The Future of Public Broadcasting: Funding Strategies From Around the World

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Public broadcasting under pressure: governments are tightening the purse-strings, audiences heading online

Recent events suggest that public broadcasting is going through challenging times. Controversy over the Polish government's decision to take control of TVP flared up earlier this year. Elsewhere, governments have trimmed public funding as part of national austerity programmes—Greece shut down its broadcaster, ERT, in 2013 (though it was later revived by another administration).

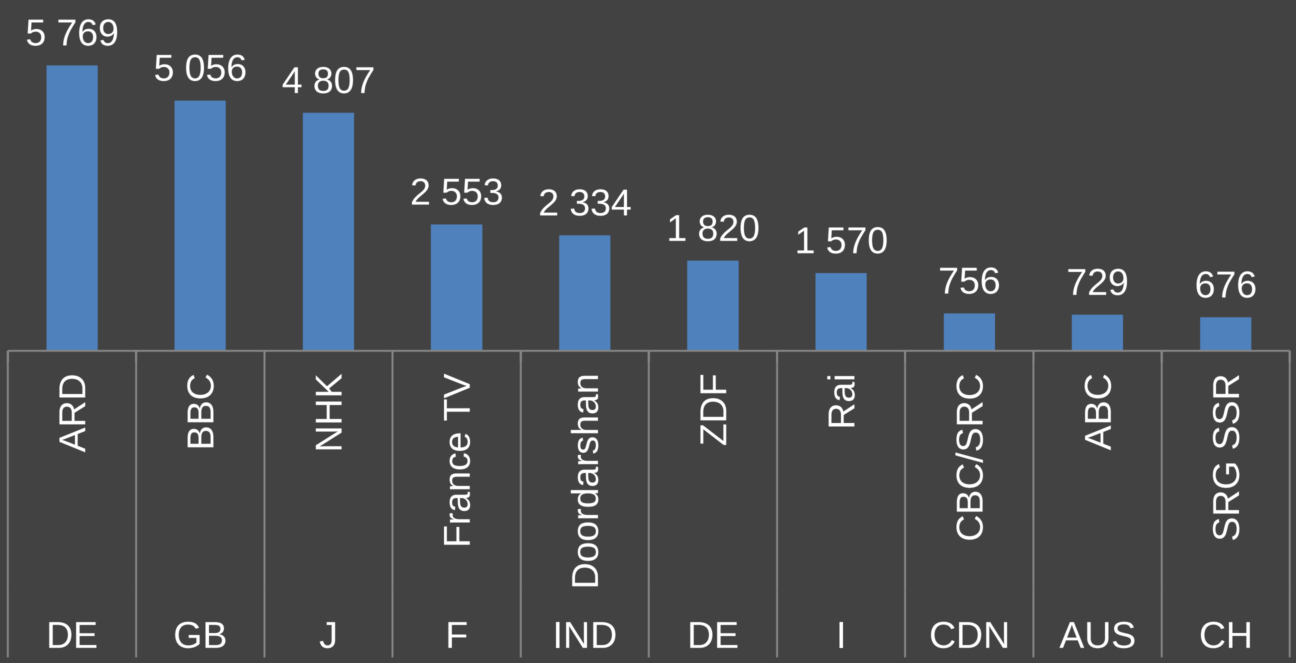
The BBC is meanwhile facing the challenge of a brutal new funding settlement and a continuing government review of its scope and governance. The venerable public broadcaster even closed one of its major TV channels, BBC3, at the beginning of March, converting it to an online-only service. This was partly a cost-saving measure (the BBC is trying to cut £150 million from its operating budget), but also an attempt to reach younger age groups who no longer spend much time watching television.

In this report—taken from a longer insight report published as part of the IHS TV Intelligence service—we look at how public broadcasting is funded around the world, comparing our research of 45 countries (most, though not all, of those that have publicly funded broadcasting); how the immediate future looks; and comparing the BBC with its peers in France, Germany and Italy.

The top ten leading public broadcasters in 2015

Germany's ARD, the BBC and Japan's NHK were the largest public broadcasters last year – by some distance.

Top 10 public broadcasters ranked by 2015 public revenue, €m



Source: IHS TV Intelligence

Public broadcasters benefit from a legacy position of strength in their home markets

In Europe in particular, public broadcasters remain central to the broadcasting landscape (though some have coped better than others). Even in 2015, BBC1, Italy’s Rai 1 and Germany’s ZDF were the most-viewed channels in their home markets.

