 30% of UK production costs – the "biting point" necessary to stimulate broadcaster interest in threatened public service genres such as drama and factual. We have reached this figure after discussions with the production sector and broadcasters.

15. Channel 4's level of investment and the range of programming it airs is equally crucial: Ofcom's report shows there is a problem in the provision for children as young as six in analogue homes, and for all children aged over nine. Just increasing provision in programming for teens, for example, would not in itself solve the threat outlined in Ofcom's report.

16. We have outlined the role and potential benefits of a tax credit and Channel 4's involvement in children's commissioning in detail in response to question 2, plus include an Appendix on the tax credit. We would like to stress that a UK broadcast licence can and should be a stipulation of a programme accessing the children's tax credit. Indeed, in terms of the public service genres on which the credit is largely focused, a UK broadcast licence is likely to be the only way to raise the bulk of the production costs not covered by the tax credit. This will ensure only those programmes that are of the highest possible quality are made, even with a tax credit.

17. We would suggest that these more immediate measures should be coupled with longer term consideration of public service broadcasting as a whole. We have proposed that steps that might be taken in the interim could be retired if and when further, more structural interventions are developed through Ofcom's Public Service Review and the Government's subsequent funding analysis. Any interventions resulting from these reviews will inevitably not come into effect until several years from now.

18. Clearly these interventions may be out of Ofcom's remit, and fall instead to the Government. Yet Ofcom has a duty under the Communications Act to report on whether there is a suitable level and range of children's programming. We would argue that highlighting the urgency of the current problem would be a key part of this reporting.

19. This would also seem appropriate under the terms of reference for the Public Service Broadcasting review, which will specifically consider the period up until switchover as part of "a twin focus" covering, "a transition period, from 2008–2012; and the period after 2012, when any new framework established by new legislation would be in place."[3]

[3] Ofcom's Second Review of Public Service Broadcasting, terms of reference, page 9.

Question 1: Do you have any comments on the general analysis and conclusions of the report?

1. Pact welcomes the comprehensive nature of Ofcom's report. We applaud the regulator for the robust way in which it has approached this review, and the fact that it has brought forward the timing of the review to address the current threat to the provision of children's public service programming as a matter of urgency.

   The case for urgent intervention

2. The evidence in the report points to a need for urgent intervention to address the problem in the provision of public service programming for children. Ofcom's report shows that there is already a stark gap between what the public wants in terms of the level and range of public service-oriented children's programming, and what the market is able to provide without intervention. Parents are unsatisfied with the level and range of UK-made children's programmes. This is an issue affecting them and their children now. As Ofcom states:

   "While a clear majority of parents regard public service programming for children as very important, less than half think it is being delivered satisfactorily, especially in reflecting a range of cultures and opinions from around the UK."[4]

3. Parents also expressed concern that the BBC should not have a monopoly on UK-made shows. It is unlikely in Pact's view that the BBC alone can provide a range of viewpoints that genuinely reflects UK society. Ofcom's report indicates that the public supports this view, stating that:

   "Overall a range of channels and programmes was seen as the means of ensuring quality and variety."[5]

4. For parents, a range of channels meant not just having the BBC compete with imported shows on commercial channels, but genuine choice in public service content across more than one outlet. Ofcom's consumer research found that parents: "liked that the fact that some PSB children's programming would be provided by a different broadcaster to the BBC, providing the potential for totally different PSB programming." Parents, the report continues: "felt that the BBC had a distinct tone of voice and that children would benefit from a variety of voices."[6]

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[4] The Future of Children's Television Programming: Research Report, Ofcom, page 1.
[5] Ibid, page 127.
[6] Ibid, page 129.

5. The recent report on public service content by the House of Commons' Committee for Culture, Media & Sport reached a similar conclusion, stating that plurality brought the benefits of competition, different services and a diversity of viewpoints:

   "We are concerned that the BBC should not be left as the only supplier of public service content in any area of programming and we regard the maintenance of plurality as an important public policy objective."[7]

6. Ofcom's analysis of the market shows that parents are right to be concerned. Investment for first-run originations from commercial broadcasters has fallen by 50% in real terms since 1998, according to Ofcom's findings. As Ofcom states:

   "The future provision of new UK-originated content for children, particularly drama and factual programming, looks uncertain."[8]

7. The BBC already is increasingly the only provider of significant areas of core public service programming, such as drama and factual for older children. There is a failure in provision now, a failure to provide a broad selection of public service programming across large age ranges of children.

8. This indicates there is currently a failure to provide the level and diversity of public service programming outlined by the Communications Act, which states:

   "Fulfilling the purposes of public service television broadcasting in the United Kingdom…[includes the provision of] a suitable quantity and range of high quality and original programmes for children and young people." [9]

9. The recent report on public service content by the House of Commons' Committee for Culture, Media and Sport also concluded that plurality in the delivery of public service children's programming is important in creating competition, different services and a diversity of viewpoints:

   "The BBC should not be left as the only supplier of public service content in any area of programming and we regard the maintenance of plurality as an important public policy objective."[10]

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[7] Public Service Content, House of Commons' Culture, Media and Sport Committee, November 2007, page 3.
[8] The Future of Children's Television Programming: Research Report, Ofcom, page 1.
[9] Communications Act 2003, Section 264 (6) (h): Guidelines for Ofcom's reports on the fulfilment of the public service remit.
[10] Public Service Content, House of Commons' Culture, Media and Sport Committee, November 2007, page 3.

10. The report adds: “It is important that there remains a significant amount of UK-produced children’s programming on commercial channels as well as the BBC, and we would be very disappointed if ITV further reduced or withdrew from commissioning UK children’s content in the future... if a shortfall is envisaged, we believe that children’s programming should be eligible for assistance.”[11]

11. That shortfall is already upon us. As the Ofcom review notes, ITV has indeed withdrawn completely from commissioning UK children’s programming – in fact, it did so nearly two years ago. Additionally, as we have mentioned above, Five has scaled back and Channel 4 withdrew a number of years ago.

Failure to act now

12. Without intervention, the gap between what the public wants and what the market is able to provide is very likely to widen. Although Ofcom calculates that the value of programming on screen from commercial broadcasters has dropped by 50%, the actual drop in investment in the creation of new programming is far steeper – as much as 80%, according to our estimates. This is because Ofcom’s figures include a significant amount of stock programming commissioned by ITV before it stopped investing in UK children’s content all together.

