The Communications Market 2008

2 Television

Contents

2.1 Key market developments in television 67

2.1.1	UK television industry metrics, 2003-2008	67
2.1.2	TV industry revenue up 1.3% to £11.2bn, but advertising revenues down	68
2.1.3	Nearly nine in ten homes had digital TV at the end of Q1 2009	72
2.1.4	Digital switchover is well under way	73
2.1.5	High-definition television (HDTV) gains traction	74
2.1.6	Channel operators continue to show interest in the Entertainment channel genre	77
2.1.7	Channel licence awards fell in 2008	79

2.2 The television industry 81

2.2.1	Introduction	81
2.2.2	Television industry revenue	81
2.2.3	TV advertising revenues	83
2.2.4	TV shopping accounts for nearly a third of non-broadcast revenue	84
2.2.5	Sports and Entertainment channels generate most multichannel revenue	85
2.2.6	TV industry output	86
2.2.7	UK broadcasters' content spend passed £5bn for the first time in 2008	87
2.2.8	Television output on the five main PSB channels	88
2.2.9	Multichannel output, by genre	94
2.2.10	The TV production sector	97
2.2.11	Compliance with regulatory quotas	102
2.2.12	Original productions	103
2.2.13	Nations' and regions' production outside London	104
2.2.14	Independent productions	108
2.2.15	News and Current Affairs	111
2.2.16	Programmes made for viewers in the nations and English regions	112
2.2.17	Repeats	114
2.2.18	European programming	115
2.2.19	Other compliance matters	116

2.3 The television viewer 119

2.3.1	Summary	119
2.3.2	Availability of multichannel broadcast platforms	119
2.3.3	Digital TV take-up	120
2.3.4	Consumption of television services across the day	124
2.3.5	Channel reach	126
2.3.6	Viewing share among the five main PSB channels	128
2.3.7	Multichannel broadcaster share	132
2.3.8	Consumer attitudes toward television	143

2.1 Key market developments in television

2.1.1 UK television industry metrics, 2003-2008

UK television industry	2003	2004	2005	2006	2007	2008
Total TV industry revenue (£bn)	9.2	10.0	10.5	10.6	11.1	11.2
Proportion of revenue generated by public funds	26%	24%	25%	25%	25%	24%
Proportion of revenue generated by advertising	34%	35%	35%	33%	32%	31%
Proportion of revenue generated by subscriptions	35%	34%	35%	36%	37%	39%
TV as a proportion of total advertising spend	30.2%	29.6%	29.6%	27.9%	26.9%	26.5%
Spend on originated output by 5 main networks (£bn)	3.1	3.1	3.0	2.8	2.7	2.6
DTV take-up (% of homes in Q1)	43.2%	53.0%	61.9%	69.7%	86.3%	87.1% (Q1 2009 89.2%)
Proportion of DTV homes paying for TV (Q1)	80.2%	71.7%	64.3%	60.0%	55.0%	53.1%
Viewing per head, per day (hours) in all homes	3:44	3:42	3:39	3:36	3.38	3.45
Share of the five main networks in all homes	76.5%	73.8%	70.4%	66.7%	63.5%	60.8%
Number of channels broadcasting in the UK	294	379	416	433	470	495

This section explores developments and trends in the UK television market. Some of the key findings are:

- **Television industry revenue grew by 1.3% to reach £11.2bn in 2008.** Pay-TV subscriptions rose by 6% but total net advertising revenue fell by 3%, as broadcasters began to feel the impact of the recession. The proportion of the BBC's licence fee revenue spent on television decreased by 1.2% year on year to £2.6bn (**page 68**).

- **Advertising growth slows for independent multichannel broadcasters.** The commercial portfolio channels of the PSBs accounted for the majority of growth in multichannel advertising (£77m out of £79m) in 2008. Advertising revenue from the rest of the multichannel sector rose by just £2m in 2008 to reach £810m (**page 72**).

- **Digital television take-up reached 89.2% at the end of Q1 2009.** It increased by 2.1 percentage points year on year. Nearly nine million digital video recording devices (also known as 'digital television recorders' or 'personal video recorders') had been sold by the end of Q1 2009 (**page 72**).

- **Digital switchover is now well under way and Exeter in the West Country became the UK's first 'digital city' in May 2009.** Digital switchover in Scottish Borders was completed in November 2008 and 20% of homes across the UK will have had their analogue terrestrial television signals switched off by the end of 2009 (**page 73**).

- **High-definition (HD) television gains traction**. By the end of Q1 2009, 2.3 million homes had HD reception equipment – either a set-top box or an integrated digital television – capable of accessing linear or on-demand HD content. Some broadcasters are now evaluating the potential of 3DTV (**page 74**).

- **Entertainment channels (excluding the five main PSBs) accounted for one in five hours of viewing in multichannel homes in 2008.** The Entertainment genre's aggregate viewing share (excluding the five main PSBs) grew by 1.8 percentage points in 2008 to account for a 21.3% share in multichannel homes (**page 77)**.

- **The number of television channel licences awarded by Ofcom decreased year on year**. The appetite to launch new channels appears to be waning in the UK, with 495 channels already on-air at the end of 2008, up from 470 in 2007. Seventy-seven licences were issued by Ofcom in 2008, down by 46%, and the lowest number issued since 1998 when digital television launched in the UK (**page 79**).

We now examine these stories in more detail.

2.1.2 TV industry revenue up 1.3% to £11.2bn, but advertising revenues down

UK television industry revenue rose by 1.3% (£145m) to £11.2bn in 2008; this compared to a 7.4% increase in 2007 and the five-year annualised average of 5.9% (Figure 2.1).

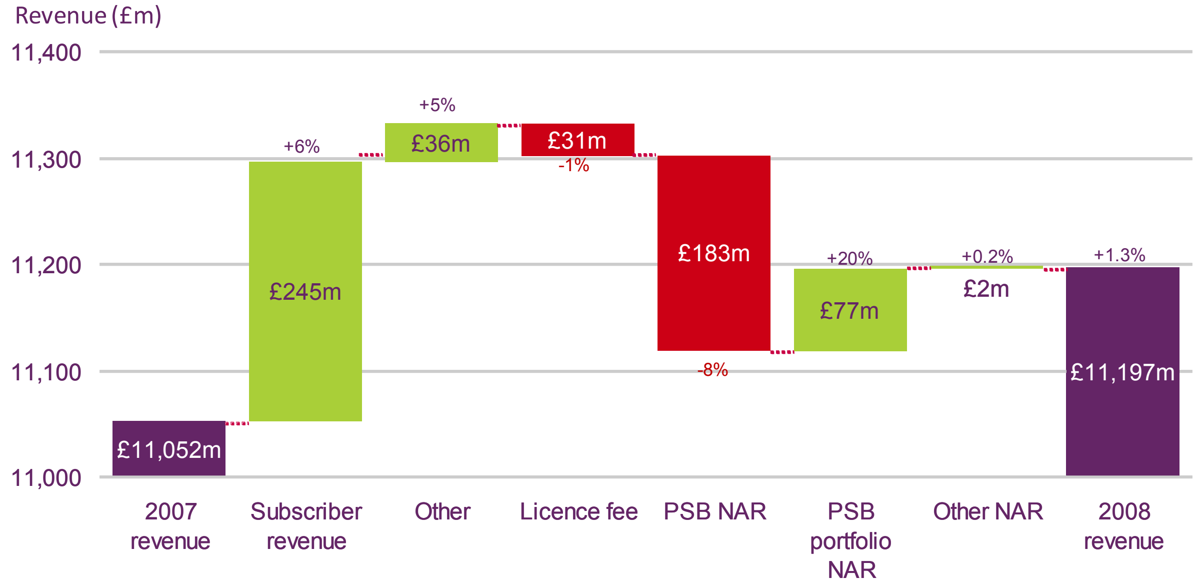
Subscription revenue raised by pay TV operators continued to be the engine of growth in 2008, with income rising by 6% or £245m over the year. This was driven both by new subscribers and by higher per-subscriber revenue prompted by new value-added services such as *Sky+ HD*. 'Other' sources of income such as sponsorship, retail and revenue from interactive services rose by 5% (£36m) over the same period.

A reduction in television advertising revenue driven by the deteriorating economic environment offset these increases, falling by 2.9% (£105m) year on year, compared to a 3.3% increase in 2007 and a five-year annualised average of 2.3%. Licence fee spending on television services also fell by 1% or £31m in 2008, to £2.6bn.

The overall £105m reduction in NAR during 2008 was driven by an 8% (£183m) reduction in commercial PSB advertising, partly offset by increasing multichannel advertising revenue (up £79m). The lion's share of that increase was generated by the commercial PSBs' portfolio channels[14], boosting their advertising revenue by 20% year on year. The remaining multichannel broadcasters attracted just £2m in additional advertising income over 2008.

[14] The PSB portfolio channels are the multichannel services owned by the main PSBs.