There are a few reasons for this enduring position:

- Public broadcasters originated as monopolies, and retain a leading position on electronic programme guides and a more intangible primacy in the public consciousness.
- They also benefit from valuable legacy assets like studios and technical facilities, together with membership of collective bodies like the European Broadcasting Union which provides access to news feeds and major sporting events (admittedly, a somewhat diminished one).
- The sector also enjoys strong political support. The Council of Europe (CoE)’s Committee of Ministers in January 2007 called on its member states ‘to guarantee the fundamental role of the public service media in the new digital environment, setting a clear remit for public service media’.
- Public funding is a stable and predictable source of income compared to advertising (prone to cyclical downturns) and subscription (under threat from cheap over-the-top services). The BBC, for example, enjoyed a 58% increase in licence fee revenues in the ten years to 2014, while its closest, commercially-funded, competitors ITV and Channel 4 had to make do with a 28% increase in net ad revenues over the same period.

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How the top ten public broadcasters are funded

Organisation	Funding mix
ARD	Licence fee and advertising (restricted), other*
BBC	Licence fee, commercial activities, other
NHK	Licence fee, commercial activities, other
France TV	Licence fee, government grant, advertising, other
Doordarshan	Government grant, advertising, other
ZDF	Licence fee, advertising (restricted)
Rai	Licence fee, government grant, advertising, other
CBC/SRC	Government grant, advertising, other
ABC	Government grant, other
SRG/SSR	Licence fee, advertising, other
** Other = commercial activities, including programme sales, pay TV, cinema*	

The flipside of public funding: vulnerability to sudden shifts in public policy

IHS TV Intelligence research indicates that most public broadcasters will see an increase in revenues from public sources (receiver fees, government grants and other, mostly tax-based, mechanisms) over the next five years. Our analysis of the finances of the public broadcasters in 45 countries (see below) reveals that their financial outlook is far from bleak compared to some of their commercially-funded competitors.

This, of course, does not mean that public broadcasters should be complacent about their position in a rapidly-changing media environment. For one thing, the flipside of a reliance on government support is that they are at the mercy of shifts in public policy.

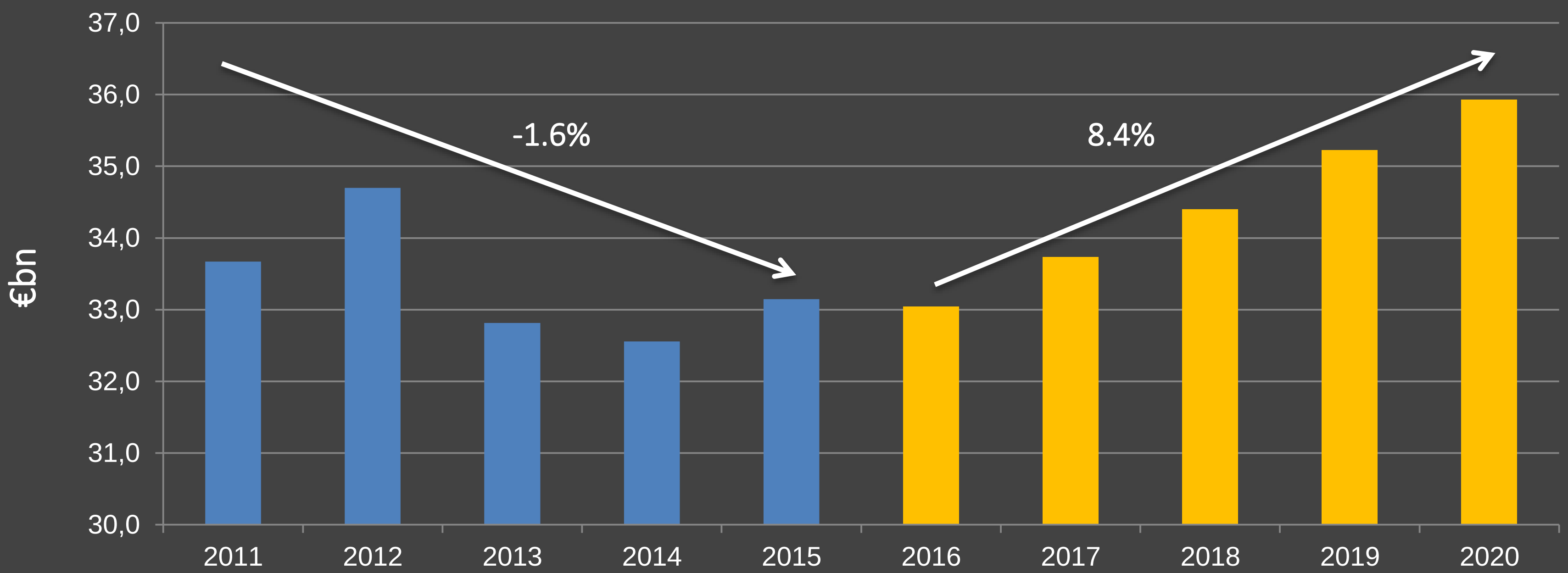
Public broadcasters have mostly weathered competition from commercial rivals and pay TV. Generally, subscription TV has been incremental to TV markets (though, clearly, pay TV has muscled public broadcasters out of many major sports rights). And digital terrestrial television was something public broadcasters took in their stride because they were usually been allocated digital terrestrial capacity for more channels.