20. Even factoring in the BBC, overall investment in first-run children’s origination is on course to fall by 40% over the next two years, compared to 1998 levels. This is including the 15% overall fall that Ofcom has highlighted, plus a further 25% decline due to ITV’s withdrawal, restrictions on HFSS advertising and cuts at the BBC averaged at 2% per year over the next five years in real terms. This may or may not be slightly mitigated by a small return to investing by ITV, but nevertheless represents a significant drop in investment.

13. Unless other broadcasters increase their investment, which seems unlikely given the downward trend over the last six years, it is only a matter of time before this drop in programming value is reflected on screen. The multi-channel broadcasters have repeatedly and publicly stated that their combined annual investment of around £10m (10% of total investment) cannot plug the gap left by scaling back at terrestrial-based groups.

14. The production sector has already suffered this 80% drop in investment. Crucially, this meant that other than the relatively small number of

[11] Public Service Content, House of Commons’ Culture, Media and Sport Committee, November 2007, page 32.

commissions from cable and satellite broadcasters, the BBC was left with a monopoly on commissioning programmes outside the pre-school genre.

15. The children's production sector includes some of the biggest businesses in the independent sector, but the vast majority are small, specialist companies. A striking finding of Pact's 2007 Independent Production Census was that more than 20% of all companies with turnovers of under £1m specialised in children's programming. Unusually for the main television genres, very few larger companies registered any children's production activity.[12] This may be due to the specialist nature of children's and animation production, which by definition entails making programmes for a particular audience.

16. Such smaller companies are very much at risk from the fall in children's production funding in the UK. Exacerbating the situation, the closure of BBC Jam has further damaged many independent children's companies involved in creating education content for younger audiences.

17. Several companies involved in children's programming have over the last 18 months closed, been sold or reported a suspension in share trading. If requested by Ofcom, Pact is willing to supply examples of companies on a strictly confidential basis. We expect this trend to escalate quickly. Redundancies and closures at many smaller companies are difficult to track, but are already taking place, judging from anecdotal evidence. In our view, many of the companies that create public service programming for children are likely to go out of business without intervention.

18. Longer-term solutions should of course be considered for the children's genre and public service broadcasting as a whole, but there is a risk that many of the skills and expertise that have historically made UK children's programmes world-class will disappear without urgent intervention. This could limit the number and expertise of companies able to supply any services that result from Ofcom's Public Service Broadcasting review and the Government's spending analysis in a number of years.

[12] 2007 Independent Production Census, Pact, chart: production activity by turnover band, page 32.

Question 2: Of the policy approaches suggested by stakeholders, which, if any, do you consider the most appropriate to address the conclusions made in this report?

1. As we have outlined in response to question 1, the threat to public service programming for children requires urgent intervention. We have proposed steps that might be taken in the interim – such as tax credits or Channel 4's re-entry into children's commissioning – while more structural interventions are developed over the next few years for the children's genre and public service broadcasting in general through the Public Service Broadcasting review being conducted by Ofcom and the Government's funding review.

2. We have outlined clear and relatively straightforward exit strategies for these interim measures if and when they become unnecessary due to interventions or conclusions emerging from these reviews.

3. There are in our view four proposals in Ofcom's paper that should be considered as ways of intervening urgently – proposals 1, 2, 3 and 4. Proposal 5, creating a new institution, is clearly worth considering in the long-term but we do not see it as a viable interim measure.

   Proposal 1: Maintain status quo/tighten BBC remit

4. Maintaining the status quo is in our view not an option: as Ofcom concludes, there is already a threat to provision in significant areas of children's content, and the drop in investment from the commercial sector that Ofcom has highlighted will continue to get worse.

5. On top of this decline in funding from the commercial sector, the BBC's current investment level of investment in children's programming is to fall in real terms, the corporation has stated. As part of the recent cuts at the BBC, the children's department will make savings of about 5% per annum over each of the next 5 years. Half of these savings are to be made via efficiencies, such as staff cuts. The rest will come out of programme budgets, which will be reduced across the board by about 10% in real terms over the next five years.

6. The current programme budget for CBeebies and CBBC is currently £108 million. By 2012, that budget will be about £113 million, or £98 million in real terms - a fall of about 10%.

7. The BBC may conceivably seek to cut back further. As Ofcom states in its report, the BBC currently exceeds the minimum amount of children's programming required under its service licences, and could "reduce its

output and spend significantly below current levels."[13] Indeed, the fact that its rivals in the commercial sector have exited or cut back on children's programming increases the possibility of the BBC further reducing its investment as it may not need to achieve the same levels of quality and innovation in order to compete for audiences.

8. We therefore agree with proposal 1 that there is a strong case for tightening up the BBC's remit regarding children's programming. However, this in itself is not enough to solve the problems facing children's programming. Most importantly, it will not provide plurality in children's programming.

Proposal 2: Broadcaster-based interventions

9. We have previously outlined a proposal for a Children's Content Fund, which would be a fund for the production of public service children's programming. Such a fund would be likely to stimulate production activity at dedicated children's channels - either stand alone specialist children's services or dedicated spin-off channels from the terrestrial groups. It could be tailored to focus purely on public service programming for the age ranges and genres most under threat. It could also exclude all programmes originally commissioned by the BBC, both in terms of in-house and external commissions, as a way of encouraging plurality in the provision of public service-oriented content. It is investment from non-BBC sources that has collapsed, and therefore encouraging these channels to increase provision is key to offering audiences plurality in public service content.

10. However, as we have previously outlined to Ofcom, we are concerned that a fund would entail certain difficulties that make it less attractive than other proposals. It is unclear what organisation would run the fund, and it would inevitably entail certain overhead and start-up costs. It would also mean an initial capital investment.

11. Nor do we see quotas as a practical solution. The current regulatory regime in the UK would seem to mitigate against the introduction of further quotas or requirements on broadcasters, particularly genre-specific ones. We note the dramatic reduction in the amount of hours of children's programming that ITV is required to show over recent years, and see the introduction of further quotas as an impractical proposal.

12. It is also unusual for quotas for to be in place in broadcasting markets without some form of incentive accompanying them, such as tax credits for production or a fund.

[13] Discussion Paper: The future of children's television programming, Ofcom, page 3.

13. This is not to say that quotas are not useful when in place. Pact views existing obligations on UK public service broadcasters to show, for example, an appropriate level of programming from outside London and programming made by independents as fundamental to the diversity of programmes on offer to audiences, and the health of the production sector.

14. Content creators and public investors in the overseas countries we have analysed say quotas and other obligations on broadcasters to show a level of children's content are vital parts of the regulatory landscape. The Australian Children's Television Foundation told us:

    "Without the quotas, there would be no or virtually no new Australian children's drama on commercial broadcasters."

