



BT's response to Ofcom's consultation on the future of public service media

16 March 2021

For further enquires please contact [\[X\]](#)

Introduction

BT Group welcomes the chance to contribute to Ofcom's consultation on the future of public service media. Across our three brands – BT, EE and Plusnet – we have a presence in around half of all UK households. As a broadcaster, a TV platform and YouView partner, and a provider of broadband and mobile phone services, we have a critical stake in the UK TV market and are able to consider how customers access content across a range of different platforms and devices.

As a telecommunications provider, we are keenly aware of the growing importance of the internet for the distribution of TV and video content. The internet offers incredible potential benefits and has given consumers more choice on how and when they view content, facilitated by innovative technologies, platforms and devices.

We urge Ofcom to carefully consider how video content distribution can be made 'future proof' by looking at the wider public service media (PSM) value and technology chain. As the converged communications regulator, Ofcom is in a unique position to engage in and lead this debate across public service media, network investment, spectrum and inclusion policies.

As the PSB Review runs on a five-year cycle, BT believes that now is the right time for Ofcom to consider these issues and start to lead thinking on what the future will look like.

Elsewhere Ofcom has stated its intention to introduce administered intentional pricing (AIP) for DTT once the 700MHz band is cleared. This frequency band will soon be auctioned for 5G, and many stakeholders therefore expect AIP for DTT to be introduced shortly. Doing so would only accelerate the point at which DTT broadcast becomes uneconomic. We anticipate the tipping point to be in the late 2020s.

This may seem a long time away. However, we highlight that the analogue to digital switchover programme ran for seven years (from 2005 to 2012), and that there needs to be considerable changes to the 2003 Communications Act and BBC Charter, and then a new regulatory framework developed and in place ahead of any migration programme. If, for example a DTT exit date of 2035 was envisaged, new legislation covering all the necessary aspects would need to be in place by 2026 to meet a similar timeline.

Should the Government have ambitions to realise the benefits of a shift to all IP distribution any earlier, this timetable would need to accelerate.

In this submission we set out why we believe a shift to all IP distribution for the PSMs to be inevitable, that there are considerable public benefits in embracing and planning for this shift and how they can be achieved. We make the following key points:

1. PSM still plays a key role in a diverse TV market and has delivered great outcomes for the UK. However, their current delivery model is becoming inefficient: they face **structural and cyclical pressures** as the video content market goes through a lengthy period of change and audiences fragment across devices and platforms.
2. **IP content distribution arrangements need to be considered** and included in the future regulatory framework to enable the connected, digitally included UK we want to see.
3. A managed DTT to IP transition could support **universal digital inclusion**. The challenge here has been revealed by the pandemic, with significant cohorts of the UK population not online and unable to access key online services.
4. The market and current regulation of IP content delivery are unlikely to deliver expected policy ambitions around PSM, digital exclusion or costs. A managed transition of the current PSB model to a new regulatory model for PSM based on all IP delivery will generate better outcomes.
5. Policy makers should now plan and create a legislative and regulatory framework for managed migration, ending the PSB's obligation to broadcast on DTT in due course, enabling a renewed and sustainable PSM model.

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1. The role of PSM and current delivery model

PSM is important and has delivered good outcomes for the UK. However, their current delivery model is facing structural and cyclical pressures.

BT considers that the concept of PSM remains highly relevant. New SVOD entrants offer excellent services that are popular with viewers, but they do not supersede the PSBs either in their popularity with viewers, the production of UK original content, nor in their mission to reach all UK viewers and provide further public service benefits.