However, the new media landscape is different. US-based multinationals like Google, Netflix and Apple operate globally while public broadcasters are tied to the national or local audiences they serve. The real threat is not a sudden technical catastrophe but a gradual decline into obsolescence. Hence, the need for radical strategies like the BBC3 online move.

After the storm of cutbacks, public broadcasting revenue is set to recover

Worldwide public revenues have experienced a turbulent period, with the total impacted by downturns for larger players like NHK, Rai, and the BBC and medium sized groups like ABC and NOS. However, IHS research indicates that the next five years will see growth for the sector – albeit at a relatively modest 8.4%.

Forecast growth in public revenue 2016-2020 (%, local)

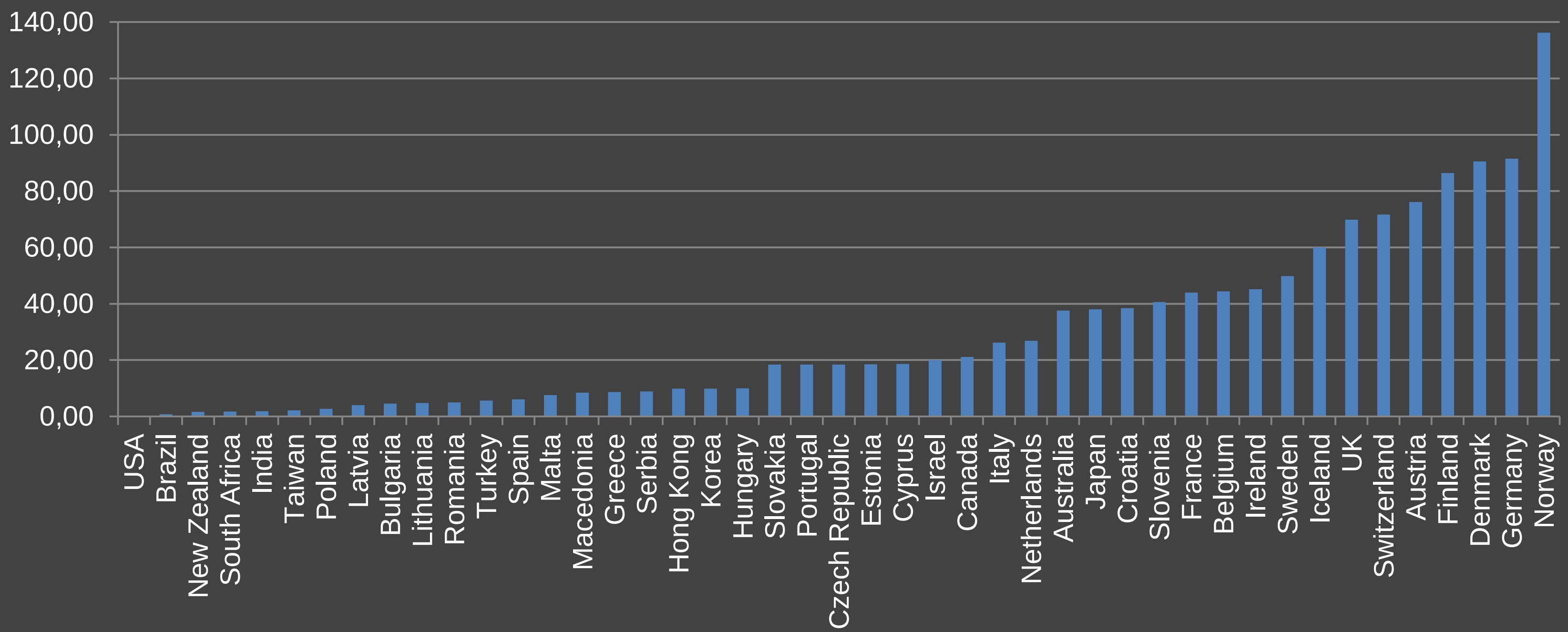


Source: IHS TV Intelligence

Comparison of public funding: Norway is the counry with the highest per capita cost of public television

Norway had the highest per capita funding of public television in 2015: €136. Denmark was at €91, while Finland, which introduced a public broadcasting tax in 2013, levied €86 per person. Both Norway and Denmark increased the licence fee in 2016, while Switzerland, another country with a high level of per capita funding, reduced its fee.