15. Other countries we have analysed have relatively complex sets of quotas aimed specifically at children's. These are often very detailed and can take very different forms to just requiring a certain amount of hours to be aired. In Australia, for example, pay-TV kids channels are required to spend 10% of their expenditure budget on locally produced children's programming. In addition, commercial broadcasters must screen around 390 hours of Australian children's programming per year, of which a third is pre-school and two thirds is for older children. 130 hours of these 390 hours must be first release, including roughly 32 hours of children's drama each year. A small (and usually insignificant) amount of these 390 hours can be overseas content which complies under certain circumstances.

16. However, introducing quotas is expected to require a change in primary legislation, ie the Communications Act 2003. This means that quotas are a possible long-term option for public service broadcasting, and should be considered as part of Ofcom's upcoming Public Service Review. However, they remain impractical as an interim measure.

Proposal 3: Production incentives

17. We have previously proposed a Children's Content Credit - a tax-based incentive precisely targeted only at areas of core public service children's programming where a failure is most pronounced. We still see this as an expedient and proportionate intervention that, unlike the fund outlined in proposal 2, would not require capital investment or the creation of an administrative agency. The credit could be fitted with a "sunset clause" so that it would expire in 2012, or as soon as any further, larger scale intervention aimed at providing public service content across different genres, including children's, comes into effect.

18. There is a clear precedent for such an intervention in the tax credit for the UK film industry, which was introduced this year and is widely seen as

being an efficient and practical mechanism that is not open to the abuse of the previous system under Sections 48 and 42.

19. The children's credit would exclude programmes or content originally commissioned by the BBC, both in terms of in-house and external commissions, including those from the independent sector. In our view, this is important to encourage plurality in the provision of public service-oriented content. It is investment from non-BBC sources that has collapsed, and therefore encouraging these channels to increase provision is key to offering audiences plurality in public service content.

20. The credit would also apply only to the areas of public service children's content outside the BBC that are most under threat – drama, factual and possibly animation for older children. The tax credit would not be available for children's content where there is already a relatively healthy range and diversity of content, although it might be extended to other areas of children's programming if and when they exhibited a proven market failure.

21. We have suggested that the credit provide a minimum of 30% of production costs for key genres such as factual. From our initial consultations, it is necessary to set the credit at this level to ensure broadcasters are willing to invest in such genres without the "stick" of quotas.

22. In our initial consultations with the industry, including all leading children's broadcasters and other stakeholders, we have found strong support for such an incentive as an effective intervention that could be introduced quickly. We also note that there has been support for such a proposal from all parties.

Cross-party support for tax credit

"Pact has proposed a sensible and narrowly focused option of a tax credit worth 30% of the production cost that will expire in 2012. …Such a tax credit would act as a lifeline for the industry until an alternative model is present." **Ed Vaizey MP (Con)**

"Yes, we need the long-term strategy, but we also need to think about what to do in the interim…Perhaps a more attractive proposition would be to look at a tax credit, which could be beneficial and targeted. We have precedent, because we have a tax credit system for British film, which is there to stimulate the production of new British films. A tax credit would be easier to use in TV than in film, because it would be easier automatically to tie it to the fact that the work has been produced for a British broadcaster. One can produce a film, but there is no guarantee that anybody is going to like or distribute it." **Neil Gerrard MP (Lab)**

"The idea of tax credit must be examined. The Government should consider that option's costs and benefits, and in particular, the argument that if one increases production, the cost is not a tax loss, because one brings more revenue back into the country, as has happened with the film industry." **Richard Younger-Ross (Lib Dem)**

"One of the ideas that has been put forward is that the tax credit should be awarded to broadcasters who can demonstrate an investment strategy over the previous three years that includes stability of investment and then growth, so that we are not replacing what would have been otherwise planned." **John McDonnell MP (Lab)**

23. One concern that has been raised is that a tax credit might somehow enable programmes to be made simply to access the tax credit. This concern would seem to stem from past abuse of the previous tax regime for film production under Sections 42 and 48, which led to a string of poor quality films that were often not released. This has now been addressed by the new tax credit for film, on which we have modelled this proposal for children's television. The new tax credit for film removes the need for a partnership of investors to be set up in order for the producer of a film to access the tax deferral – these partnerships were identified as the cause of abuse. It is also only available on UK spend, unlike Sections 42 and 48, removing the incentive to base a production largely overseas in order to access international tax-based funding while still claiming tax relief in the UK on the entire film.

24. We see the children's tax credit as even cleaner in this regard than the new film tax credit. Because of film's patchwork, international financing structure, it is often impossible to ensure in advance that a UK distributor is in place. It is therefore possible that a film will access the tax credit but never be seen by the UK tax payers who have contributed to its funding.

25. In television, it is perfectly practical to require that a UK broadcast licence be in place before a programme accesses the tax credit. This should be one of the stipulations of the tax credit. Indeed, in the case of the public service programming that the credit would largely apply to – notably drama and factual – the only source of investment to provide the remaining 70% of production costs not covered by the tax credit is likely to be the UK broadcast licence. Programming in these genres tends to be UK-specific and rarely attracts any significant financing from overseas markets. Any broadcaster committing such a level of financing will be absolutely focused

on ensuring that a programme is of the very highest possible quality, as will any supplier aiming to deliver a programme that satisfies the commissioning broadcaster.

26. We include further details of what a tax-based content credit might look like as an Appendix.

Proposal 4: Extending the remit of existing PSB institutions

27. Channel 4 has contributed to the fall in investment and provision of public service programming for children, not just by cutting its own investment in the genre, but also by its aggressively commercial afternoon programming policy. This is widely seen as having increased the pressure on ITV to scale back its own children's provision.

28. Channel 4 could, however, have a positive impact by returning to commissioning public service programming for children, and Pact would potentially welcome such a move as an effective solution. Although Channel 4 does not currently commission any children's programming, it has previously done so with great success, providing a highly valuable public service alternative to BBC children's programming for a modest investment.

29. When Channel 4 first launched in 1982 it had a dedicated children's and educational commissioner. Under Michael Grade and John Willis, the role of commissioning editor for children's programmes was re-created, with a range of programming launching in autumn 1995. The brief, in keeping with that of the channel, was to provide programming which would both innovate and ensure that children's voices and their points of view would be heard. This provided a complement to other commercial and PSB offerings. Channel 4's children's shows included:

- Look Who's Talking – a ground-breaking season which gave children the chance to control editorial on both established shows and new shows
- Wise Up! – pioneering and multiple award-winning factual show
- Coping With…Parents (Schools, Girls/Boys, Teachers, etc) – Bafta-winning comedy series combining education and humour, based on the books by Peter Corey
- Wyrd Sisters – acclaimed animation based on celebrated British writer Terry Pratchett's fantastical version of Macbeth
- The Magic Roundabout – Nigel Planer voiced series of previously unaired episodes, introducing a new generation to the classic
- Watch This Space – ground breaking interactive format for pre-teens

- Hollyoaks – originally conceived for the upper age range of the children's audience, now a mainstay of the channel's output
- Numerous other series, focussing on pocket money, art activities, and reportage, were also created during this time.