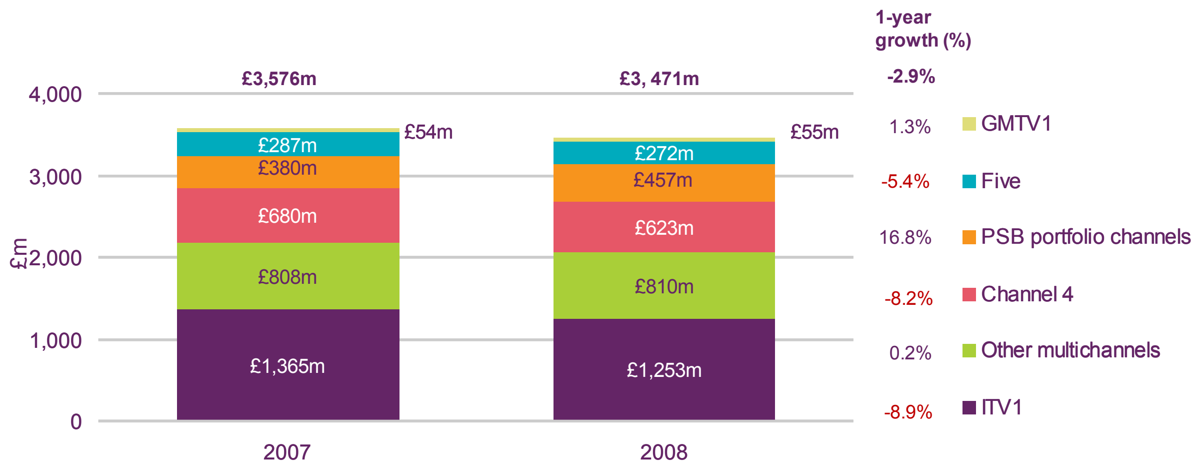
Figure 2.1 Changes in television industry revenue, 2007 - 2008



Source: Ofcom/broadcasters
Note: Figures expressed in nominal terms. PSB NAR comprises ITV1 (including GMTV1), Channel 4, Five and S4C. PSB portfolio NAR includes the commercial channels owned by the PSBs. 'Other NAR' comprises the rest of the multichannel market. Platform operator revenues do not include any installation costs, equipment sales or subsidies.

Figure 2.2 illustrates how TV advertising revenue by broadcaster has trended over the last two years. ITV1 and Channel 4 both experienced revenue reductions of over 8% over the year; Five's advertising income fell by more than 5% over the same period. GMTV was the only one of the commercial PSB licensees to benefit from advertising revenue growth during 2008 – up by 1% in twelve months.

Figure 2.2 Net advertising revenues



Source: Ofcom/broadcasters
Note: Totals may not equal the sum of the components due to rounding.

The UK broadcasting sector is facing a range of structural and cyclical challenges. The mainstream commercial broadcasters in particular announced a number of cost-control initiatives during 2008/09 including:

- ITV said it would cut 600 jobs in March 2009, on top of 1,000 it announced in early 2008. This followed a pre-tax loss of £2.73bn for 2008. The broadcaster also said that investment in network programming would be reduced by £65m in 2009. ITV announced its intention to explore the sales of its Friends Reunited website and the DTT multiplex operator SDN. The broadcaster said that it would deliver total cost savings of £155m in 2009, rising to £175m in 2010 and £245m in 2011. It also moved to re-engineer its schedule to place a greater emphasis on entertainment shows. Production beyond 2009 of drama series *Heartbeat* and *The Royal* was suspended, although episodes had been stockpiled. In July, police drama *The Bill* moved to one episode a week (down from two nights per week).

- Channel 4 headcount's was reduced by more than a third to around 700, as part of efforts to reduce its cost base by £125m. This saw the broadcaster lower its programming budget by £40m to £620m. Channel 4 also withdrew from a consortium to run the UK's second national digital radio (DAB) multiplex. Phase 2 of Ofcom's review of public service broadcasting said that by 2012, Channel 4 could require further funding of £60m to £100m a year in order to continue to deliver its existing remit.

- In March 2009, commercial broadcaster Five announced that up to 87 jobs would be lost from the company's 354-strong workforce. It is investing more in its peak-time schedule where it is aiming for programmes which can draw audiences of more than a million viewers. Five also announced plans to drop talk show *Trisha* as part of a strategy to move resources to parts of the schedule that made better commercial returns.

Partnerships and policy aim to secure the future of public service broadcasting

In January 2009 Ofcom issued a statement about the future of public service broadcasting and how to ensure the delivery of content that fulfils public purposes and meets the interests of citizens and consumers throughout the UK.[15] During this process, in December 2008, the BBC announced a proposal to develop a set of partnerships to deliver commercial PSB savings of £120m per year by 2014. Talks on these proposals were continuing at the time of writing. These included initiatives such as:

- the creation of a public service *iPlayer* (also known as *Marquee*) open to ITV, Channel 4 and Five;

- bringing internet services to the television through *Project Canvas*, an open standard IPTV platform which is being reviewed by the BBC Trust;

- sharing regional news footage and premises where appropriate to support provision beyond the BBC;

- options for other PSBs to collaborate with BBC Worldwide (talks have progressed with Channel 4);

- using the bbc.co.uk website to promote broadband take-up and other PSB content on the internet; and

- sharing research and development resources.

[15] http://www.ofcom.org.uk/consult/condocs/psb2_phase2/statement/

In March 2009, the BBC, which is funded by the licence fee, also announced plans to save £400m over three years and pledged to reduce the salaries of 'top talent'.

An Ofcom-approved reduction in the number of ITV news regions (from 17 to nine) was implemented in early 2009, releasing savings of £40m per year. The Government's *Digital Britain* report, published in June, introduced a proposal to pilot several independently-funded local news consortia as a long-term replacement for ITV local news services (see below).

The Digital Britain report also suggested that a proposed partnership between Channel 4 and BBC Worldwide was its preferred option to help secure the future of Channel 4. The report said that the two parties should further explore the potential partnership, to create a second public service broadcaster of scale. An announcement by Channel 4 and BBC Worldwide was expected imminently at the time of writing.

The *Digital Britain* report also focused on wider aspects of the future of public service broadcasting, and left open the prospect of a 'contained contestable element' of the BBC's licence-fee revenue, which could be used for public service content such as local news.

Digital Britain proposes pilots for local news consortia

Consumer research conducted as part of Ofcom's second review of public service broadcasting found that people value regional television news, but the current system faces a number of challenges. In Ofcom's *Second Public Service Broadcasting Review: Putting Viewers First*, we showed that viewers believe that news is the main priority for nations and regions television. But there are cyclical and structural pressures on the commercial providers of nations/regions news.

As we set out in the PSB Review, there is a tension between ITV plc's desire to reduce regulatory burdens and its ongoing ability to maintain investment in public service programming. This tension is becoming more acute as switchover completes and digital distribution becomes widespread. If regional/nations news is to continue beyond the BBC, provision of additional funding may be necessary. To address these challenges, The Government's *Digital Britain* outlined its intentions to pilot independently funded news consortia (IFNCs).

IFNCs could bring together interested parties which would provide a more ambitious cross-media proposition and enhanced localness compared with current commercial television regional news. However, in order to maximise audience reach and impact, they would also broadcast in the regional news slots in the schedule of current Channel 3 licensees. Consortia would include but not be limited to existing television news providers, newspaper groups or other newsgathering agencies. IFNC funding would be awarded on a contestable basis and against a set of public criteria to maximise public value.

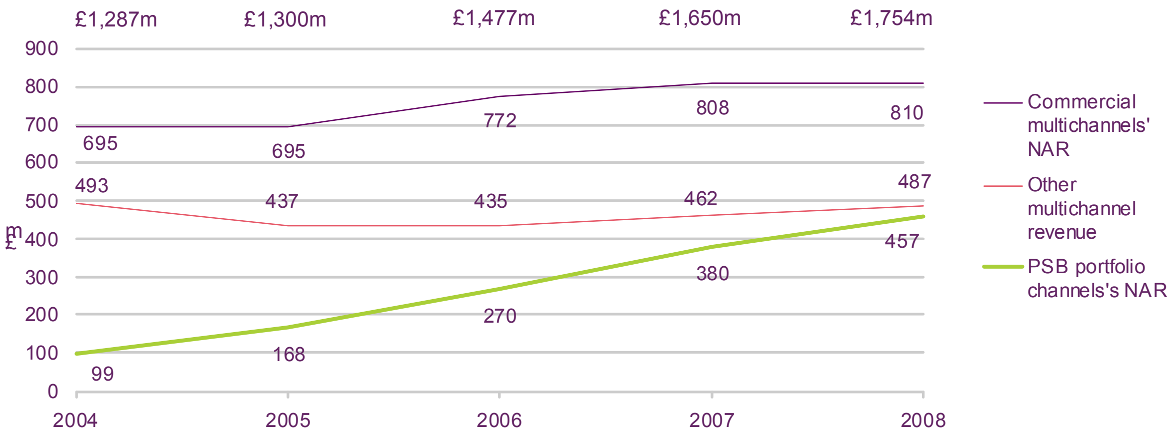
The *Digital Britain* report announced three pilot IFNC projects - in Scotland, Wales and one in England. Further details on the proposal can be found on page 156 on the report: http://www.culture.gov.uk/images/publications/digitalbritain-finalreport-jun09.pdf. The DCMS is currently consulting on the importance of plurality in regional news and the potential sources of top-up funding. Details on the consultation can be found at: http://www.culture.gov.uk/reference_library/consultations/6245.aspx.

Advertising growth slows for independent multichannel broadcasters

The UK's multichannel television sector continued to grow in 2008 as revenues increased by 5.9% to reach £1,754m. The increase was largely fuelled by a rise in advertising revenue of 6.2%, to £1,267m.

However, the majority of this (£77m) was driven by the PSB portfolio channels. Just £2m of the 2008 growth went to other multichannel broadcasters. Figure 2.3 illustrates that NAR earned by the commercial PSB portfolio channels has been the fastest-growing component of multichannel revenue in recent years, increasing more than four-fold between 2004 and 2008.

Figure 2.3 Multichannel revenue by source: NAR and other revenue



Source: Ofcom/broadcasters

Concurrent with a relatively subdued year for the non-PSB multichannel sector, some channel groups took steps to control costs. Channels including VMTV's Trouble and Turner Broadcasting's Nuts TV were closed. Real Estate TV, the property-based factual broadcaster owned by Fox International Channels, also closed, against a backdrop of a slowing property market.