Public funding per capita (2015, €)

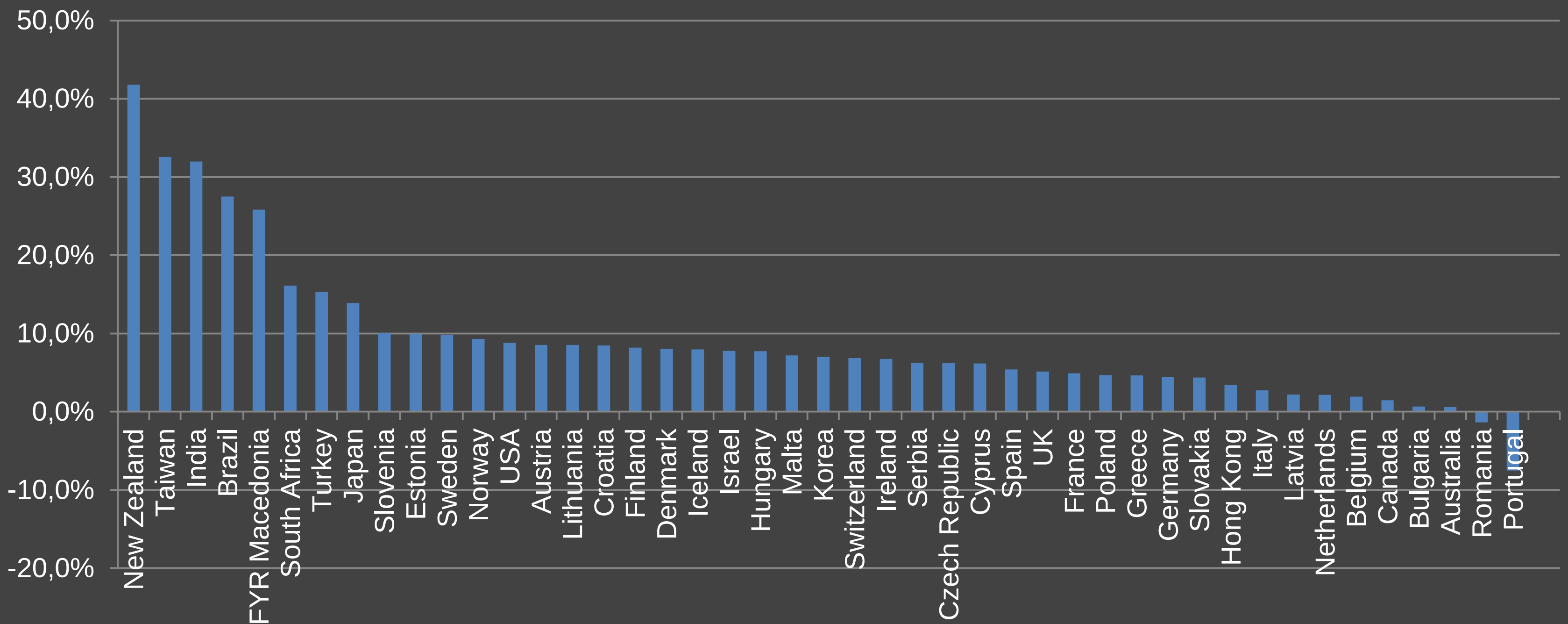


Source: IHS TV Intelligence

Most broadcasters set to increase public revenues over the next five years

IHS forecasts that public revenue will be €35.9 billion in 2020 (an increase of 8%). Among the largest countries, we are forecasting a local currency increase of 14% for Japan, 5% in the UK, and 4% in Germany. We expect public funding to increase 5% in France and 3% in Italy. We are expecting declines in Romania (-1%) and Portugal (-8%).

Forecast growth in public revenue 2015-2020 (%, local)