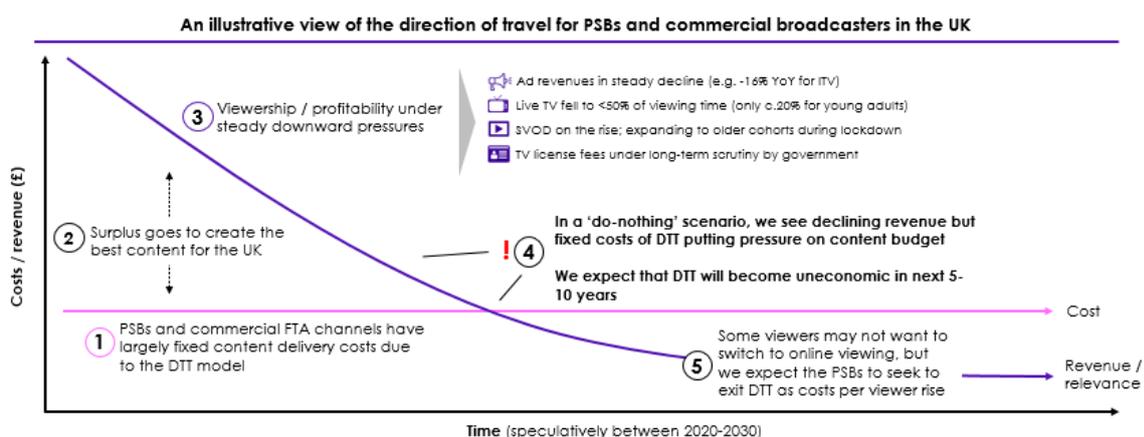
PSBs have delivered great outcomes for the UK with their universality, impartiality and provision of original high-quality content. The small group of UK organisations with a mission to both reach and serve all UK viewers, and to fulfil other specific obligations, can and should continue to be the cornerstone of a highly successful TV and wider creative industries. Their commitment to editorial excellence drives up the quality of content across all services, improving value for viewers (including BTTV customers), while also supporting wider public policy goals such as supporting national debate and a well-informed citizenship.

This said and as set out by Ofcom in this consultation, we are living through a lengthy period of interrelated technical and commercial change which, contains both opportunities and threats for the PSBs.

We believe current shifts in viewer behaviour reflect technological changes that are driving ongoing changes the ways in which people view audio-visual content. What matters most, from our perspective, is that viewers (our customers) can access the content that they want to see, how, when and where they want to view it, as easily as possible, and that PSM continues to play a central role in UK TV content offerings.

The current content delivery model, based around digital terrestrial television (DTT), is becoming unsustainable as viewers increasingly move to online content and as advertising spend¹ reflects this. The high fixed costs associated with DTT may see PSBs seek to exit the platform within the next 5-10 years as viewer numbers continue to fall and pressure comes to bear on content spend.

The current content delivery model on DTT is not sustainable, as consumers increasingly move to viewing TV online (and advertisers follow)



While the exact timing of this 'trigger point' is unclear, we believe that the time to think about a managed transition to IP is now

¹ Source: ITV, Company reports, Ofcom

Private and confidential



¹ ITV advertising revenue, for example, has declined 16% year on year [source, ITV Company Reports]

2. Future regulatory frameworks

IP content distribution arrangements need to be considered and included in the future regulatory framework to enable the connected, digitally included UK we want to see.

While there is a good deal in this consultation that we support, there is little discussion about the long-term distribution arrangements which need to be put in place to ensure that the evolving preferences of viewers are most effectively met.

In BT's view this is vital as there are three key policy strands which could be pulled together in this consultation to realise a new sustainable model for PSM and a vehicle for inclusive digital transformation in the UK, namely:

- The challenges faced by the PSBs which calls their long-term viability into effect;
- Network rollout of ultrafast and superfast broadband, subject to the regulatory framework to be agreed through the ongoing Wholesale Fixed Market Review; and
- The urgency of solving digital exclusion, exposed by the 2020 pandemic and now at the top of the UK policy agenda, and how realising ambitions here are interdependent with ensuring the right incentives for efficiency in content distribution.

Communication Providers (CPs) such as BT are investing billions in the access network with FTTP and 5G rollouts. Ever rising online viewing puts increasing pressure on core networks: delivering TV over IP needs more than just increased access network speeds.

Enablers also include coverage and adoption; penetration of connected devices; investment in both access and core networks, and new technologies to increase distribution efficiency (such as interconnection services and CDN capacity).

Ofcom should not assume that these enablers for PSM distribution, or content distribution over IP in general, will be solved by the market in ways that will deliver the wider social benefits desired of PSM.

BT is concerned that the fragmented nature of the IP content delivery eco-system will lead to significant market failures. In particular:

- Poor consumer experience: varying degrees of quality across different services as DTT-IP switchover puts pressure on core network with unmanaged peaks of traffic;
- Inefficient capital allocation: CPs may invest inefficiently, trying to balance these huge unmanaged traffic peaks with customer experience; and
- Widening digital inclusion gap: hard to reach 'offline' cohorts will not migrate organically to IP, widening the UK digital divide further (see chart on following page).

Ofcom's research misunderstands the TV value chain through a misplaced emphasis on access networks and average traffic.