Perhaps the biggest closure among channel operators was the UK business of Setanta Sports, the broadcaster that had acquired key sports rights such as FA Premier League and FA Cup football. The company went into administration in June 2009, following its failure to make payments on sports rights. The 46 Premier League games that Setanta had held for the 2009/10 season, and the 23 games per year for three seasons from 2010, were subsequently acquired by sports broadcaster ESPN.

Pay-TV broadcaster BSkyB also made cuts, announcing 250 job losses in August 2008. In November 2008, Virgin Media said that 2,200 jobs, about 15% of its workforce, would be lost by 2012.

2.1.3 Nearly nine in ten homes had digital TV at the end of Q1 2009

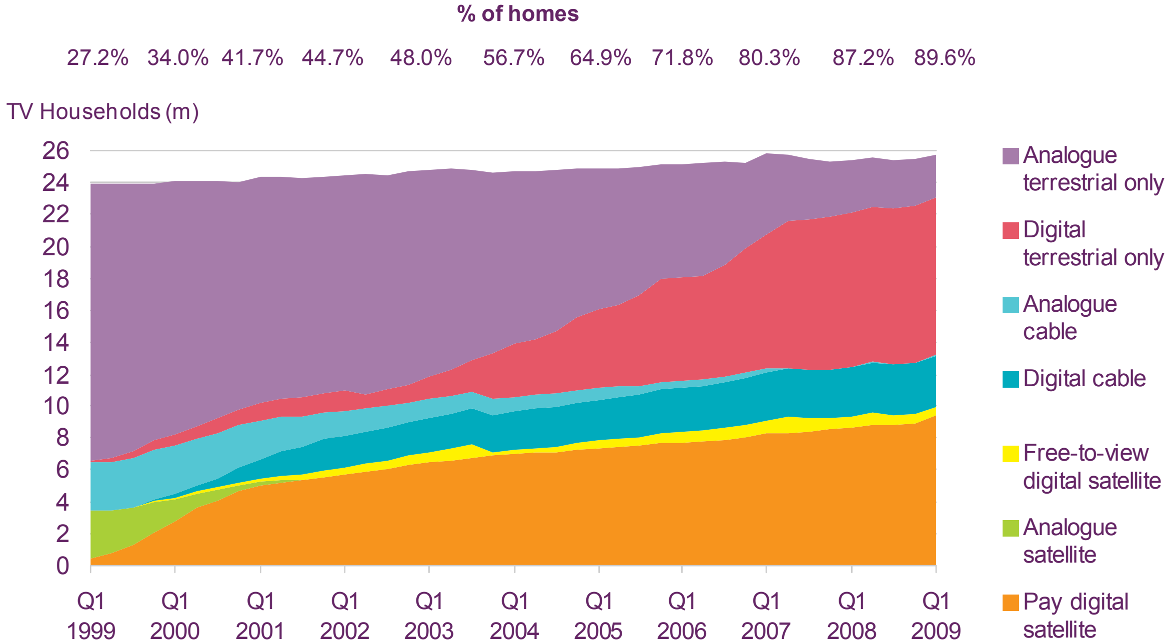
Digital television (DTV) take-up in the UK reached 89.2% at the end of Q1 2009, an increase of 2.1 percentage points year on year. This means 22.8 million homes now receive DTV on their main set.

Digital terrestrial television (DTT) remained the most widely-used service on main sets, accounting for around 9.8 million (38.5%) homes in Q1 2009, an increase of 200,000 (0.5

percentage points) over the year. *Freesat*, the free-to-air digital-satellite television platform owned by the BBC and ITV, had attracted 300,000 customers by the end of the first quarter of 2009. *Freesat* launched in May 2008 and offers more than 140 subscription-free digital channels as well as high-definition channels from the BBC and ITV.

While *Freeview* provided the bulk of digital growth between 2004 and 2007, the contributions of the three main platforms – DTT, satellite and cable – evened out in 2008 as DTV take-up slowed.

Figure 2.4 Multichannel television take-up



Source: Ofcom, GfK, Sky and Virgin Media
Note: Digital terrestrial relates to DTT-only homes. Please note we have not included homes receiving overseas satellite services as part of the multichannel total throughout the report, as these homes may be receiving the main PSB channels via a digital platform.

Seventy-three per cent of all TV sets had converted to multichannel television by the end of Q1 2009 (up 5.7 percentage points on a year ago and up by 0.8 percentage points quarter on quarter). As the market for DTV on main sets begins to saturate, television platform operators and consumer electronics manufacturers are enhancing the functionality of digital reception devices. Nearly nine million digital video recorders (DVRs) had been sold by the end of Q1 2009, of which five million were BSkyB's *Sky+* and *Sky+ HD* devices.

2.1.4 Digital switchover is well under way

Exeter in the West Country became the UK's first 'digital city'

Switchover in the Scottish Borders, which began when Whitehaven became the first town to make the transition in October 2007, was completed in November 2008[16]. Since then, Exeter in Devon became the first UK's first 'digital city', making the switch to digital-only terrestrial broadcasting on May 20, 2009[17]. In total, 757,000 UK households have now had their analogue terrestrial signals switched off. By the end of 2009 around 19% of homes will have switched over (Figure 2.5).

[16] http://www.digitaluk.co.uk/__data/assets/pdf_file/0019/23275/20-11-08_switchover_completed.pdf
[17] http://www.digitaluk.co.uk/__data/assets/pdf_file/0011/27929/20-05-09_stockland_hill_dso2.pdf

The biggest switch to come in 2009 (as measured by the number of households affected) will be in the Granada region, covering the north-west of England including Liverpool and Manchester. In November and December 2009, 3.04 million households receiving analogue television signals from the Winter Hill transmitter will move fully to digital television services. Switchover will continue in other areas through 2010 and 2011 and finish in 2012. The Crystal Palace transmitter, which covers 4.86 million households including all those in London and the surrounding areas, will be one of the last to switch and will be the largest single switch in the programme.

Figure 2.5 UK households and switchover dates

Year	Number of homes switching in the year	Proportion of total UK households switched	Areas switching
2007/2008	73,000	0.3%	Copeland and Scottish Borders
2009	4,811,000	18.6%	West Country, Scottish Border, Wales and Granada
2010	2,257,000	27.3%	Parts of Scotland, Channel Islands and west England
2011	10,454,000	67.3%	Anglia, Central, Yorkshire and Scotland
2012	8,552,000	100%	Meridian, London, Tyne Tees and Ulster

Source: Ofcom

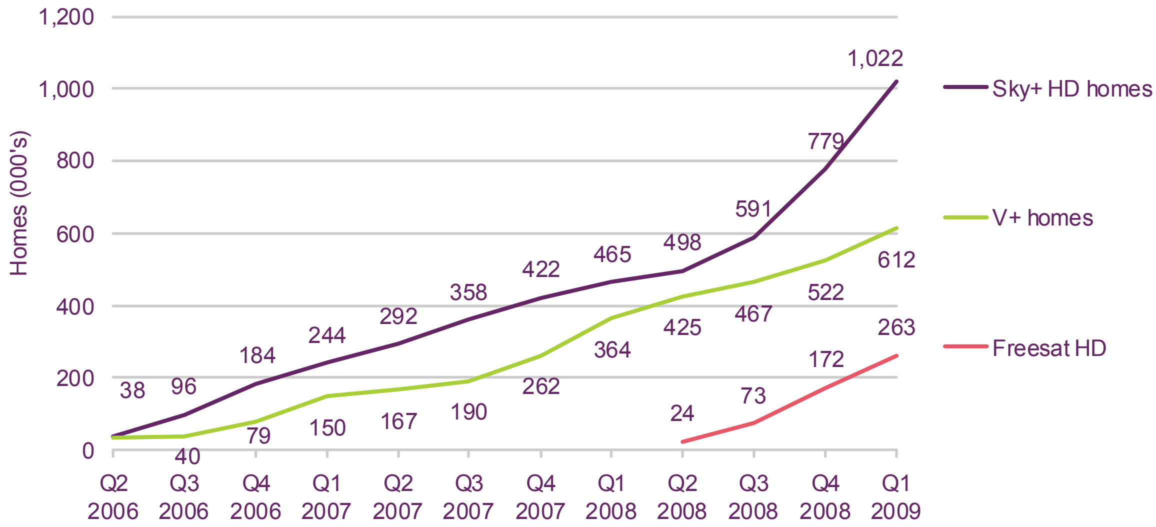
Virgin Media will become the second television platform to turn off all analogue distribution during 2009, releasing a third of its network capacity. This could be used for services such as next-generation broadband and HDTV, according to the company. Virgin Media had 141,200 analogue TV customers at the end Q1 2009; BSkyB switched off its analogue satellite services in September 2001.

2.1.5 High-definition television (HDTV) gains traction

Consumers show a growing appetite for HD as more content becomes available

High-definition (HD) television services have gained popularity with UK consumers, as new HD channels have launched and as more platforms offer HD content to consumers. By the end of the first quarter of 2009, nearly 1.9 million UK homes (7%) had HD-receiving equipment capable of viewing high-definition broadcast channels, either through a set-top box or an integrated digital television set (IDTV). Just over a million of these were *Sky+ HD,* with Virgin Media's *V+* and *Freesat HD* boxes and IDTVs accounting for around 900,000 (Figure 2.6). Taking account of *BT Vision,* which offers some HD programming on-demand, the number of homes able to access to HD television content rose to around 2.3 million (9%) at the end of March 2009.

Figure 2.6 Number of broadcast HD homes: BSkyB, Virgin Media and Freesat



Source: Operators

The broadening appeal of HD in 2008 was evidenced not only by the growing consumer take-up of HD decoders, but also by changes in the pricing of HD propositions and by the growing range of channels offering high-definition content.