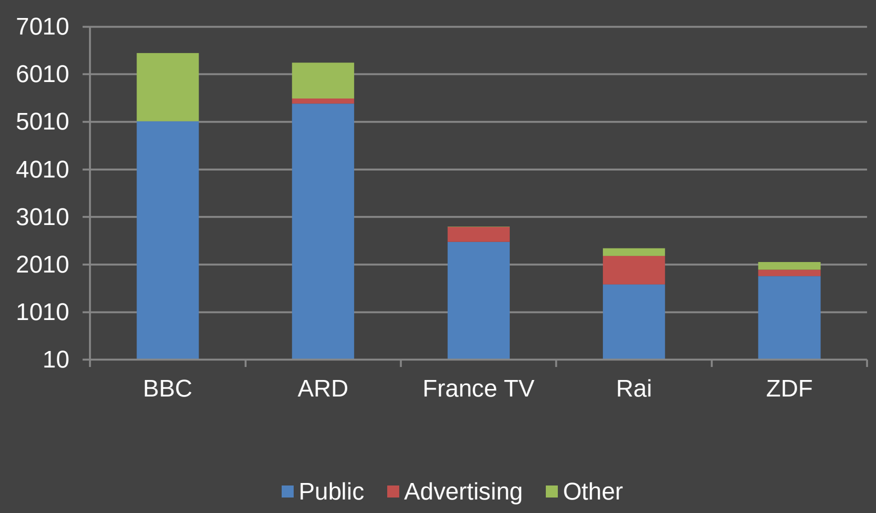


Source: IHS TV Intelligence

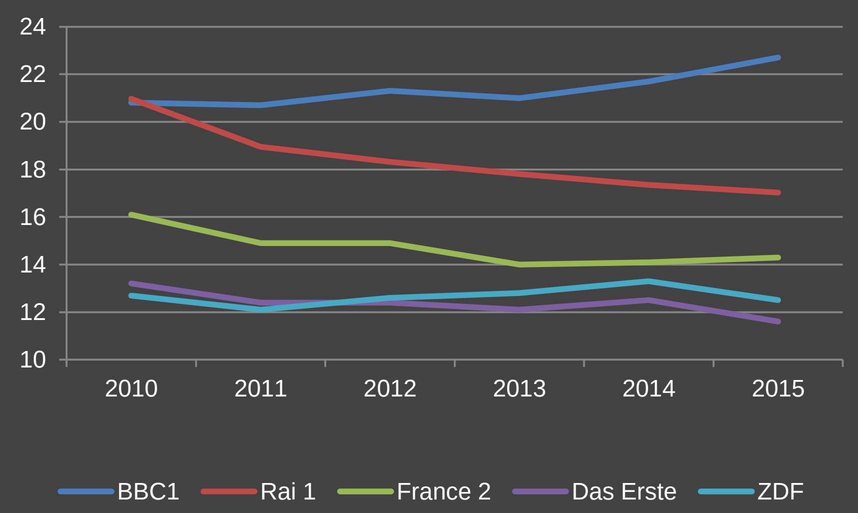
The BBC compared with its counterparts in France, Germany and Italy

In terms of overall revenue, the BBC is larger than ARD, with annual income from commercial subsidiary BBC Worldwide supplementing licence fee funding (although the five companies covered here follow different methodologies in reporting).
BBC1 was the most-viewed TV channel in the UK in 2015, increasing its share for the second year in a row.
In the following pages, we compare in more detail the BBC's funding and service with its counterparts ARD and ZDF, France TV and Rai.

Comparison of annual revenues 2014 (€m)



Average audience share of flagship channel (%)



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The BBC compared with its counterparts in France, Germany and Italy: revenues

All four countries finance public broadcasting—at least partly—via a licence fee. The BBC is the only one not to receive funding from advertising and sponsorship.
Although the German *Rundfunkbeitrag* funds both ARD and ZDF, as well as other public services, ARD had the largest revenue from this source in 2014: €5,871.5 million, compared to the BBC's revenue from the licence fee in the year to 31 March 2015 of £3,735 million (€5,020 million).

Rai's licence fee revenues declined 9% in 2014 to €1,590 million. ZDF received €1,767 million, while France TV received €2,382 million from the *redevance audiovisuelle*, topped up by another €104 million from the state budget.

Despite the freeze in the licence fee in both the UK and Germany, annual revenues from this source increased slightly in 2015 compared to 2010 for the BBC, ARD and ZDF. They were also up for France TV, thanks to the additional government funding, but fell for Rai.

Both Rai and France TV have seen falling ad revenues: Rai's annual revenues from this source are €311 million lower in 2014 than five years ago, while those of France TV were €112 million lower. In contrast, both ARD and ZDF have reported significant improvements in their ad revenues over the last five years. The broadcasters have benefited from the healthy German ad market, higher prices, and broadcasts of major sport as well as the popularity of series like the long-running ARD crime show *Tatort*.

The BBC compared with its counterparts in France, Germany and Italy: costs

France TV, already hit by the reduction in advertising airtime introduced in 2009, has had to make further cuts to contribute to a reduction in government spending. The public broadcaster made a loss in both 2013 and 2014 but is aiming to balance its budget in 2015. In order to find savings of €275 million, the broadcaster cut programming spend, merged news operations and renegotiated contracts with suppliers.