30. Channel 4 also demonstrated its commitment to children's and family programming through commissioning via other departments. This included shows such as the acclaimed The Snowman, from the animation department, and the long-running pre-school show The Hoobs, which was financed and managed out of education. The Snowman is the most well-known example of Channel 4's championing of original animation – its other credits include the acclaimed Terry Pratchett adaptation Wyrd Sisters.

31. Channel 4 gradually withdrew from commissioning children's as it focused squarely on teens via its T4 service. The channel's dedicated children's commissioner departed in 1997 and was not replaced.

32. The public value reasons for Channel 4 commissioning and airing original first-run children's programmes are no less valid today than they were in the 90s. Indeed, the subsequent reduction in investment by other commercial broadcasters, and the resulting lack of a significant alternative to the BBC's output, would mean that a return to children's commissioning would mark even more of a contribution to public service broadcasting.

33. Such a move would fit well with Channel 4's remit under the Communications Act as a public service broadcaster. While Channel 4 does not have an explicit requirement under the Act to broadcast children's shows (nor indeed any other genre outside news and current affairs), it does have a statutory duty under the Act to make a significant contribution to providing programmes of "educative value."[14]

34. Public service children's programming clearly has the potential to fulfil such a duty. Helping children learn and develop is at the heart of public service programming for young audiences.

35. A wealth of research indicates that high quality programming can have a positive effect on children's development. The National Literacy Trust, the UK charity that promotes literacy, has stated that age-appropriate television can improve children's attention, expressive language, comprehension, receptive vocabulary, and letter-sound knowledge:

    "Given the right conditions, children between the ages of two and five may experience benefits from good quality education television. For this group there is evidence that attention and comprehension, receptive vocabulary,

[14] Communications Act 2003, Section 265 3 (c).

some expressive language, letter-sound knowledge, and knowledge of narrative and storytelling all benefit from high-quality and age-appropriate educational programming."[15]

36. Research by Jackie Marsh for the University of Sheffield suggests that, for the majority of children, television is not passive. They are inspired to do other things while watching - 48% talk to the characters on screen, 77% sing, 69% talk about the programme, and 73% dance.[16]

37. Most recently, a 2006 University of Chicago study of 800 schools concluded that an additional year of pre-school television exposure for the students in the model had slightly raised average test scores.

38. We would suggest that UK-made children's programming also has a more informal educative value in stimulating children's interest in the world around them. This was a key part of the public value behind such Channel 4 children's shows as Wise Up! A few further examples from the commercial sector of UK children's programmes delivering educative value in the broadest sense include:

- Rainbow - explored language and number concepts
- The Book Tower - encouraged creativity and reading
- Art Attack - encourages creativity
- How! – stimulated interest in science and nature
- Fun Song Factory: encouraged young children to dance and sing along
- Fifi And The Flowertots - promotes environment and health
- Brainiac - science made fun
- Nick News – factual show inspired by Wise Up!
- Michaela's Wild Challenge - explores nature and environment

39. Children's programming could also contribute strongly to Channel 4's mandate under the Communications Act to provide a broad range of programming that "appeals to the tastes and interests of a culturally diverse society." Programmes which reflect multi-cultural Britain have been amongst the highest profile casualties in the recent series of cuts in children's programming by commercial broadcasters. My Life As A Popat (an independent commission for ITV), was the only example of a British-Indian family on children's television. Despite being one of ITV's most popular children's shows (regularly appearing in its list of top 10 kids' shows), winning a Bafta, and being nominated for a race in the media award from the Commission for Racial Equality, it has been stopped following ITV's complete withdrawal from commissioning children's shows.

[15] Television and language development in the early years: a review of literature, National Literacy Trust, executive summary, page 2.
[16] Digital Beginnings: Young children's use of popular culture, media and new technologies, The University of Sheffield, page 27.

40. Similarly, Rooted (another independent commission, this time for Five) followed the journeys of 13 British children to the countries of origin of their parents or grandparents, to experience first-hand the differences in culture, society and religion and examine the contrasts with their life in Britain. The programmes looked at a range of religions, from African Islam to Sikhism, in countries across the world from Armenia to Zambia. However, now that Five has cut programming for older children, the series has been cancelled. Five's A Different Life, a series about children with unusual lives, such as having rare disabilities or living in the South African bush, met the same fate.

41. In Pact's view, Channel 4 has a duty under the Communications Act to deliver this programming, particularly when it is not being provided elsewhere. The channel's requirement under the Act to appeal to a culturally diverse society should not exclude children. Programmes such as My Life As A Popat, Rooted or A Different Life can speak directly to British children in their own cultural language, reflecting their own lives and experiences and helping them understand and engage with the UK's diverse society. High quality children's programming has also been shown to have a particularly beneficial effect for children from minority groups where English is a second or additional language. A 2006 University of Chicago study found that:

    "The positive effects we find on verbal, reading and general knowledge tests are largest for children from households where English is not the primary language, for children whose mothers have less than a high school education, and for non-white children."[17]

42. Most importantly of all, children's programming on Channel 4 can provide an alternative viewpoint by fulfilling the channel's remit under the Communications Act to be innovative and distinctive. Historically, the channel's children's offering was highly innovative and engaging. As well as winning an array of awards, it enabled children's voices to be heard. Shows such as Wise Up! were made with children's input – for example, 10 year-olds wrote into the show, concerned about their parents' smoking, and were given the chance to interview the Health Minister of the day about the dangers of smoking and what the government was doing to prevent people smoking. This was "user-generated content" years before the term even existed.

43. We would therefore potentially warmly welcome a move into children's programming as an effective solution. We are concerned, however, about the age range that Channel 4 may focus on. Ofcom's report concludes that

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[17] Does Television Rot Your Brain? New Evidence from the Coleman Study, University of Chicago, page 4.

the failure in provision starts for children as young as six in analogue homes, and for children aged nine upwards in key genres such as drama and factual. The Communications Act does not place any requirement on the service to target an older demographic, merely that it offers distinctive, innovative content to a culturally diverse audience.

44. However, we appreciate that Channel 4 may need to phase in its commitment to children and may not be able to cater to such a wide age range straight away. In this case, we would ask for a clearly defined timetable for Channel 4's proposed return to commissioning on a wider level.