In January, BSkyB dropped the price of its *Sky+ HD* box by £100 to £49[18] and embarked on a major marketing campaign to promote the product. BSkyB has the largest base of HD customers and is the only platform to offer a bespoke subscription package of HD channels. At the end of Q1 2009, it had just over one million subscribers to its £9.75 a month HD package. BSkyB offers 33 HD channels, up from nine at launch in 2006, covering key genres such as Sports, Films, Entertainment and Factual. The company has said that it plans to launch *Sky News HD* in spring 2010.

Virgin Media, which has the second largest number of HD-compatible receivers in the market, offers more on-demand content than linear in HD (just BBC HD). The cable operator has said that four channels - Living HD, FX HD, MTVN HD and National Geographic HD – will launch on cable, with the first being available to *V+* customers from the end of July.

Freesat from the BBC and ITV offers BBC and ITV HD services. About three-quarters of *Freesat* equipment sold, which includes set-top boxes and integrated digital television sets (IDTVs), were capable of receiving high-definition television. The BBC also offers some HD content online on its *iPlayer* service, which can be streamed, depending on the speed of the internet connections, or downloaded to computers.

Looking ahead, consumers will soon be able to receive HD channels from the BBC, ITV and Channel 4 on the *Freeview* platform. The first HD broadcasts on DTT will go live on 2 December 2009 from the Winter Hill transmitter serving Liverpool and Manchester. HD signals will also be available from the Crystal Palace transmitter in London from December.

HD on Freeview will be available to 60% of the UK by Christmas 2010. Viewers who wish to watch HD on Freeview will need reception equipment which incorporates MPEG-4 compression and DVB-T2 transmission technologies, as well as a HD-ready television set.

---

[18] http://corporate.sky.com/file.axd?pointerid=221aa60ce8cc4089a7eb126b6c09c7e1&versionid=2835e0f11bd840da914f7b3b230ea56c

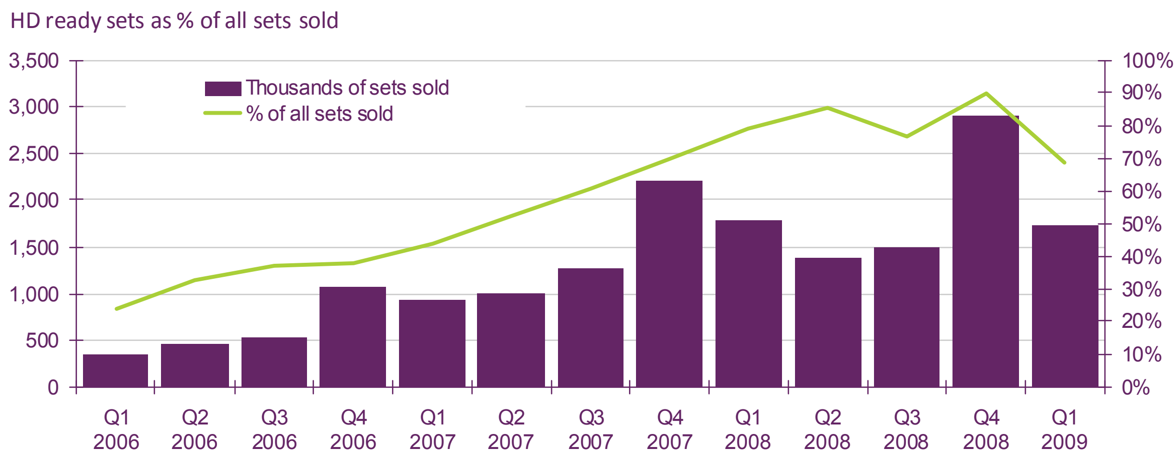
Figure 2.7 Comparison of high-definition TV services

Platform	Provider	Launch date	HD content available	Number of HD homes at Q1 2009
Satellite	BSkyB	April 2006	33 linear channels covering key genres. Third-party channels include BBC HD, Channel 4 HD, Discovery HD, MTVN HD and Eurosport HD	1,022,000 (Sky+ HD)
Satellite	Freesat	May 2008	BBC HD channel and ITV content accessed via red button	263,000 (Freesat HD)
Cable	Virgin Media	December 2005	BBC HD channel. 100 hours of HD on-demand programmes plus 30 HD on-demand movies are available (new channels planned from July 2009)	611,900 (V+)
IPTV	BT Vision	September 2008	Films from Universal, which are downloaded via IPTV to BT Vision box, are available in HD	423,000 (Vision +)
Online	BBC	April 2009	Major BBC programming available in HD to stream and download.	-
DTT	Freeview	Planned from late 2009 in selected regions*	Channels available at launch will include BBC, ITV and Channel 4. Five has been awarded a fourth licence subject to meeting certain conditions	-

Source: Ofcom, company data (correct as of July 2009)
*Note: *Granada region will be the first to launch HD on Freeview on 2 December 2009. Freeview HD will employ DVB-T2, a next-generation transmission technology, which could offer bandwidth efficiencies of up to 50%*[19].

While 2.3 million homes have receivers capable of decoding HDTV, a much larger number have now acquired the television equipment necessary. Cumulative sales of HD-ready sets had reached 17.6 million HD-ready by Q1 2009 (Figure 2.8). Our research found that 33% of television homes claimed to have a HD-ready television set at the end of 2008.

Figure 2.8 HD-ready TV sets: sales



Source: GfK

[19] http://www.dvb.org/news_events/dvbscene_magazine/DVB-SCENE27.pdf

3DTV comes into focus

The resurgence of 3D feature films such as *Bolt* and *Ice Age 3* in the cinema appears in part to have fuelled renewed interest in 3DTV from content producers. With improvements in technology, stereo 3D images can now be delivered in a way that is far more satisfactory to viewers than previous attempts at conveying depth.

The original 3D films, and some recent 3D DVD releases, used red and blue colour tints on two overlaid images intended for left and right eye. The left- and right-eyed views are seen by the correct eye when viewed through glasses with similarly-tinted lenses. This two-colour anaglyph technique was invented in the days of black-and-white film. But colour reproduction is affected by this technique, and, in addition to the other alignment errors, it resulted in many viewers experiencing headaches.

Current 3D technologies still require glasses, so are still mostly only suitable for ‘appointment-to-view’ programming. Glasses-free 3D ‘autostereoscopic’ displays are under development but are believed to be 5-10 years away from deployment. Current techniques rely on the use of special polarising filters, to deliver the left- and right-eye images on to a screen, so that a viewer with matching 3D-polarising glasses will see the correct image with each eye.

There are currently two different ways of displaying 3D on a TV screen. One interleaves the two images on a line-by-line basis; the other alternates left and right eyed views (frames). The latter type requires the use of electronic ‘shutter’ glasses which are quite heavy, and cost more than the simple polarising glasses used by the line-interleaved displays. It may be possible to view 3D using a few existing TV sets, and with some video projectors, using an external adaptor, but most people will need a new television. 3D video can be delivered using a variety of standards - around fourteen at the last count.

A few broadcasters, including BSkyB in the UK, are starting to experiment with 3DTV. It is possible to deliver 3DTV using a standard HDTV channel (although the broadcasts are not compatible with standard 2DTV sets). BSkyB has demonstrated 3D productions of programming genres including sport, entertainment, arts and live music. The current experiments appear to be aimed at gaining production experience, building a 3D programme library and convincing TV equipment manufacturers that there will be a viable market for 3D TV equipment.

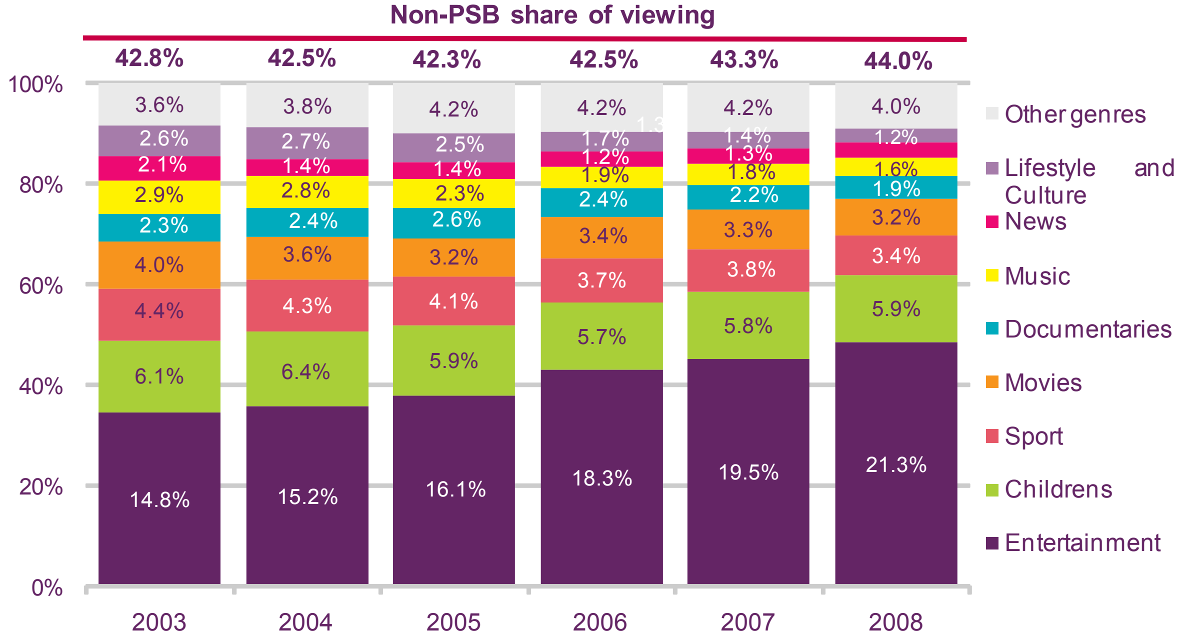
2.1.6 Channel operators continue to show interest in the Entertainment channel genre

The aggregate audience share of the multichannel Entertainment genre continued to grow steadily in 2008, maintaining its position as the largest genre category as measured by viewer hours. The Entertainment category includes channels – such as ITV2, Sky 1 and Hallmark - that show a broad mix of programme genres and which are carried in the ‘Entertainment’ sections of the electronic programme guides (EPG) of Sky Digital and Virgin Media.