We welcome Ofcom's decision to commission research to better understand the role of networks in delivering TV content. However, the missing from the analysis in the Mediatique report are two crucial aspects of broadband networks.

First, the report focuses on average traffic for the purposes of traffic management. However, average traffic is just an indicator for an ISP in its network capacity planning; the real cost determinant metric is peak traffic², typically driven by concurrent viewing of 'must be live' TV content and / or gaming downloads³. This is critical for ongoing quality of connectivity and user experience. When most DTT viewing has moved to IP, peak capacity requirements and investment needs could be enormous due to occasional but very large increases in concurrent viewing, of the Olympic 100m final, or a royal wedding.

² The difference between both metrics being very significant indeed. BT Technology expects average traffic to triple, while peak traffic, to quadruple. Peaks of this scale might only occur every couple of years but under the current system has to be built for, despite the obvious inefficiency here.

³ Feb 2021, Call of Duty update triggers average user consuming 20.77GB in 24hrs [Virgin Media UK Sets New Traffic Record on Call of Duty Surge - ISPreview UK](#)

Second, the report assumes that last mile network connectivity improvements and net neutrality will suffice for the future. While we agree that decent capacity in the access network is necessary, we emphasize that it is not *sufficient* for good quality content delivery over IP.

Core networks need continuous upgrades to meet increasing traffic, driving costs to ISPs without related revenue streams, or indeed any incentives on content providers to behave in a cost or energy efficient way. As video content moves to IP (combined with other sources of traffic, such as large gaming downloads), the pressures on core networks under current distribution and net neutrality arrangements will be significant.

There are ways in the existing technology and value chain to manage the challenges of ever rising volumes of content for distribution, namely interconnection services and cooperation over CDNs. However, under the current regime, there is no basic requirement, for example, for a gaming company to avoid releasing its latest large update at the same time as a once every four years live viewing event such as the World Cup Final.

Even in the day to day a degree of coordination and commercial agreement is required that needs to be consistent with the policy aims of PSM. ISPs will be able to handle the peak traffic loads, and deliver outcomes that enable the PSM system only if there are sufficient revenues, and incentives for efficient behaviour from content providers.

Related to this, Marc Allera, CEO of BT's consumer brands made some comments about net neutrality recently⁴. He noted the limitations of the current regime and how it works against the connected, digitally included UK we want to see.

In particular, if there's ambition to drive uptake of broadband ever higher, at affordable prices for UK households, then we have to consider how we ensure content distribution from some of the world's largest companies, especially those that generate the highest traffic peaks, can become more efficient and equitable, while also ensuring good quality of service for customers and content providers.

This is for two reasons, first that PSM will contribute to these traffic peaks, and because it looks set to become part of the wider commercial offerings from the very companies already driving the peaks.

We believe the future of TV is online; and we consider it critical for Ofcom to develop a regulatory framework for IP content distribution to viewers which enables good outcomes for the interrelated issues of reach, uptake and cost of IP connectivity.

The policy goals for PSM must work well with existing commercial incentives and relevant regulation of networks, which is why we urge Ofcom to take a step back and look more holistically at several interrelated policy areas and setting out how they will fit together in future, either within it's response to this Consultation, or alongside it.

How do increasing shifts towards IP viewing / distribution interact with digital adoption by households? How does network investment and consumer prices intersect with policy ambitions around digital inclusion? How could digital inclusion interact with other Government services? How does declining DTT viewing interact with spectrum policy and the UK's approach to World Radio Congress 2023?

If these wider questions are not addressed in this work stream on PSM, BT is keen to know when Ofcom plans to draw these policy areas together and consider their interdependencies.

⁴<https://newsroom.bt.com/an-extraordinary-year-shows-current-net-neutrality-rules-wont-help-create-the-digitally-inclusive-society-we-all-want-to-see/>

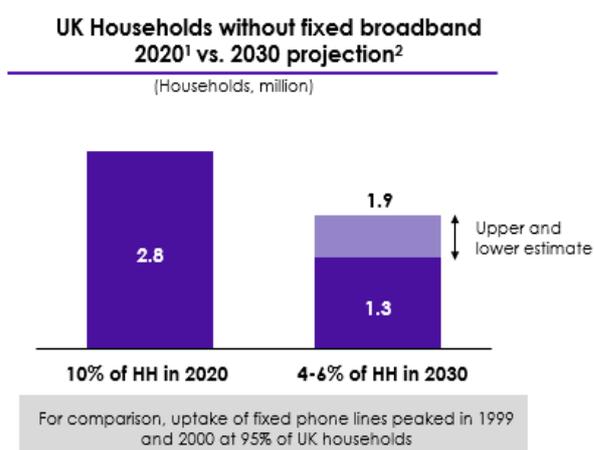
3. A managed shift to DTT could support universal digital inclusion

Ofcom notes that households only receiving traditional broadcast TV are often those most 'digitally excluded'.