45. We are also concerned that any move by Channel 4 should include an appropriate investment in broadcast, not just online content. According to Ofcom's research, parents do not see the internet as an appropriate platform for PSB delivery, citing issues such as safety and universal access. Children agreed with parents, though for different reasons, saying that computer screens did not offer the same viewing experience.[18] We acknowledge that it is accepted, however, that content for young teens might be provided via different platforms.

46. Our final concern is that Channel 4's existing schools provision should not be diluted or re-positioned as more general children's content. This fulfils a valuable role in itself, quite separate to more general children's programming. A strong Channel 4 schools service is all the more important, both to audiences and suppliers, following the closure of BBC Jam.

47. We would argue that Channel 4 now has an exceptional opportunity to champion public service broadcasting, engage with future generations of potential Channel 4 viewer, and repair the damage from its commercial approach to afternoon scheduling. A vacuum has emerged in programming for older children, particularly since Five's withdrawal from programming for children over seven. There is a dearth of precisely the kind of shows that can play to Channel 4's strengths – factual shows that challenge children's attitudes and open up new worlds, or dramas that reflects the lives and concerns of children today in a diverse society. Bringing its own distinctive creative vision to core public service genres, especially when the market is not providing, is surely what Channel 4 is there for.

Proposal 5: New institutions

48. Ofcom's own consumer research indicates that the public wants an alternative public service television provider to the BBC, but is not

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[18] The Future of Children's Television Programming: Research Report, Ofcom, page 127.

concerned whether this is an existing or new institution. Parents' preferred scenario for the future of public service children's programming was having content delivered by the BBC (including BBC1, BBC2, CBBC and CBeebies) and a new dedicated PSB children's channel available free-to-air, which could be provided by ITV, Channel 4 or a new institution.

49. This would seem to strengthen the case for Channel 4 considering returning to investing in children's programming through a dedicated spin-off channel for children. This might be the second stage of the channel's commitment after a more immediate return to commissioning on a more limited basis.

50. The dedicated channel could play a significant role in the future as precisely the alternative home for public service children's content that parents want. This need not be confined to broadcasting, and might also encompass online and other emerging forms of delivery, although as we argue in response to question 4, parents clearly want a strong television component in any children's offering, at least for the present.

51. We would also highlight the conclusions of the Culture Committee in its report on public service content, which noted Ofcom's evidence that children are migrating to dedicated multi-channel services, and away from the main terrestrial channels. In the future, when every home has multi-channel access, it is likely that children will best be served by a public service dedicated channel. As the Culture Committee noted:

    "Children are increasingly consuming content on platforms other than traditional mixed genre television channels. We are therefore not unduly concerned if public service broadcasters shift their children's programming focus away from their main terrestrial channels, instead providing content on dedicated children's channels."[19]

52. In terms of how such a new service could be funded, we are not convinced by arguments put forward about "top-slicing" the BBC's licence fee unless it can be guaranteed that this money will not reduce BBC programme budgets as a result. In children's, the collapse of programme investment from the commercial sector makes the BBC's provision all the more important, and this should be safeguarded, as we have outlined previously. Pact looks forward to the second stage of Ofcom's PSB review next year to develop proposals further.

[19] Public Service Content, House of Commons' Culture, Media and Sport Committee, November 2007, page 31.

Question 3: Should intervention be targeted at particular age groups and particular genres?

1. Urgent intervention should absolutely target particular age ranges and genres most under threat, as this represents the most effective use of public resources.

2. We have stated that the proposed Children's Content Credit should be applicable only to certain age ranges where there is a failure in provision and genres that meet public service requirement. However, if Channel 4 were to re-enter commissioning on a large scale (such as a dedicated channel), it should be free to commission an appropriate amount of programming in other genres and for wider age ranges. Indeed, certain types of "more commercial" programming might fit within Channel 4's cross-subsidy model.

Age groups

3. Ofcom's research indicates that certain age ranges of children's programmes are worse affected that others. We would suggest that the most effective use of public resources in terms of interim measures would be for intervention to be targeted first and foremost at those age-ranges (a precedent for defining content by its target age range exists in Canada's quota system).

4. To be more precise, Ofcom's report indicates that there are "significant reasons for concern" for programming for older children (9-12 year-olds) and "least satisfaction" with provision for young teens (13-15 year olds).[20]

5. We would suggest that intervention should urgently target these age ranges, ie 9-12 and 13-15.

6. However, we are also concerned that Ofcom's figures did not fully take into account ITV's complete withdrawal from commissioning and Five's decision to stop commissioning for children aged over seven. This is understandable as Ofcom's data is based on programming on television screens in any given year, rather than the level of investment in commissioning. But the result is that there may be an imminent shortfall in programming for children over seven that is currently overlooked.

7. Ofcom also found that pre-school programming may well come under increasing pressure in the near future, in terms of the range of sub-genres within this category. Broadcasters, the regulator concluded, may rely increasingly on genres that generate global or merchandising sales to help

[20] Discussion Paper: The future of children's television programming, pages 46 and 47.

meet production costs. As a result, some sub-genres within pre-school, such as factual and early learning, would be under threat because they have no international sales or licensing value.

8. We would therefore suggest that the level and range of programming for children aged 7-9 and for pre-school children be carefully monitored. If there is a decline, further intervention, such as extending the scope of a tax credit, should be considered.

Genres

9. Once again, intervention should target particular genres most at risk. Ofcom has clearly identified drama and factual as under most pressure.

10. However, we regard UK-made animation as at risk alongside drama and factual, and our concerns are supported by Ofcom's data in the children's review. According to the regulator, investment in UK-made animation has dropped by more than 60% since 2001, the most steeply out of all the genres.[21]

11. Animation for older children has been amongst the genres hardest hit by recent cuts in investment levels. ITV's withdrawal has also damaged the range of high quality UK animation for older children, such as Grizzly Tales for Gruesome Kids, Aardman Animations' Planet Sketch and King Arthur's Disasters, which offered a popular indigenous alternative to imported animation and regularly recorded an audience share of more than 20%.

12. It is true that animation is able to raise financing for production costs from overseas sources, but UK animators must still be able to bring a certain level of the budget to the financing package in order to be in a position to piece the rest of the funding together. Without a broadcast licence in a show's home market, few potential overseas co-producers are willing to take a risk of investing in a production. In terms of animation for older children outside pre-school, it is usually impossible to raise financing through any merchandising sales, regardless of whether a programme has a broadcast licence in its domestic market.