The proportion of all viewer hours taken by this channel category increased by over a third between 2003 and 2008 to 21% of all hours in 2008 (Figure 2.9). This excludes the five main terrestrial entertainment channels – BBC One, BBC Two, ITV1, Channel 4 and Five - which together accounted for a further 56% of viewer hours in multichannel homes. The figures along the top of the chart (Fig. 2.12) show the aggregate viewing shares, in multichannnel homes, of the five main PSB channels over the five-year period.

Figure 2.9 Channel genre analysis in multichannel homes

Audience share



Source: BARB

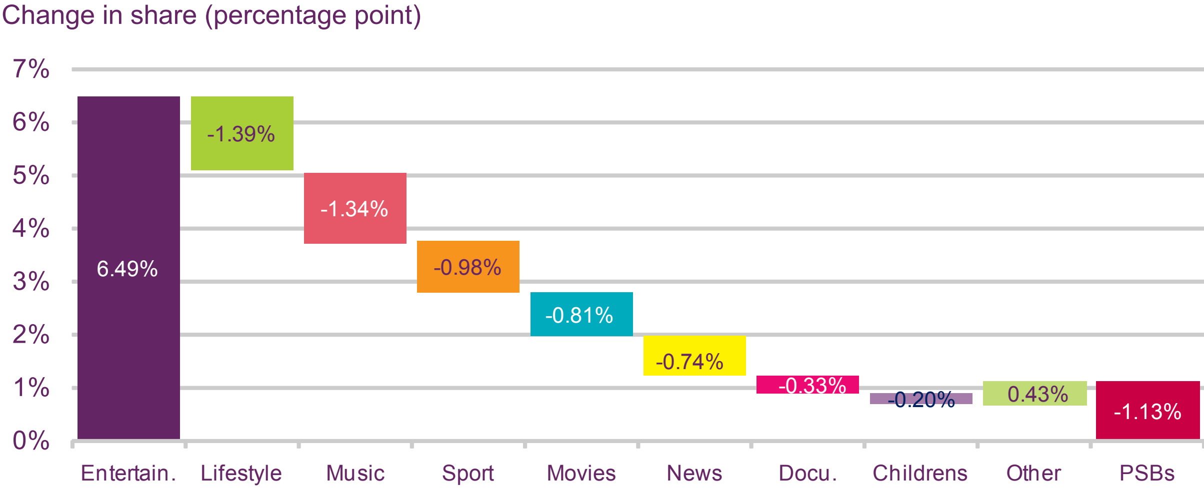
Much of the category's growing popularity has been driven by PSB portfolio channels (BBC Three, ITV2, E4 and Fiver, for example). This is in part explained by their presence on *Freeview,* the most widely-used digital television platform, where take-up has risen rapidly over the last five years. The PSB portfolio channels in the Entertainment share of viewing rose from 3.7% in 2004 to 11.4% in 2008; as such, they accounted for over half of the genre's share in 2008. The remaining channels in the Entertainment category have broadly maintained their share over the last five years, shedding one percentage point to 10% in 2008.

Other channel operators have sought to capitalise on the popularity of the Entertainment genre during 2008. Two trends have emerged:

First, non-PSB multichannel operators rebranded their channel portfolios in 2008, with an emphasis on carrying a broader spectrum of content, targeting a specific audience rather than a genre. The best example of this approach came from UKTV. Capitalising on the impact of Dave's launch in 2007, UKTV re-branded other Entertainment channels in a possible effort to replicate the increases in audience seen by Dave: UKTV Drama was renamed Alibi and UKTV Gold was replaced by two separate services: Watch, a general entertainment channel and G.O.L.D, focusing on British sitcoms.

Second, new Entertainment services were launched by traditionally genre-specific broadcasters, such as Discovery and MTV. The latter launched its first channel outside the music category: MTV R in November 2007 while Discovery launched DMax in January 2008. Over 2008, MTV R accounted for 11% of MTV's channel share, while DMax accounted for 12% Discovery's overall portfolio of viewer hours.

Figure 2.10 Changes in genre share, multichannel homes: 2003 - 2008

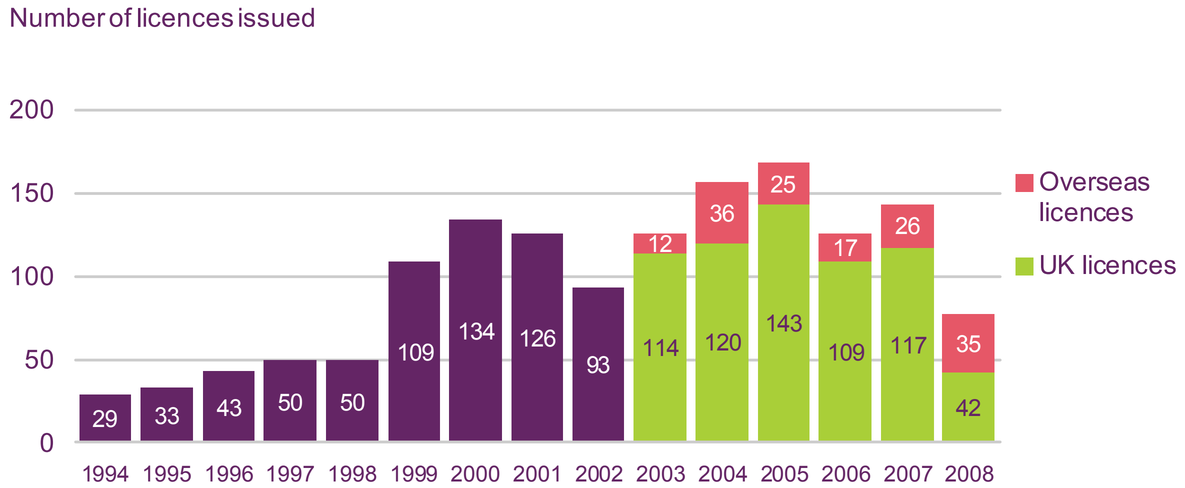


Source: BARB

2.1.7 Channel licence awards fell in 2008

Seventy-seven television channel licences were issued by Ofcom in 2008, significantly down from 143 in 2007 (Figure 2.11). Overseas licences accounted for a greater proportion of the new licences, making up 35 (45%) of the total in 2008, compared to just 18% twelve months earlier. Our research found that there were 495 channels broadcasting in the UK at the end of 2008 (excluding regional variations and pay-per-view film channels), up from 470 in 2007 and 433 in 2006.

Figure 2.11 Television channel licences issued



Source: Ofcom.
Note: For years prior to 2003, no distinction is made between UK licences and overseas licences

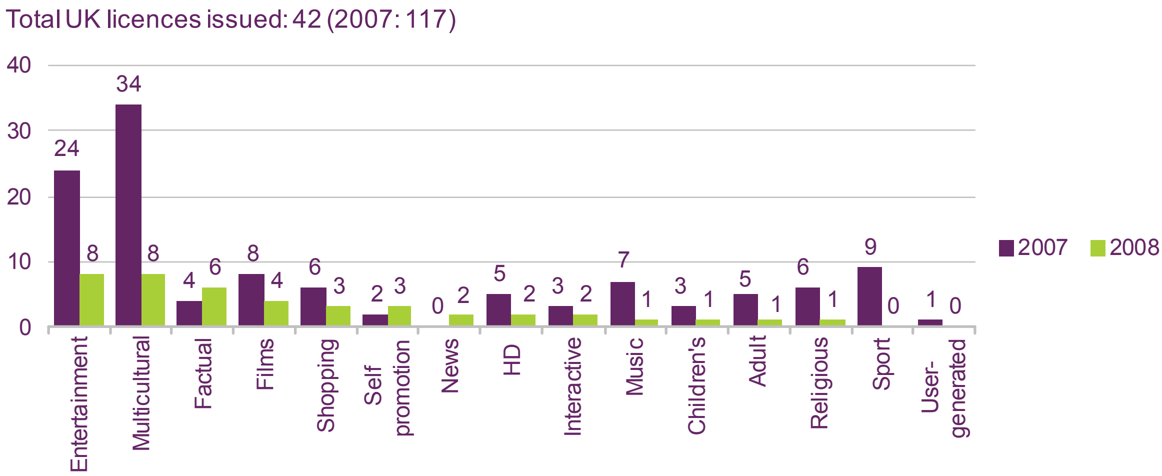
While licence awards do not equate to the number of new channels that have gone on-air, they do offer an indication of the industry's appetite to launch new channels. A number of factors could have contributed towards the reduction in UK licences issued:

- BSkyB ceased to accept applications for places in the launch queue for the digital satellite platform in October 2007, owing to potential memory constraints in oldergeneration set-top boxes. However, channels already in the launch queue, and broadcasters prepared to buy slots on the EPG from other companies, were able to gain access to the platform. In early 2009, BSkyB opened a consultation on allowing additional high-definition channels to launch, as HD receivers do not have such memory limitations.

- The market may be reaching a point of maturity, or even saturation, which makes it less economic for new services to launch (there were around 495 television channels broadcasting at the end of 2008, double the number of channels in 2001). Multichannel advertising revenues, excluding those of the PSB portfolio channels, rose by just £2m in 2008 to £810m (and up from £695m in 2004). The economic environment specific to 2008 could have had some bearing on operators' willingness to launch new channels (and thereby apply for a new licence).