Our modelling suggests that approximately 1.3-1.9 million households (c.2.5 million adults) will not have fixed broadband at home by 2030⁵. Households least likely to connect are (and will be) older and or poorer – high users of healthcare and other public services.

We estimate 4-6% of UK households will not have fixed broadband in 2030

Modelling demographic change and current trends and attitudes to uptake, 1.3m –1.9m households or 2.5m adults will not have fixed broadband at home despite it being available



Improving broadband uptake to near-universal levels is a challenge that will not solve itself

- Households least likely to connect are (and will be) older and or poorer – high users of healthcare and other public services
- Policy interventions will be required to realise near universal uptake of fixed IP connectivity (98.5% of households or greater)
- If a policy ambition is low cost or 'free at the point of use' basic IP connection for PSM and other public services then further interventions will be required to support this

To achieve uptake >95% and low prices, policy interventions are necessary

1. Ofcom Nations and Regions technology tracker 2020: 10% households do not have fixed BB of which 4% are mobile only, 6% no internet at all, of 27.9m UK households in 2020.
 2. 30m UK households expected by 2030 (ONS). BT modelling gives a projected range via two methods:
 (a) BT estimate c. 0.7m households will refuse BB even after copper withdrawal, + c50k on other ISPs + c.0.55m (2%) mobile online households;
 (b) Demographic data from ONS on death rates suggest that 'not online' 5.3m adults (as of 2018) is falling by c.230K annually, leading to an estimate of 2.5m adults remaining not online, living in approx. 1.9m households.
 Sources: Ofcom, BT estimates, ONS, Statista

Given this, they are the group the Government most needs to bring online, as public services such as healthcare digitise.

The Government will need to come to a settled view on their ambitions, with Ofcom's advice. Is the aim to drive high levels of uptake of broadband services to enable wide public sector transformation, as well as the transition of TV distribution away from broadcast?

Or as the Minister responsible recently suggested, will high levels of coverage of broadband be sufficient to consider that 'universality' has been achieved⁶?

What is certain is that policy interventions will be required to realise near universal uptake of fixed IP connectivity (98.5% of households or greater). If a further policy ambition is low cost or 'free at the point of use' basic IP connection for PSM, (and other public services) then further interventions will be required to support this. It is not too soon to consider this wider policy environment: the continuing rapid drive to IP viewing by significant numbers of consumers will make the question of universal access and engagement critical within the period of this PSB review.

⁵ Based on modelling using 1) Ofcom Nations and Regions technology tracker 2020 - 10% households do not have fixed BB of which 4% are mobile only, 6% no internet at all and 2) 30m UK households expected by 2030 (ONS). BT modelling gives a projected range via two methods: i) BT estimate c. 0.7m households will refuse BB even after copper withdrawal, + c50k on other ISPs + c.0.55m (2%) mobile online households; ii) Demographic data from ONS on death rates suggest that 'not online' 5.3m adults (as of 2018) is falling by c.230K annually, leading to an estimate of 2.5m adults remaining not online, living in approx. 1.9m households.

⁶ <https://www.ispreview.co.uk/index.php/2021/03/gov-may-scrap-bbc-tv-licence-once-fast-uk-broadband-is-universal.html>

In our view, maintaining broadcast for the next decade or more is the wrong approach to supporting this digitally excluded group, as it will maintain their broader exclusion. Instead, we propose this group is supported to take up at least basic IP connections as part of a joined-up plan to transition from DTT broadcast to all IP distribution.

The table sets out the factors behind digital exclusion and the likely implications of a do-nothing approach to TV content distribution.