13. In Ofcom's consumer research, we understand that parents were concerned that there are "too many cartoons" on television. We assume however that parents are referring to imports and repeats, not much-loved UK-made animation such as Shaun The Sheep, The Snowman or Angelina Ballerina. While there may be a high level of imported animation on UK television screens, the level of UK-made shows is far lower. Cartoons make up 67% of all children's programming on commercial channels, but

[21] Investment in 2001 in first-run animation was £18m, compared to £7m in 2006 – The Future of Children's Television Programming: Research Report, Ofcom, page 62, figure 47.

they represent just 27% of children's shows on PSB channels, the main source of UK programming.

14. We would also point out parents responding to Ofcom's research did value animation. The report states that parents considered that: "Animation provided valuable relaxation and light hearted viewing that fuelled children's imagination."[22]

[22] The Future of Children's Television Programming: Research Report, Ofcom, page 130.

Question 4: Should further consideration be given to provision of public service content for children over platforms other than linear television?

1. Parents consulted by Ofcom did not see the internet as an appropriate platform for PSB delivery, citing issues such as safety and universal access. Children agreed with parents, though for different reasons – saying that computer screens did not offer the same viewing experience.[23] However, there was agreement that for younger teens different platforms would be appropriate.

2. Nevertheless, given the rapidly changing patterns in media consumption, it is conceivable that such attitudes will change over the next few years and parents and children may be more receptive to online provision. Since it is necessary to start developing public policy in this area now, we would suggest that the safest course is to consider television services as central to future provision, although online is expected to become increasingly important. Sufficient flexibility should be built into a children's service that funding could be channelled from television to other forms of delivery as appropriate.

3. If left to the market, it is unclear whether new media services will develop in a way that offers an appropriate range of content that fulfils public service values. Children's online content, notably social networking sites and virtual worlds such as Disney's Virtual Magic Kingdom, involves a high level of participation. However, user participation does not in itself fulfil any of the four public service purposes defined by Ofcom - ie to inform ourselves and others; reflect and strengthen our cultural identity; stimulate our interest in and knowledge of art, science, history and other topics; and make us aware of different cultures and alternative viewpoints.[24] It is the context of that participation that fulfils those purposes.

4. Ofcom's recent discussion paper on the Public Service Publisher observed that the market is not yet mature and is likely to develop unevenly, but that successful examples of publicly-funded content "may prompt wider market participants to provide similar content."[25]

5. We would therefore suggest that intervention might encompass new media for teens but should not be confined to online measures.

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[23] The Future of Children's Television Programming: Research Report, Ofcom, page 130.
[24] A New Approach to Public Service Content in the Digital Age, Ofcom, page 14.
[25] Ibid, page 22.

Question 5: Does the policy approach for children's programming need to be different from the policy approach taken to public service broadcasting overall?

1. Children's programming is "a canary in the tunnel" for public service programming. It is a genre that has felt the impact of fragmenting audiences and diluting advertising revenues ahead of the general content sector. By its nature, children's is a special case, subject to a smaller advertising market than other genres. According to Ofcom, revenues available to broadcasters from children's programmes account for just over 3% (£300m) of total industry turnover.[26]

2. As a result, Ofcom states investment in children's programming has fallen by 17% since 2001, while investment in television production as whole has risen by 4%.

3. This discrepancy is reflected in parents' views, according to Ofcom. The regulator's consumer research indicates that parents' concerns for children's programming are more pronounced than for other genres.

4. Those outside the industry have sometimes argued that broadcasters will be able to develop alternative sources of advertising. This has not happened yet in the children's genre and, according to Ofcom's analysis, would seem unlikely to happen in the future. Ofcom reports that:

   "The advertising market for children is relatively finite and inelastic. The advertising market for children's airtime is comprised of relatively few specialist industries and manufacturers – principally in consumables, toys and entertainment."[27]

5. Restrictions on HFSS advertising to children have further shrunk the available advertising market. And, as Ofcom points out, generating additional revenues from on-demand services and premium-rate telephony is difficult from children's programming, as minors are not able to enter directly into commercial transactions. Children's programming is also unable to take advantage of other emerging sources of funding, product placement, under European regulations, although this area is being relaxed for other genres.

[26] The Future of Children's Television Programming: Research Report, Ofcom, page 47.
[27] Ibid, page 48.

Appendix: A tax credit for children's content

1) A Children's Content Credit would be a tax-based incentive precisely targeted only at areas of core public service children's programming where a failure is most pronounced. We see this as an expedient and proportionate intervention that would not require capital investment or the creation of an administrative agency. The credit could be fitted with a "sunset clause" so that it would expire in 2012, or as soon as any further, larger scale intervention aimed at providing public service content across different genres, including children's, comes into effect.

2) The credit would exclude programmes or content originally commissioned by the BBC, both in terms of in-house and external commissions, including those from the independent sector. In our view, this is important to encourage plurality in the provision of public service-oriented content. It is investment from non-BBC sources that has collapsed, and therefore encouraging these channels to increase provision is key to offering audiences plurality in public service content.

3) The credit would also apply only to the areas of public service children's content outside the BBC that are most under threat – factual, drama and animation for older children. The tax credit would not be available for children's content where there is already a relatively healthy range and diversity of content, although it might be extended to other areas of children's programming if and when they exhibited a proven market failure.

4) While we anticipate television programming being the prime beneficiary of such an intervention, the tax credit could also be made available to new media content that meets agreed public service criteria and is targeted at areas of shortfall. This will help ensure that this evolving market provides content that fulfils appropriate public service values.

A proportionate response

- Targeted only at areas of children's programming with strong public service values and that are under threat – eg drama/factual content for 9-12 year olds, plus animation for children in the same age range.

- Not available to BBC commissions - either in-house and independent. As non-BBC investment has collapsed, encouraging other channels to increase provision is key to offering plurality in public service content.

- "Sunset clause" so that it expires in 2012, or as soon as measures to address public service broadcasting as a whole are introduced.

- Should include Cultural Test like film tax credit to further ensure only programmes with public service value can apply.

An expedient response

- Precedent exists in UK film industry, which benefits from a film tax credit.

- Could be introduced quickly, without the need to make a capital investment or set up a new administrative agency.

How would it work?

- Provides 30% of the UK production costs (minimum required to encourage broadcasters to invest in key genres such as factual).

- Content must achieve a number of points based on a Cultural Test similar to the new cultural test for films.

- Only available on production spend in the UK.

- Programme must have UK broadcast licence to qualify for tax credit.