- Some broadcasters have taken steps to rationalise or re-focus their channel portfolios. Rather than launching new channels, some operators have repositioned existing services. For example, Virgin Media Television closed its Trouble channel and replaced it with a Living TV time-shift, while UKTV has continued to re-brand many of its channels – a process that was started before the recession.

Figure 2.12 UK channel licence awards, by genre, 2007 - 2008



Source: Ofcom.
Note: Chart includes only those channels granted UK licences.

The declining numbers of licence awards were reflected in all the major channel categories in 2008. Eight Entertainment channels were licensed in 2008, down by two-thirds in a year; Multicultural channels, another fast-growing category in 2007, saw a drop from 34 to eight awards. High-definition television channels, which have experienced significant growth in recent years, accounted for two of the 42 licences, down from five out of 117 in 2007. No UK Sports channels were licensed in 2008, compared to nine the previous year, while one Adult channel licence was granted, a reduction on the five issued in 2007.

2.2 The television industry

2.2.1 Introduction

In this section we analyse the financial dynamics of the UK television industry, breaking down revenue by the different sources in the market and highlighting key trends. We also examine broadcasters' hours of output, spend on programming and compliance with quotas.

Key points in this section include:

- **The UK television industry recorded revenues of £11.2bn in 2008, an increase of £145m (1.3%) on 2007**. A declining advertising market, down 3% to £3.47bn, was offset by increasing subscription revenues from pay-TV platforms, which grew by 5.7% to £4.32bn (**page 82**).

- **Broadcasters' spend on programming passed £5bn for the first time**. Spend on the five main PSB channels increased by £59m year on year to reach £2.8bn. Investment in programming for Sports and Film channels (the majority of which is the cost of acquiring rights), increased by £33m year on year to £1.2bn (**page 88**).

- **The five main PSB channels broadcast 33,165 hours of first-run originated programming in 2008, down by 3% on 2007** and by 5.6% (1,845 hours) since 2003. The five PSB channels also invested less in first-run originations. In 2008 prices, they spent £2,620m in 2008, compared to £2,697m in 2007 – a 2.9% reduction (**page 89**).

- **The independent production sector grew at a much slower rate in 2008, generating revenue of £2.2bn, an increase of 1% year on year**. TV income contributed £1.9bn of the total (88%), of which primary TV rights continued to be the main revenue source at £1.4bn (**page 97**).

- **Television channels broadcast nearly 2.5 million hours of programming in 2008 of which 5% were first-run originations**. Of the 42,792 hours broadcast by the five main network PSB channels in 2008, nearly half (49%) were first-run originations (**page 85**).

- **Most of the obligations placed on PSBs, in terms of compliance with programme quotas, were met in 2008**. In some areas, such as quotas for original productions and independent programmes, targets were comfortably exceeded, although ITV1 narrowly missed the quota for the value of regional production outside London in 2008 (**page 102**).

2.2.2 Television industry revenue

The UK television industry generated revenue of £11.2bn in 2008

The UK television industry generated £11.2bn of revenue in 2008, an increase of £145m (1.3%) on 2007. The increase masked a trend of falling television advertising revenue, which declined 3% year on year to reach £3.47bn, offset by rising subscriber revenue.

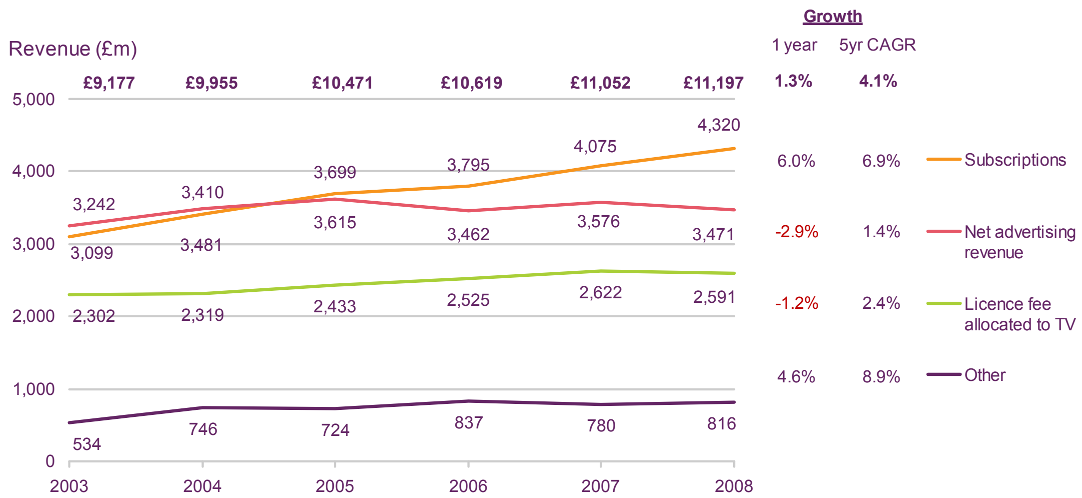
Subscription revenues across pay-TV platforms increased by 5.7% in 2008 to reach £4.32bn, accounting for 38.5% of industry revenues, up from 36.9% in 2007. Net advertising's share of total television revenues fell from 32.4% to 31.0% over the same period. Rising subscriber revenue and reductions in the value of television advertising sales in 2008 led to a widening gap between the two to £849m, compared to £499m in 2007.

Platform operators continued to grow revenues, as the pay-TV subscriber base increased and greater numbers of customers took multiple television products such as video-on-demand, multiroom and high-definition television.

Ofcom estimates that the BBC licence-fee revenue spent on television decreased by 1.2% year on year to just below £2.6bn in 2008. It accounted for just less than a quarter of all television industry revenue (23.1%).

Broadcasters managed to reverse the decline in 'other' revenue seen in 2007. Other revenue - from a variety of sources such as shopping, pay-per-view, sponsorship, programme sales and S4C's grant from the DCMS - increased by £36m (4.2%) year on year. Other revenue stood at £816m, accounting for 7.3% of the industry total in 2008, up marginally from 7.1% in 2007.

Figure 2.13 Total TV industry revenue, by source

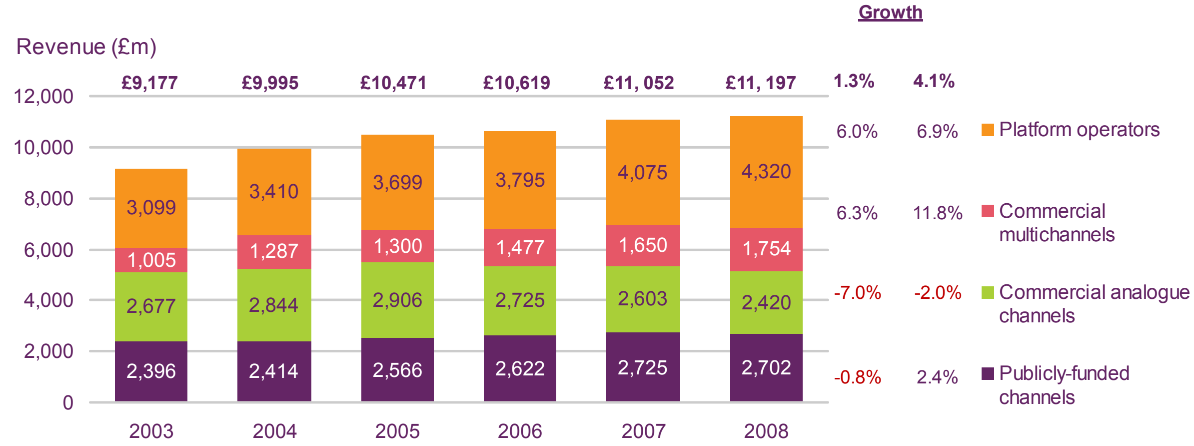


Source: Ofcom/broadcasters
Note: Figures expressed in nominal terms and replace previous Ofcom revenue data for TV industry, owning to restatements and improvements in methodologies. 'Subscriptions' includes Ofcom's estimates of BSkyB, Virgin Media, BT Vision, Setanta Sports and Top Up TV television subscriber revenue in the UK (Republic of Ireland revenue is excluded). It also excludes revenue generated by broadband and telephony. 'Other' includes TV shopping, sponsorship, interactive (including premium-rate telephony services), programme sales and S4C's grant from the DCMS. The licence fee figure for 2006 has been re-stated owing to a change in the way the BBC reported its figures, which allocates a greater proportion of overheads to specific services. Totals may not equal the sum of the components due to rounding.

Pay TV operators generated revenues of £4.3bn in 2008, an increase of 6% on 2007.

Commercial analogue channels, which include the commercial PSBs, generated revenue of £2.4bn in 2008, a 7% fall from 2007. Revenue for the commercial multichannel broadcasters increased 6% year on year to nearly £1.8bn, driven in large part by increased advertising revenues from the PSB portfolio channels. The revenue for publicly-funded channels, which includes the part of the BBC licence fee that is dedicated to television and S4C's grant from the DCMS, fell 0.9% year on year to £2.7bn.

Figure 2.14 Total TV industry revenue, by sector



Source: Ofcom/broadcasters
Note: Figures expressed in nominal terms. Commercial analogue channels comprise ITV1, Channel 4, Five and S4C. Commercial multichannels comprise all commercial channels other than ITV1, Channel 4 and Five. Publicly-funded channels comprise BBC One, BBC Two, the BBC's portfolio of digital-only television channels and S4C. S4C is listed under publicly-funded and commercial analogue channels because it has a mixed advertising and public funding model. The publicly-funded channels figures for 2006 and 2007 have been restated due to a change in the way the BBC reported on the deployment of licence fee income. Totals may not equal the sum of the components due to rounding.