Digital exclusion challenge	Do nothing situation		Considerations
Network access	<ul style="list-style-type: none"> Sufficient networks do not cover all households 	<ul style="list-style-type: none"> Expected to reduce over time, but still have excluded households by 2030 	<ul style="list-style-type: none"> How to reach households in non-commercial areas?
Unaware/ Not interested	<ul style="list-style-type: none"> c.2.8m of UK households lack access¹ 	<ul style="list-style-type: none"> No universality achieved 1-2m households will not be online in 2030 	<ul style="list-style-type: none"> Need to understand motivation How to increase awareness? Digital TV compelling reason to adopt?
Affordability	<ul style="list-style-type: none"> c.1-2% (280k² – 550k) households cannot afford connectivity 	<ul style="list-style-type: none"> No universality achieved Some still without fixed connections due to affordability and other drivers 	<ul style="list-style-type: none"> How to help low income households?
Device access	<ul style="list-style-type: none"> Lack of suitable devices 	<ul style="list-style-type: none"> Digital exclusion gap widens 	<ul style="list-style-type: none"> How to help low income households? How to ensure necessary digital skills?

4. Current market is unlikely to deliver expected policy ambitions around PSM, digital exclusion, or costs.

A managed transition of the current PSB model to a new regulatory model for PSM based on all IP delivery will generate better outcomes.

Allowing the market alone to enable a switch from DTT broadcast to IP distribution is unlikely to lead to optimal outcomes. We see four key areas of that need to be considered in order to enable a managed solution. They are:

- I. Policy aims: what are the core policy goals around coverage, uptake, quality and content? Is 'universality' an ambition? If so, universality of what?
- II. Consumer management: How quickly will consumers be transitioned through a switchover? How will difficult-to-reach cohorts be managed?
- III. Commercial distribution model: What should be the commercial model between ISPs and PSMs or ISPs and commercial content providers? What broader commercial parameters should there be to focus on? and
- IV. Technical solution: Given the above parameters, what range of technical solutions might meet the policy goals and deliver great consumer outcomes?

5. Policy makers should now plan and create a legislative and regulatory framework for managed migration.

Ending the PSB's obligation to broadcast on DTT in due course, enabling a renewed and sustainable PSM model.

Ofcom and government face policy decisions both now and in the near term which will need to be guided by a long-term view on TV content distribution and the respective roles for DTT and IP. These will go to the heart of how PSM will be delivered in an increasingly on-line world.

In that respect we urge Ofcom to consider fully the implications for moving to all IP distribution for PSM in the context of the benefits this would unleash. As the converged communications regulator, Ofcom is in a unique position to engage in and lead this debate.

Ofcom is already calling for legislation to put its recommendations on prominence into effect and sets out in this consultation ideas for must offer, must carry arrangements which will also require framing in legislation.

BT supports the former, and the principle of the latter, although as we discuss in detail in our answers to questions 3 and 4, the ideas put forward on access to PSM content over IP are incomplete.

To be successful new legislation / regulation must also address the impact on IP network providers, and similarly create a legislative and regulatory regime which makes the delivery of, not just access to, PSM content over IP workable for all stakeholders.

Given there has not been a Communications Act for nearly 20 years, and that Ofcom already anticipates the likely end point of DTT to be around 2030, now is the right time to consider these interdependent issues together, and put forward ideas and plans from new legislation which address them all.

Further, a policy to manage the migration from DTT to all IP delivery would need to feed into the work being done, in particular:

- Decisions on the relicensing of the DTT multiplexes, ensuring that this does not remove or reduce the scope for a move to IP distribution before 2030; and
- The UK position at the World Radiocommunications Conference in 2023 on the potential repurposing of the 470-694 MHz band which underpins the DTT platform. This decision will be subject to a review of the use of the wider 470-960 MHz band and will need to take account, among other things, future arrangements for TV distribution.

6. Answers to consultation questions

Question 1: Do you agree that a new regulatory framework for PSM delivery should support a more flexible 'service neutral' delivery approach that is more outcomes focused?

Yes. We believe consumers and content providers would benefit from a more service neutral and future-proof regulatory framework for PSM delivery in terms of content creation and how viewers will access it. The new regime should maintain the high standards audiences expect of PSM content while protecting the competitiveness of the UK TV market and enabling greater innovation and choice for audiences.

Question 2: Do you agree with our proposals for a clear accountability framework?

Yes, and we think it's important that any PSM offer and basic 'core' service reflects the viewing needs of a variety of audiences, including younger generations.

Beyond this, various inter-related issues need to be considered and decided as the details of the framework are developed, as follows:

First: how frequently should PSM providers be required to publicly set out their plans for delivering PSM, and agree appropriate and clear metrics with Ofcom? We believe this process should take place every three years over the next decade, as the sector moves through a period of accelerating change. Further, we ask that this process should have an element of public consultation, likely before PSMs agree the framework for the period with Ofcom, to enable other stakeholders to have their views on the criteria set considered.