Potential impact

1) A tax-based incentive is likely to stimulate production activity at children's channels - either stand-alone specialist children's services or dedicated spin-off channels from the terrestrial groups. These so-called multi-channels are rapidly growing their market presence – Ofcom's figures show that children are rapidly converting to programming on multi-channel services. These channels accounted for 82% of children's viewing time in 2006; in 2002, it was just 55%.[28]

2) A tax credit would help such channels to commission additional productions, and encourage them to take a risk on traditionally less commercial genres that might otherwise be too expensive to make. It will make commissioning budgets go further and enable some programming to be made that otherwise would not be.

3) Tax-based incentives are, however, unlikely to encourage a mainstream channel involved in adult programming – such as ITV1 - to invest in children's programming to any significant level. The level of advertising

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[28] Ofcom and the Future of Children's Programming, Ofcom, presentation 15 May 2007.

revenues from adult programmes is likely to outweigh any benefits from the tax-based incentives. However, a credit could incentivise current or future dedicated children's spin-off channels from these channels to invest in public service-oriented content.

4) The Children's Content Credit could also be aimed at children's content in a broader sense rather than just television programming. Public intervention should be focused on ensuring that new platforms such as the internet can develop in a way that provides UK-made content with public service values.

5) Advances in technology also mean that many forms of new media content may be able to find a route to market without going through the middle-man of a commissioner. This will not be the case for much of the content using the credit, but by focusing directly on the content creation sector this intervention is flexible enough to encourage growth in a wide range of new media formats.

Does a precedent exist?

6) A precedent already exists in the UK, where the film industry benefits from a film tax credit. Launched in January 2007, the new tax credit is intended to deliver the tax benefit efficiently by making it available directly to the film-makers and by removing the need to access the relief through intermediaries, thereby reducing leakage. It is aimed at providing 15-20% of production costs accrued in the UK.

7) Under the film tax credit, content must achieve a number of points based on a Cultural Test, and this might be adapted for the children's credit to ensure that programming meets agreed public service purposes.

8) Films that have recently used the UK's film tax incentives include the Academy Award-winning The Last King Of Scotland, Shane Meadows' acclaimed This Is England, and the Academy Award-winning John Le Carre adaptation The Constant Gardner.

9) Alongside their contribution to the creation of such culturally important productions, UK tax-based incentives are seen as a crucial factor in making the UK film industry as competitive as possible in attracting inward investment from Hollywood studio productions. Productions using the new tax credit for the film industry include Warner Bros' next in the Batman franchise and the second film in New Line Cinema's adaptation of Philip Pullman's His Dark Materials trilogy.

10) Tax-based incentives that apply to children's programming are also used in all the overseas countries analysed, and in most cases have been in place for a significant period of time.

11) In at least one area, children's television programming is perhaps even more suitable for a tax incentive than film. Any children's production accessing the incentive could be guaranteed to be made available to be seen by the UK public by requiring that it must have advance commitment from a UK broadcaster. In film, it is often not practical, or indeed possible, to have an advance agreement by a UK distributor.

Economic impact

12) Tax-based incentives are widely cited as generating a strong return to the respective economies in the form of tax paid on jobs and services created.

13) The Republic of Ireland, where Section 481 allows individuals and companies to write off a portion of their tax liability by investing in a production up to specific limits, reports that tax forgone amounted to Euros 15.1 million in 2005. Total tax revenue attributable to production accessing the incentive was Euros 31.9 million. Of this, Euros 11.4 million was directly attributable to production, mainly though payroll taxes. The remainder came through the tax revenue generated by contracting out goods and services and through the expenditure of net income of employees. [29]

14) In most of the overseas models we looked at, tax-based incentives are seen as key to building an international hub capable of attracting inward investment, as well as an important factor in boosting domestic production. For example, tax-based incentives under Section 481 helped the Republic of Ireland's production sector attract Euros 40.5 million in overseas investment in 2005, amounting to around 27% of the total production volume.[30] Animation is particularly attractive to overseas investors, given its ability to be dubbed for other international markets.

Will a tax credit lead to poor quality programmes?

15) One concern that has been raised is that a tax credit might somehow enable programmes to be made simply to access the tax credit. This concern would seem to stem from past abuse of the previous tax regime for film production under Sections 42 and 48, which led to a string of poor quality films that were often not released. This has now been addressed by the new tax credit for film, on which we have modelled this proposal for

[29] Film & Television Production in Ireland, Audiovisual Federation Review 2006.
[30] Ibid.

children's television. The new tax credit for film removes the need for a partnership of investors to be set up in order for the producer of a film to access the tax deferral – these partnerships were identified as the cause of abuse. It is also only available on UK spend, unlike Sections 42 and 48, removing the incentive to base a production largely overseas in order to access international tax-based funding while still claiming tax relief in the UK on the entire film.

16) We see the children's tax credit as even cleaner in this regard than the new film tax credit. Because of film's patchwork, international financing structure, it is often impossible to ensure in advance that a UK distributor is in place. It is therefore possible that a film will access the tax credit but never be seen by the UK tax payers who have contributed to its funding.

17) In television, it is perfectly practical to require that a UK broadcast licence be in place before a programme accesses the tax credit. This should be one of the stipulations of the tax credit. Indeed, in the case of the public service programming that the credit would largely apply to – drama and factual – the only source of investment to provide the remaining 70% of production costs not covered by the tax credit is likely to be the UK broadcast licence. Programming in these genres tends to be UK-specific and rarely attracts any significant financing from overseas markets. Any broadcaster committing such a level of financing will be absolutely focused on ensuring that a programme is of the very highest possible quality, while the supplier will inevitably seek to satisfy the commissioning broadcaster in order to win further commissions and build their own business.

Key characteristics

18) We therefore favour a targeted, tax-based incentive similar to the new film tax credit as the most expedient and proportionate approach.

19) The key characteristics of such an incentive might be:

- Provides a proportion of the UK production costs (from our initial consultations, a credit that yields 30% of production costs would be the minimum required to encourage broadcasters to invest in key genres such as factual);
- Must have UK broadcast licence in place for production to be eligible for tax credit;
- Available for television and new media content providing it fulfils appropriate public service criteria;
- Focused on key areas of children's content under threat (for example, a precedent for defining content by its target age range exists in Canada's quota system);

- Content must achieve a number of points based on a Cultural Test similar to the new Cultural Test for films. This is based on productions being awarded a number of points depending on their amount of UK subject matter; contribution to cultural diversity, heritage and creativity; and use of the UK's production facilities and personnel;
- Only available on production spend in the UK;
- Fitted with "sunset clause" so that it would expire in 2012;
- To encourage plurality, it should not be available for content originally commissioned for any BBC service (neither in-house nor external);
- Could be introduced quickly;
- Should stipulate that programmes accessing the credit will be made using standard industry contracts, such as between Pact and performers' union Equity, to help ensure that the production sector as a whole is incentivised to continue working in the children's sector;
- Like the film credit, should directly go to the producer (although in the case of television content a broadcaster must commit to air the show in the UK for a producer to access the credit). As with the film credit, should be regarded as producer equity.