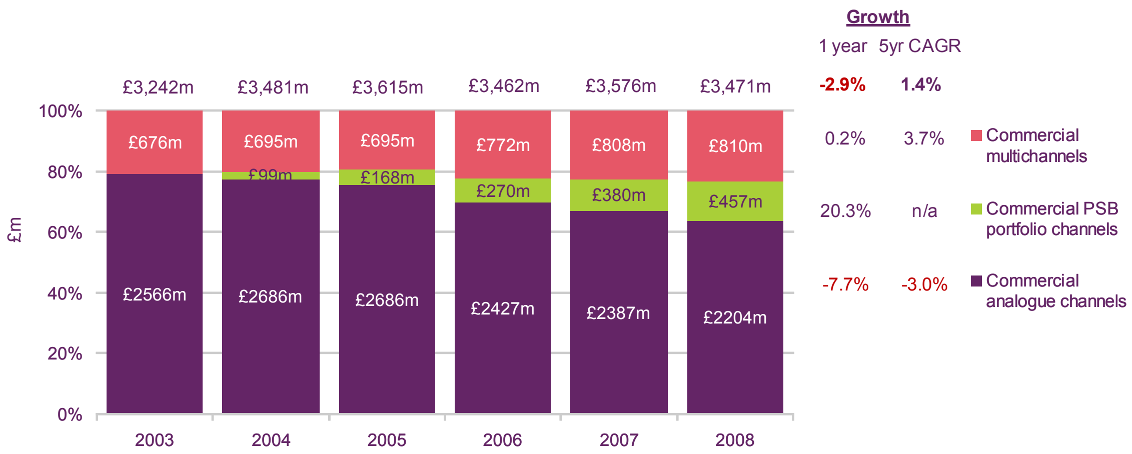
2.2.3 TV advertising revenues

The television sector experienced a fall in net advertising revenues (NAR) in 2008, as rising commercial multichannel advertising failed to offset reductions in NAR across the four commercial PSBs: ITV1, GMTV1, Channel 4/S4C and Five.

NAR totalled £3.47bn in 2008, down by 3% in twelve months. The four commercial PSB channels saw advertising revenues fall by 8.3% to £2.2bn. Commercial multichannel broadcasters generated net advertising revenues of £1.3bn in 2008, up from £1.2bn in 2007. The majority of this growth was driven by the portfolio channels of the PSBs, which generated £457m of NAR in 2008, up 16.9% or £77m on 2007. This offset losses on the parent services to some extent, taking their total NAR to £2.66bn in 2008, down nearly 4% on £2.77bn in 2007.

The UK's other multichannel broadcasters saw advertising revenue rise slightly in 2008, by £2m to £810m. This represents the smallest growth rate among multichannel broadcasters (excluding PSB portfolio channels) since 2005.

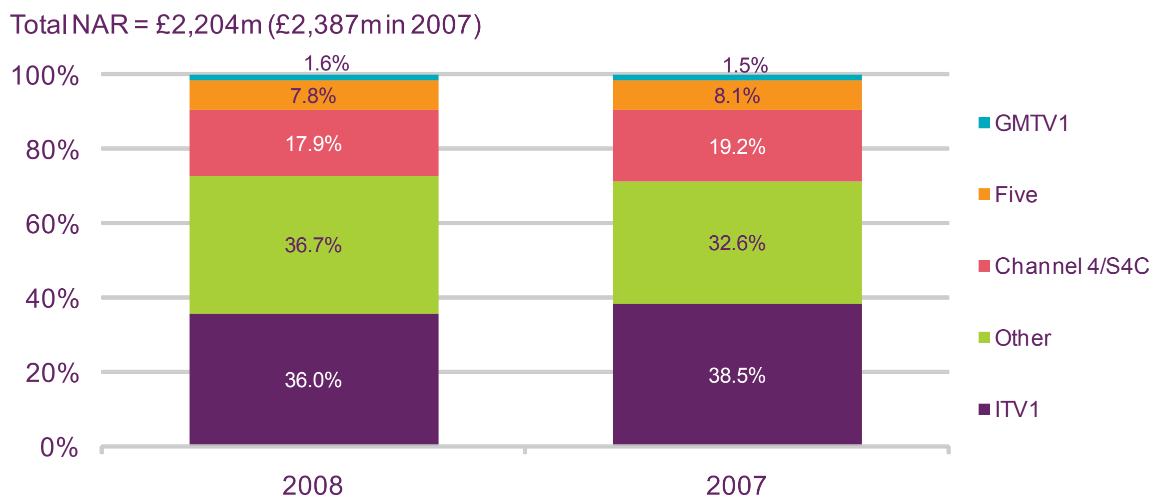
Figure 2.15 Net advertising revenue, by sector



Source: Ofcom/broadcasters.
Note: Figures are nominal. Commercial PSB portfolio channels include ITV2, 3, 4, Men & Motors, CiTV, E4, More 4, Film 4, 4 Music, Five US and Fiver (plus their '+1' channels). Sponsorship revenues are not included. Totals may not equal the sum of the components due to rounding.

Figure 2.16 shows that three of the commercial analogue channels (ITV1, GMTV1, Channel 4 and Five) experienced declining advertising revenue in 2008. *ITV1* and Channel 4 saw the biggest falls, down 8.9% and 9.1% respectively, while Five's fell 5.5%. GMTV1, by contrast, saw an increase of 1.8%. Their share of total television advertising fell by four percentage points to 63.3% in 2008. The multichannel sector's share rose by 4.1 percentage points year on year to 36%, driven by gains at the PSB portfolio channels, which attracted a 13% share of the UK television advertising market in 2008, up from 11% in 2007.

Figure 2.16 TV advertising market share, 2008



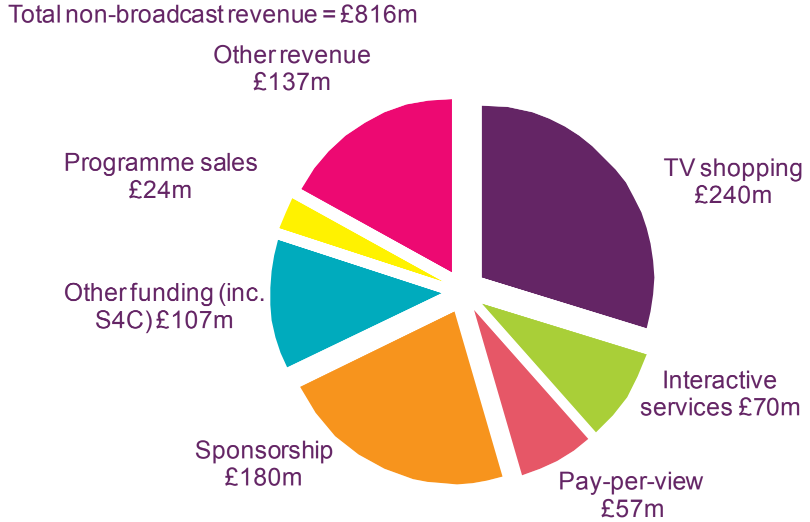
Source: Ofcom/broadcasters.
Note: Channel 4 includes S4C

2.2.4 TV shopping accounts for nearly a third of non-broadcast revenue

Figure 2.17 gives a breakdown of total non-broadcast and other revenue generated by television channels, including PSBs and multichannel broadcasters. The operating margin on TV shopping accounted for a third of non-broadcast revenue in 2008 (£240m). The second largest component of non-broadcast revenue was sponsorship, which reached

£180m (22%). Other revenue accounted for £137m, while S4C's grant from the DCMS accounted for a further £98m.

Figure 2.17 Breakdown of non-broadcast and other revenue, 2008



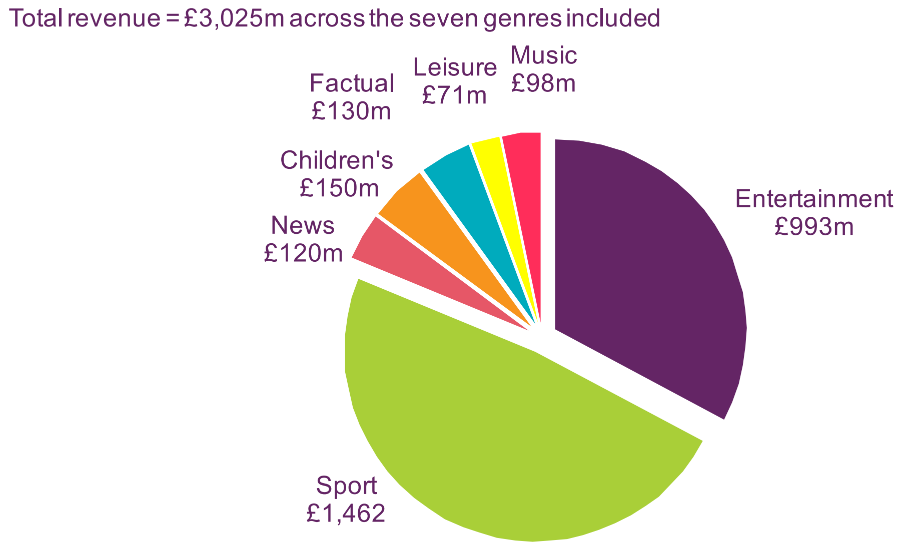
Source: Ofcom/broadcasters.
Note: TV shopping represents aggregate operating margin of products sold via television. Totals may not equal the sum of the components due to rounding.

2.2.5 Sports and Entertainment channels generate most multichannel revenue

Figure 2.18 details how much revenue television services in a selection of multichannel key genres generated in 2008. Sports accounted for nearly half (48%) of the total within the seven genres included in this analysis. Entertainment was the second largest single source of revenue, with £933m (33%). (This analysis excludes Multicultural, Adult, Interactive, Gaming and Shopping channels which offer comparatively little in the way of traditional programming).

Total revenue from the seven genres was £3,025m in 2008, up from £2,905m in 2007. However, these figures are not directly comparable, because a greater number of channels had made their submissions to Ofcom at the time of writing in 2008 than in 2007.