Second: what will the criteria be for fulfilling the 'universality' requirement in the IP world? Especially if the proposal that in the future not all PSM content will have to be made and distributed by the current PSBs organisations to qualify as PSM, is taken forward?

We assume that a paywall would prevent content being considered PSM, whatever the merits of the content itself, but this should be clearly set out in the new regulatory framework.

Third: how will a new 'service neutral' framework interact with 'must offer' proposals? The joint PSB submission on prominence, inclusion and fair value proposes the current PSBs providing a 'regulated offer' to all major TV platforms 'offering only content which had originally been transmitted on a PSB channel.' So, taking transmission on a PSB channel as a proxy for 'is PSM content'.

In BT's view, new regulatory frameworks for PSB / PSM should not be anchored to the old broadcast technology, but rather 'service neutral' throughout.

Question 3: What do you think should be included in the PSM 'offer'?

The 'offer' should include content made by PSM providers which fulfils the criteria agreed with Ofcom under the new regulatory framework.

A system of complaints or appeals should accompany this, so that both the public, and other operators, have a process by which they can challenge whether specific content fulfils the criteria the provider agrees with Ofcom. Perhaps building on or developing the content standards Ofcom already has responsibility for regulating for the BBC's output⁷.

This kind of approach should address some of techUK's concern that PSB should not be allowed to impose 'unilaterally defined' contractual terms on connected TV platforms. Lastly, operators receiving the regulated PSM offer need to be enabled to deliver a good customer experience: PSM content has to fit logically within a broader mix of content, so the terms imposed in the regulated offer must be compatible with platforms/device providers accommodating a range of content services well.

⁷ <https://www.ofcom.org.uk/tv-radio-and-on-demand/information-for-industry/bbc-operating-framework/content-standards>

Question 4: What options do you think we should consider on the terms of PSM availability?

We agree with techUK's points that current terms for IP distribution from the PSBs are 'technically onerous, imposing costs and limiting the potential for innovation.' We support the techUK proposal that regulation of a standard 'must offer' from PSBs over IP should include requirements to provide their players according to international technical standards and freely provide meta data.

The terms of the regulated "must offer" should set out the basis on which platforms can enable viewers to record PSM content, including into the cloud (known as network personal video recording, or NPVR) – or have the equivalent experience (marking content within the platform, to easily find it grouped together from the various Players).

While linear PSM channels still operate, we would also like to see the standard 'must offer' explicitly include them, in the format that is the most technically efficient. Currently the PSBs are far too reluctant to offer their linear channels over IP using the best technology available, to the detriment of viewers that would prefer a seamless all IP TV service.

Lastly the terms of the regulated 'must offer' service should specifically include requirements to work with platforms and network providers to ensure reliability, quality of service and enable cost and energy management, especially of delivering very high volume must be live content, for example key sporting events (England World Cup games, 100m Olympics final) or royal weddings.

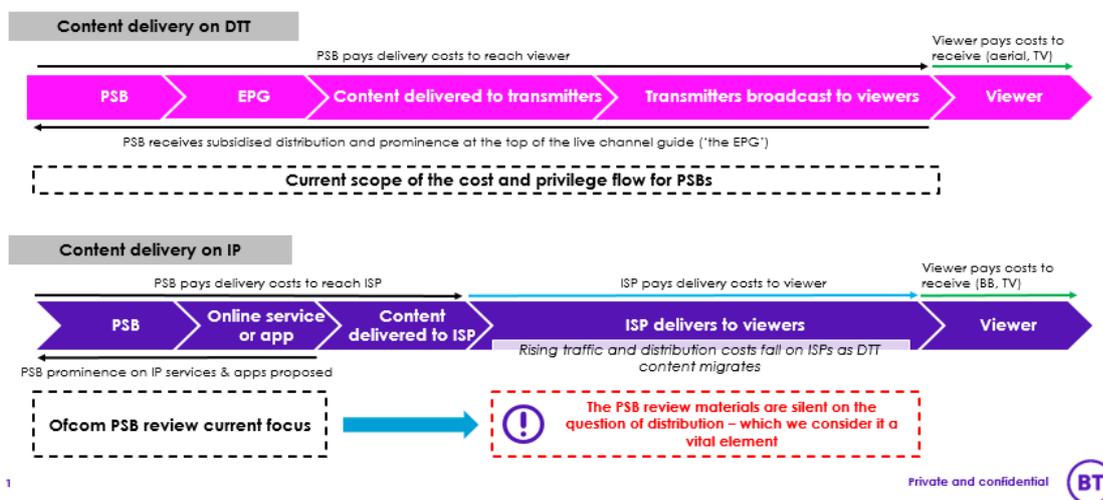
Two questions on 'must offer' but what about the terms of 'must carry'?