Italy's Rai has faced long-term rumours of privatisation and reorganisation. The new government formed in 2014 said that the public broadcaster would be required to cut €150 million in spending. This has not so far happened, but Rai has already made significant economies, including a freeze on acquisition of foreign programmes introduced in 2013. Rai's operating costs were reduced by close to €300 million between 2010 and 2014.

Over the five years to 2014, both ARD and ZDF increased their operating costs by a larger percentage than any of their counterparts in France, Italy and the UK. The additional cost of major sports events—the London Olympics and Euro finals in 2012, and the World Cup and winter Olympics in 2014—is a significant contributor to costs for both pubcasters.

In contrast, the BBC is already showing the effects of cutbacks on its spending over the last five years. The BBC reported an operating loss of £125 million in the 2014/15 financial year, with its cost base swelled by the additional £253 million bill for the World Service. The cost was previously covered by the Foreign and Commonwealth Office.

The BBC compared with its counterparts in France, Germany and Italy: commercial activities

BBC Worldwide, the Corporation's commercial division, generated revenues of £1,002 million in the 2014/15 financial year, returning £227 million to the BBC. The company's channels business accounted for 36% of sales, ahead of TV and digital sales (34.5%) and production, distribution and licensing (16%).

Rai's main commercial subsidiaries are ad sales house Rai Pubblicita, Rai Cinema (which produces and distributes TV as well as film), Rai.com, which manages online activities, and transmission company RaiWay. In 2014, Rai reported income of €80.6 million from its subsidiaries.

France TV's commercial subsidiaries include France Télévisions Distribution, which sells programmes, home video and digital rights. Revenues were €43.5 million in 2014, with sales of physical and digital home video accounting for 62% of the total. Production company MFP generated €36.5 million in revenues.

ZDF Enterprises, a wholly-owned subsidiaryy, manages worldwide programme sales for ZDF productions and some third-party properties. ZDF does not report revenues for the division, though they can be presumed to be included in other revenues which totalled €159 million in 2014. Similarly, there is no single commercial subsidiary handling sales for the ARD members. ARD Degeto, owned by the nine ARD companies, acquires rights and manages co-productions. ARD Degeto's annual budget was €400 million in 2014.

The BBC compared with its counterparts in France, Germany and Italy: online

The BBC's online offering includes news and sport, areas for children, and the iPlayer—a downloadable application offering access to live streams of its TV and radio channels, catch-up and on demand programming. Some 65% of news website visitors use mobiles or tablets, and its main news site was relaunched last year with a suitable picture format.

France TV operates websites for each of its channels and other thematic sites covering areas including news and sport. Its video-on-demand portal is Francetvpluzz. The public broadcaster is required by its contract with the government to make all of its programmes available free for seven days after transmission.

Germany's ARD and ZDF are not permitted to place advertisements on their websites, and were not allowed an increase in the licence fee to fund activities. Competition regulators also blocked a planned online venture between the two organisations called Germany's Gold. Nevertheless, both broadcasters operate a family of websites tied to their channel brands and have both developed a player called the Mediathek.

Italy's Rai operates websites covering all aspects of its output, including news, sport, factual programming and entertainment. Streams of all of its channels are available via its main Rai.tv domain. The public broadcaster's apps have been downloaded more than six million times. All of Rai's digital products are funded by advertising, although revenues are relatively small in relation to TV.

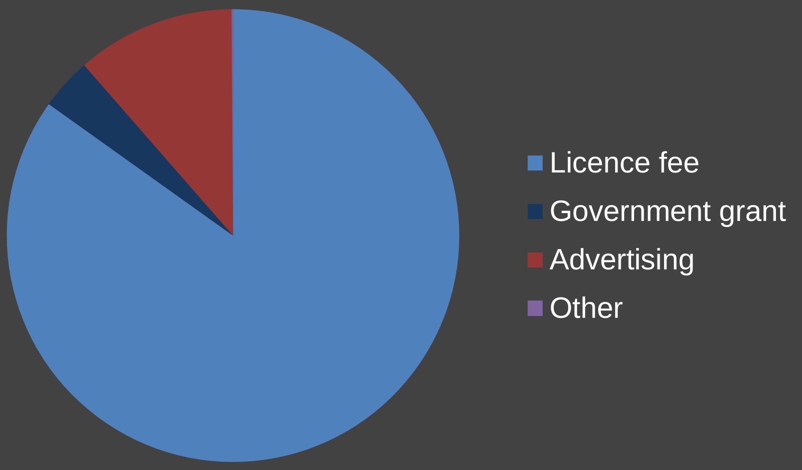
France TV New title – two charts

France Télévisions is the holding company for four major free-to-air channels: France 2, France 3, France 5 and France 4. France 4 (formerly Festival and given its current branding in 2005) targets the young adult age group (20-40). France Ô, a channel dedicated to cultural diversity, launched in 2010. France TV has a minority stake in music channel Mezzo but sold its stake in family-oriented Gulli to its partner the Lagardère Group and closed factual channel Planète Thalassa (a joint venture with Canal Plus).