How will it target content with public service values benefits?

20) One concern previously raised about a general tax credit for children's content is that it might encourage investment in more commercial types of programming that do not fulfil public service values. This would be addressed by targeting the credit at areas where the shortfall in the provision of children's content with public service values is most pronounced, either by age range, genre or a combination of both.

21) In addition, the Cultural Test applied to productions accessing the film tax credit should be adapted for the Children's Content Credit. Under the Cultural Test for film, there are four categories of points - covering cultural content, cultural contribution, cultural hubs and cultural practitioners. Cultural content measures the British subject matter of the film; cultural contribution measures the contribution of the film to British cultural diversity, cultural heritage and creativity; cultural hubs measures the use of UK's film making facilities and cultural practitioners measures the use of personnel with creative input. To access the credit, all content should be subject to Cultural Test requirements that ensure an agreed level of public service purposes are delivered.

22) We would suggest that the Government should adapt the Cultural Test in consultation with the production sector, broadcasters (including multi-channel services), and other stakeholders to ensure the tax incentive remains as effective as possible in encouraging investment into programme-making.

23) We would, however, recommend consideration of a particular weighting of points for animation to reflect its unique nature. This was to an extent recognised in the film tax credit, whereby the Government acknowledged that animation is made in a different way to live-action fiction films. Points are therefore awarded slightly differently, with changes to aspects of the cultural hubs and cultural practitioners categories. For example, the heads of department which attract points for a live-action fiction film include the lead cinematographer, the lead production designer and the lead costume designer, but for an animation will include lead layout supervisor and lead modelling supervisor. Additionally, an animation receives points under the cultural hubs category for the shooting, layout and story boarding rather than principle photography.

24) We would urge a further revision of the cultural content category to reflect how animation often involves the creation of a fantasy world that is not obviously British, though the story and characters might be highly relevant to British audiences.

25) As is the case under the film credit, the requirements for companies acting as UK co-producers should be more relaxed, but still require the company to have significant creative input. Again, this should be done in consultation with the industry.

How will applicable new media content be defined?

26) There are several precedents for defining what forms of new media content are able to access the credit. Under Canada's Bell Broadcast and New Media Fund, content must have a broadcast component (with a guaranteed Canadian broadcast licence) and a new media element, both of which must be associated. Content that fulfils both criteria might earn additional points under a Cultural Test.

27) This would seem a straightforward solution, but a system that allowed appropriate new media content without a television element might create greater opportunities to develop public service-oriented content - such as an anti-bullying website involving user-generated content. The Telefilm Canada New Media Fund defines applicable content according to its intended platform, such as online, PC or mobile phone. It explicitly excludes products such as application and system software, along with repeated material without a significant element of original content.

28) We would suggest that products for games consoles and handheld consoles be excluded. All content should of course be subject to strict Cultural Test requirements that ensure a level of public service purposes are delivered.

Will a tax-based incentive substitute existing investment?

29) The tax credit will have to ensure that broadcasters or other funding sources do not use it to replace investment they would have otherwise provided - in effect "netting off". A practical system for this should be developed through consultation with industry, including both the production and broadcasting sectors.

Cross-party support for tax credit

“Pact has proposed a sensible and narrowly focused option of a tax credit worth 30% of the production cost that will expire in 2012. …Such a tax credit would act as a lifeline for the industry until an alternative model is present.” **Ed Vaizey MP (Con)**

“Yes, we need the long-term strategy, but we also need to think about what to do in the interim…Perhaps a more attractive proposition would be to look at a tax credit, which could be beneficial and targeted. We have precedent, because we have a tax credit system for British film, which is there to stimulate the production of new British films. A tax credit would be easier to use in TV than in film, because it would be easier automatically to tie it to the fact that the work has been produced for a British broadcaster. One can produce a film, but there is no guarantee that anybody is going to like or distribute it.” **Neil Gerrard MP (Lab)**

“The idea of a tax credit must be examined. The Government should consider that option’s costs and benefits, and in particular, the argument that if one increases production, the cost is not a tax loss, because one brings more revenue back into the country, as has happened with the film industry.” **Richard Younger-Ross (Lib Dem)**

“One of the ideas that has been put forward is that the tax credit should be awarded to broadcasters who can demonstrate an investment strategy over the previous three years that includes stability of investment and then growth, so that we are not replacing what would have been otherwise planned.” **John McDonnell MP (Lab)**

Tax-based intervention overseas

Australia:

Focused on films but can apply to TV.

Tax credit (tax offset) yields approx 9%-12.5% budget. Producer claims 12.5% what is spent in Australia, providing at least £7.5m spent.

In addition, tax deduction under 10BA allows investors 100% tax concession on full investment. Worth an additional 15-20%.

2001-2006 tax offset worth rebate of £50m; 12 months to June 2006, 10BA raised £4m.

Canada:

Canada has significant national and provincial tax credits for audio-visual production, available to both domestic and foreign producers. The Canadian Production Tax Credit (CPTC) is available at the rate of 25% of the qualified labour expenditure of an eligible production. Worth around 15% of budget (depending on amount eligible Canadian labour).

Regional (provincial) credits can add a further sum of around 25% of budget (depending on amount of labour costs in relevant province).

In addition, the Production Services Tax Credit (PSTC) is equal to 16% of Canadian labour expenditure. Available to productions that have not claimed CPTC.

2005/06: CPTC worth approx £150m; PSTC worth approx £70m.

France:

Tax credit (credit d'impot) worth up to 20% below the line costs.

In addition, SOFICA are investment organisations which benefit from tax breaks and favourable tax treatment of amortisation of intangible assets. The SOFICAs cannot invest more than 50% of the total budget expenditure and must target independent production. They can invest up to 20% of their annual budgets into European co-productions, including film and TV.

Their contribution is small – about 5% of the budget of animations in which they invest – and totals only about 1% of overall financing for French production in 2002.

In return for their investment, the SOFICAs obtain a right to future revenues of the programme.

In 2006, SOFICAs spent Euros 32.8m

Republic of Ireland:

Ireland has significant tax breaks for film and television production, through the section 481 clause, which is worth up to 20% of qualifying expenditure (essentially Irish spend).

In 2006, 20 film and TV projects with a total spend of Euros 129.8m used the scheme. Irish spend was worth Euros 82m and the amount raised through section 481 was worth Euros 79m.