Questions 3 and 4 focus on what PSM content must be offered, and how available it should be on IP platforms but do not consider the broader delivery or 'must carry' aspects of distributing content over IP.

Yet the must offer / must carry arrangements that have underpinned the UK PSB system thus far are an end to end cashless trade of PSB content made easily available via the EPG in return for delivery all the way to the viewer. And where PSBs have their own distribution system, on DTT broadcast, they pay their own distribution costs, subsidised by the Government, which forgoes the revenues of a commercial spectrum licence, and supported by a few one off costs to households - having an aerial installed and buying a TV with Freeview.

Given this, and that Mediatique's report on the future TV market commissioned by Ofcom highlights the importance of distribution in the PSM ecosystem⁸, it is a significant omission of this consultation paper to not consider how distribution will be paid for in future, or the cost impact on IP networks of the ongoing migration to IP viewing.

We believe the future of TV is online; and we consider it critical for Ofcom to address the question of content distribution to viewers



⁸ Mediatique, 2020, pg.12 'Connected TV gateways: review of market dynamics (ofcom.org.uk)

The introduction of new requirements for PSM availability on IP platforms will only accelerate this migration, encouraging viewers who are currently switching between DTT viewing and IP viewing to leave DTT behind. At BT we believe this to be a good thing both because it meets viewers preferences while enabling a central role for PSM in the all IP future; and because it may encourage some of those reluctant to take up IP connectivity to get connected⁹.

We believe that letting the market evolve organically for IP content distribution will lead to market failures and poorer outcomes for all current broadband customers, as well as those who are digitally excluded. Marc Allera, CEO of BT's consumer brands spoke recently on this topic, noting the limitations of the current net neutrality regime in the UK and how it works against the connected digitally included UK we want to see.¹⁰

As we discussed in our introduction, the key cost drivers for content distribution over IP are peaks in traffic over core networks, which are typically generated by some of the world's largest and wealthiest companies. As well as being cost inefficient, this unregulated content distribution is also energy inefficient, something which is surely unsustainable as the UK considers how to address the climate crisis.

So, alongside new requirements for IP platforms to carry PSM content, Ofcom have to consider how to enable IP content distribution to become more efficient and equitable, while also ensuring good quality of service for content providers and viewers.

BT propose that Ofcom address this by developing new regulatory requirements for content providers distributing over IP that generate the highest traffic peaks, which enable cost and energy efficiencies while ensuring quality of service. These requirements could sit alongside the net neutrality regulation, to support UK specific policy ambitions around PSM, universality and inclusion.

This kind of approach could create space to support IP distribution of Government services such as education and healthcare, or PSM content on privileged terms, in an update to the subsidised access to spectrum the PSBs have enjoyed in the broadcast era.

Question 5: What are the options for future funding of PSM and are there lessons we can learn from other countries' approaches?

We are aware PSM providers face a set of challenges that call their long-term viability into question: PSB advertising revenues are down 14% and public funding is down 15% in the period 2014-2018¹¹, and TV license fees are under scrutiny by government.

Moving to an OTT subscription-based model may address this, but it raises issues with the PSM principle of universality, if consumers do not want to sign up to such a service, in particular as Ofcom's own data shows those that affordability issues generally relate to cutting back on a service (particularly PayTV)¹². Ofcom's research also suggests that around one in eight adults (13%) do not use the internet at home. This includes not only older people but also 15% of working age adults in the lowest (DE) socio-economic groups.¹³

At the same time, viewership for PSM is already under steady downward pressure, with live TV falling to <50% of viewing time.

We expect that DTT will become uneconomic for PSM providers in the next 5-10yrs, raising questions on how to migrate to IP in a way that will not exclude viewers who may not wish to switch to online viewing.

Households receiving only DTT are often the most digitally excluded but continuing to provide this service is not necessarily the best way to support them and offers no incentives to move online.