France TV channel portfolio

Flagship free-to-air: France2, France3, France5
Other free-to-air channels: France 4, France Ô
Pay TV: Mezzo
International: TV5 Monde, France 24

France TV annual revenues by type (2014, €m)



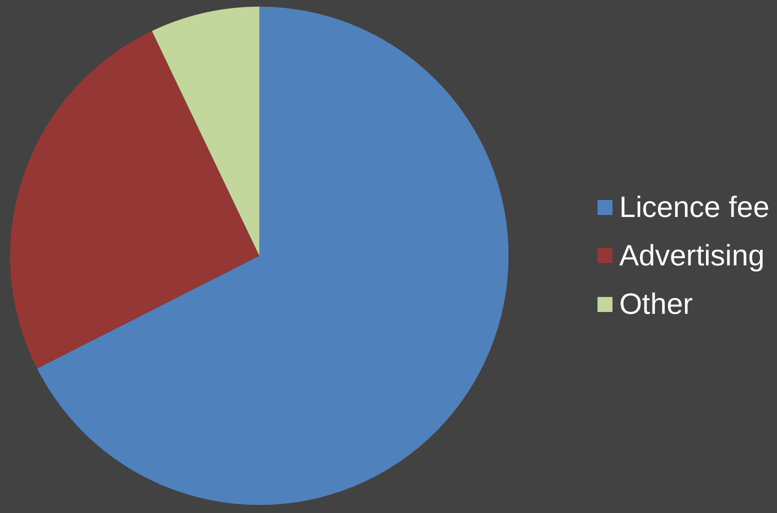
Rai New title – two charts

Rai operates three national terrestrial channels and a broad portfolio of free digital terrestrial channels. Rai 4 is a 'semi general interest channel' showing bought-in films and TV series including Mad Men, Rai 5 is a cultural channel, Rai Premium showcases Rai TV series, while Rai Movie draws on its film library. Rai Yoyo and Rai Gulp are children's channels. Other Rai-branded channels cater for news, movies, education and sport.

Rai channel portfolio

Flagship free-to-air: Rai1, Rai2, Rai3
Other free-to-air channels: Rai 4, Rai 5, Rai Yoyo, Rai Gulp, Rainews, Rai Sport, Rai Movie, Rai Sport 2, Rai Storia, Rai Premium, Rai Scuola
Pay TV: None
International: Rai Italia

Rai annual revenues by type (2014, €m)



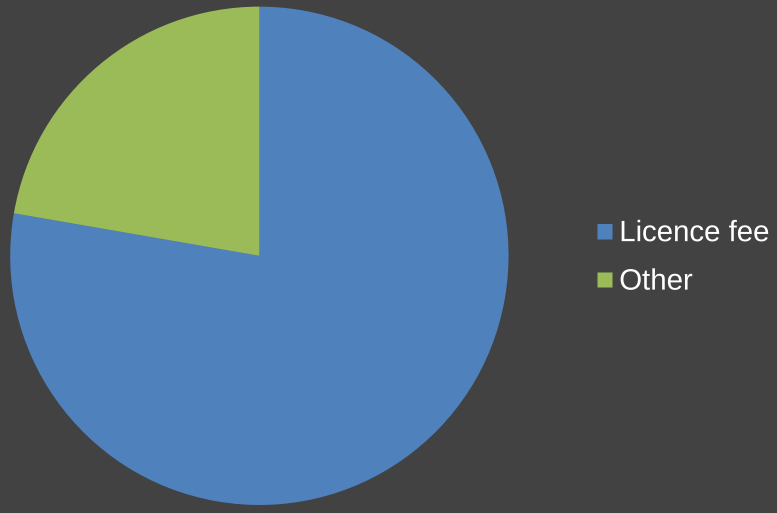
BBC New title – two charts

The BBC operates two main national TV channels—the mass-market BBC 1 and second channel BBC2—as well as eight digital terrestrial channels, including children's and 24-hour news services. Commercial subsidiary BBC Worldwide has a 50% stake in the pay TV channel operator UKTV alongside US company Scripps Networks. BBC2 is a general entertainment service, focusing on 'knowledge-based programming' but including strong drama, comedy and arts elements. BBC3 is a youth-targeted service (serving the 16-30 age groups) while BBC4 is devoted to arts programming. CBBC addresses the 6-12 children's audience, while CBeebies is preschool (under six).

BBC channel portfolio

Flagship free-to-air: BBC1, BBC2
Other free-to-air channels: BBC4, Cbeebies, CBBC, BBC News 24
Pay TV: UKTV (50%)
International: BBC America, BBC Earth, BBC First, BBC Brit, Cbeebies, BBC World News

BBC annual revenues by type (2014, €m)



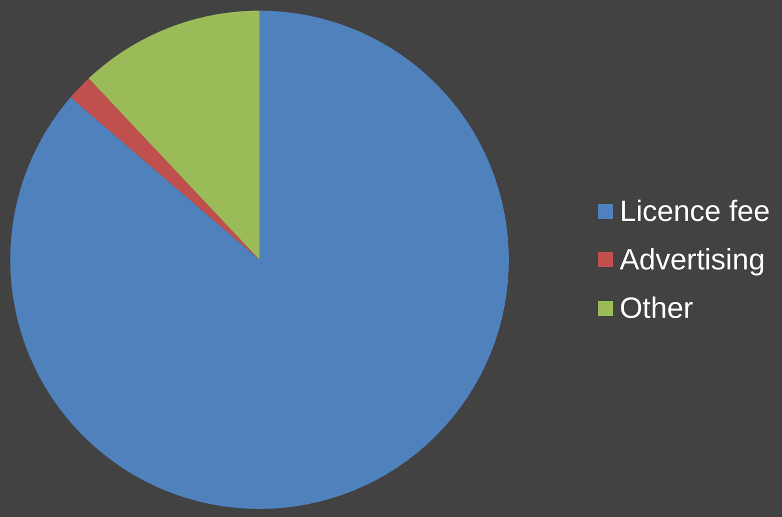
ARD New title – two charts

ARD—the name stands for 'consortium of public service broadcasters in the federal republic of Germany'—programmes a single national channel called Das Erste and various regional channels sometimes known collectively as ARD III. Das Erste, launched in 1954, is programmed jointly by nine ARD members, which supply different parts of the schedule. ARD derives most of its funding from the licence fee. ARD co-funds several channels with ZDF: Phoenix, a news and current affairs channel, Kika, a children's channel, and the German-language version of culture channel Arte. In addition ARD operates Eins Plus and EinsFestival.

ARD channel portfolio

Flagship free-to-air: Das Erste
Other free-to-air channels: Phoenix (50%), KiKa (50%), Tagesschau24, Einsfestival, EinsPlus
Pay TV: None
International: 3Sat

ARD annual revenues by type (2014, €m)



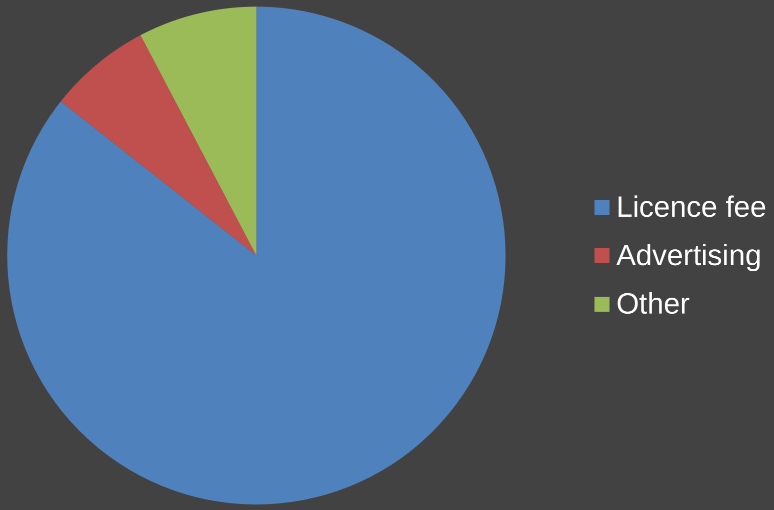
ZDF New title – two charts

ZDF's main channel has a remit to provide information, education and entertainment. ZDF operates a bouquet of branded digital channels, launched in 1997. ZDFneo, formerly branded as ZDFdokukanal, is aimed at a 25-49 audience with a mixed schedule of factual, drama, music and comedy. ZDFinfokanal is a factual channel, while ZDFkultur, which replaced ZDFtheaterkanal in May 2011, is an arts channel.

ZDF channel portfolio

Flagship free-to-air: ZDF
Other free-to-air channels: Phoenix (50%), KiKa (50%), ZDFkultur, ZDFdokukanal
Pay TV: None
International: 3Sat

ZDF annual revenues by type (2014, €m)



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