⁹ 'When asked if television access was required to be through the internet... more than a third of non-users (37%) say that they would want to get an internet connection if TV was distributed via the internet.' P5 http://www.broadbanduk.org/wp-content/uploads/2019/02/ComRes_Broadband-Stakeholder-Group_digital-exclusion-research_final-report_February-2019.pdf

¹⁰ [Net neutrality won't help make a digitally-inclusive society \(bt.com\)](https://www.bt.com)

¹¹ Ofcom Broadcasters data for five main PSBs, 2014-2018, shows 14% decrease in advertising revenues and 15% decrease in public funding in 2018 vs 2014: <https://www.smallscreenbigdebate.co.uk/what-is-ssbd/ssbd-five-year-review>

¹² Ofcom affordability tracker 2020: [Affordability of communications services: a summary of our initial findings](#), pg. 18

¹³ Ofcom, *Small Screen Big Debate*, 'Those without regular internet access may be excluded from online content' [pdf] source: https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf

In the broadband market, the digital exclusion challenge will not be solved by faster broadband speeds or lower consumer prices: while there is a cohort of households which struggle with affordability, the data shows the large majority of households not online are older, and that lack of skills and will are the key drivers¹⁴.

A do-nothing scenario which allows the market to evolve organically for distribution means that PSM providers will still be tied for many years to come into fixed DTT costs for the ever-falling number of households that do not want to take up IP connectivity.

In contrast, a managed cross-industry migration programme from DTT-IP to provide a basic, universal PSM service to all UK households will remove broadcast distribution costs for the PSBs, and the value of this gain should be factored into consideration of the appropriate timetable for migration.

The funding of content distribution over IP needs to be factored into any decisions about future funding models for PSM in a joined-up way. If the PSMs are going to receive preferential treatment under a new system, then the costs of that will have to be borne elsewhere, in at least one of the following ways: higher consumer prices for IP connectivity, or new revenue streams for connectivity providers, or requirements to improve the efficiency of content distribution overall.

For the PSMs the shift to IP distribution will enable future innovations and revenue streams: PSM providers will gain a greater understanding of their audiences and help them adapt content to better meet their PSB obligations and win part of the lucrative targeted advertising model, also a win for viewers since many less minutes of advertising more relevant to viewers are needed to generate similar levels of earnings.

Lastly all-IP distribution will enable new funding models for PSBs, perhaps based on a more direct connection between viewing and payment for the BBC, or hybrid models e.g. a commercial PSB offering an advertising funded free service, and a no adverts subscription service.

Question 6: What do you think about the opportunities for collaboration we have referred to? Are there other opportunities or barriers we haven't identified?

Recent developments in technology and new entrants to the marketplace has seen collaboration happening on a scale which, just a few years ago, would have been unimaginable. For example, ITV Studios' productions premiere on the BBC ("The Bodyguard" being a high profile example), Channel 4 have a rights deal with Sky covering Formula One and drama¹⁵ ITV and the BBC's have successfully created and launched their BritBox commercial VOD proposition around the world.

BT's approach is to embrace the opportunities in these trends. For us, the global scale of the industry allows for new partnerships, which produce good results for viewers, which is why we see opportunities to develop new partnerships with traditional players (such as Sky) as well as newer arrivals, such as YouTube to distribute free coverage of the Champion's League final, Netflix and Amazon Prime Video.

BT Sport already collaborates with PSBs on FA Cup Draws and Finals (BBC), Premier Rugby highlights shows (Five), and through our studios (ITV uses BT Sports Studio for the football coverage and *Love Island*). We could imagine similarly and further partnerships with the PSMs on sports rights, or production.

Question 7: What are your views on the opportunities for new providers of PSM?

More flexibility here could benefit viewers. For example, key sports events which are required to be free to air, either because it is a listed event, or because it is required by the rights holder, could benefit from agile application of PSM benefits that will be enabled by new technology. So, for example, the free ways to watch the live Champions League final could and should be made prominent within the PSM system on the day of the match.

¹⁴ 'Half of those who do not have an internet connection state that the reason that they do not use it is that they do not want it'
http://www.broadbanduk.org/wp-content/uploads/2019/02/ComRes_Broadband-Stakeholder-Group_digital-exclusion-research_final-report_February-2019.pdf

¹⁵ <https://f1.channel4.com/news/channel-four-and-sky-agree-formula-one-deal-2019/>

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