Figure 2.18 Multichannel broadcasters' revenue in key channel genres, 2008



Source: Ofcom/Broadcasters
Note: The figures in this chart include all sources of revenue accruing to multichannels. This includes those set out in Figure 2.14 plus wholesale subscriber payments from platform operators.

2.2.6 TV industry output

Nearly 2.5 million hours of television broadcast in 2008

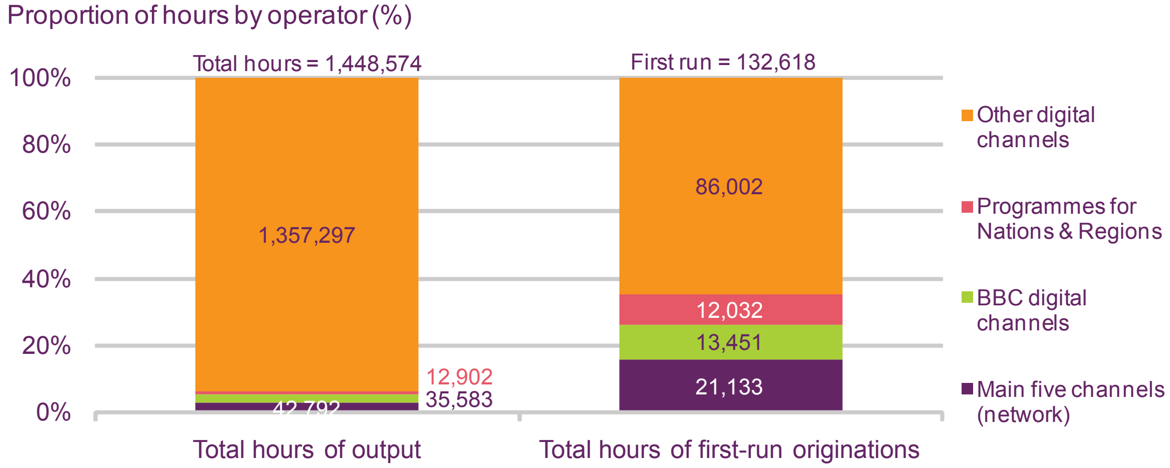
UK television channels broadcast 2,483,495 hours of programming in 2008. Of these, 1,448,574 hours were broadcast by the PSB channels and key multichannel genres (Entertainment, Sport, Film, Factual, Children's, News, Leisure and Music). Of this total, 9% (132,618 hours) were first-run originations; by broadcaster and genre, although the proportion of first-run originated hours varied substantially.

Ninety-three per cent of the 12,902 hours broadcast by PSBs in the nations and regions last year were originations; of the 42,792 hours of network programming broadcast by the five main PSB channels, 49% were first-run originations. Originated hours among the BBC's digital channels constituted 37% of their 35,583 total hours.

The key multichannel genres - Entertainment, Sport, Films, Factual, Children's, News, Leisure and Music – accounted for 1,357,297 (94%) of total broadcast hours from mainstream channels in 2008. A large proportion of these hours were either acquired or repeats – these channels broadcast the lowest proportion of first-run originations (6%).

A further 1,126,198 hours were broadcast by multichannel services in other genres, such as Shopping, Multicultural, Adult, Interactive and Gaming. These genres are excluded from Figure 2.19 to ease comparability.

Figure 2.19 Total and first-run originated hours of output among PSBs and key multichannel genres, all day, 2008



Source: Ofcom/broadcasters
Note: The first-run figures include in-house productions and external commissions, not first-run acquisitions. GMTV is included within the figures for the five main channels. 'Other digital channels' includes Entertainment, Sport, Films, Factual, Children's, News, Leisure and Music genres.

2.2.7 UK broadcasters' content spend passed £5bn for the first time in 2008

In 2008, broadcasters' spend on television output passed the £5bn mark for the first time, fuelled mostly by increased investment in BBC One and Sport and Film channels. Figure 2.20 illustrates that total spend on programmes in 2008 reached just over £5.0bn, up 2% on 2007.

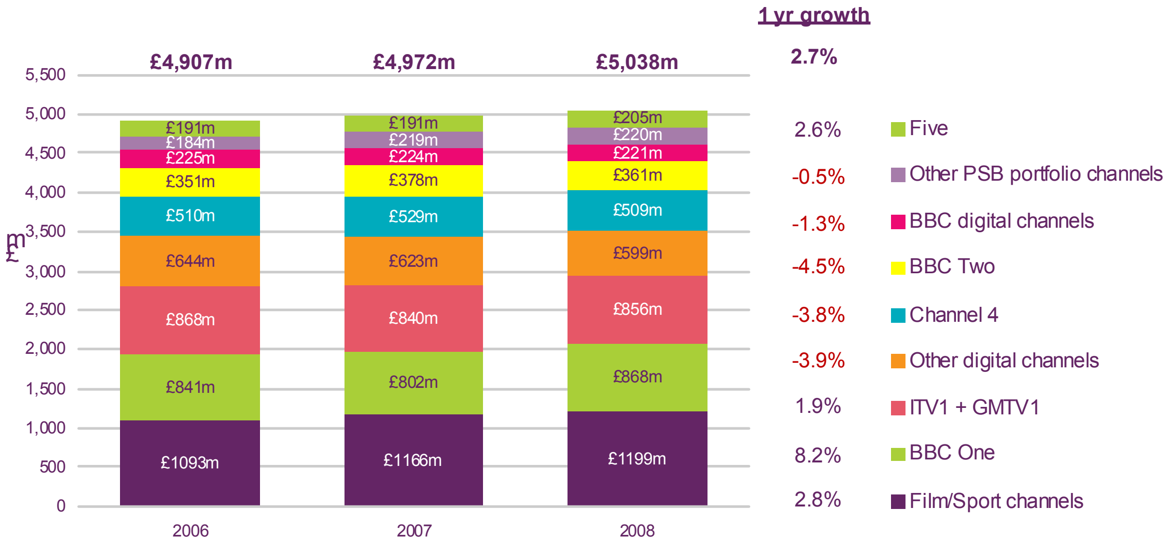
Investment in programming for Sports and Film channels (the majority of which is the cost of acquiring rights) increased by £43m year on year to £1.2bn.

Of the five main PSB channels, BBC One, ITV1 (including GMTV1), and Five increased investment on their schedules in 2008; BBC Two and Channel 4 spent less. The BBC also reduced spending on its portfolio of digital channels, by £3m or 1.3%, in 2008.

The BBC's spend on television output of £1.5bn accounted for 29% of the total investment across all channels in 2008, broadly in line with the comparable figures for 2006 and 2007. Spend on the five main PSB channels increased by £59m year on year, to reach £2.8bn.

The commercial PSBs spent £220m on programming for their portfolio channels, up £1m from 2007. Spending on programmes for the rest of the commercial multichannels decreased again in 2008, down by 4% to £599m.

Figure 2.20 Spend on programmes



Source: Ofcom/broadcasters.
Note: Figures expressed in nominal terms. Figures do not include spend on nations and regions output. BBC digital channels includes BBC Three, BBC Four, BBC News Channel, BBC Parliament, CBBC, CBeebies, and BBC HD. 'Digital-only commercial channels' include all genres (excluding sports and Films). Programme spend comprises in-house commissions, commissioned produced by independents, spend on acquired programmes, spend on rights and repeats.

2.2.8 Television output on the five main PSB channels

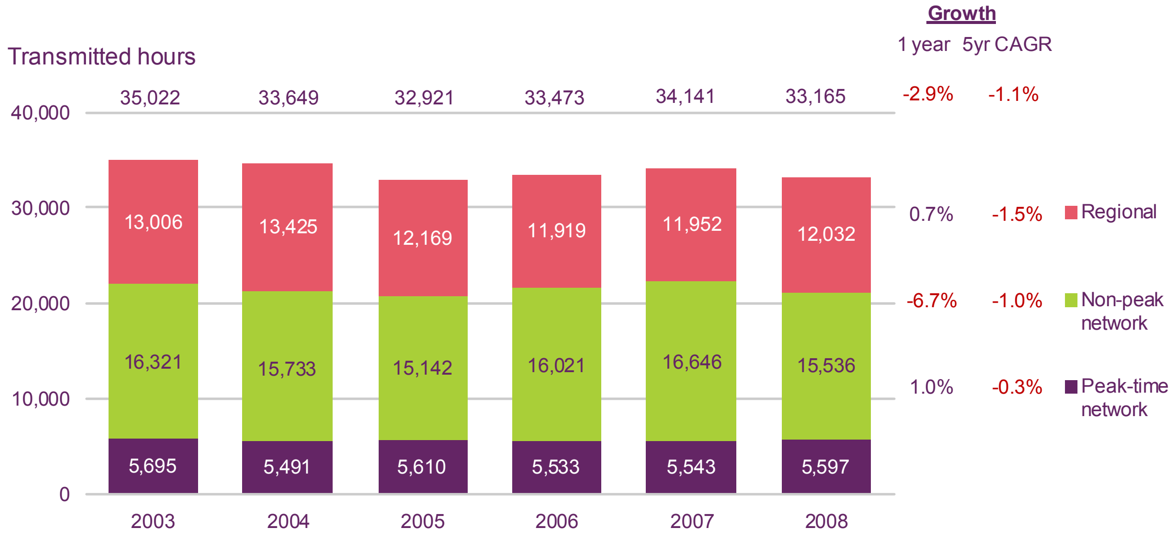
PSBs produced fewer hours of first-run original output in 2008

The five main PSB channels broadcast 33,165 hours of first-run originated programming in 2008, down by 3% on 2007 and by 5.6% (1845 hours) since 2003.

The principal driver of this reduction was a 7% fall in first-run originations in non-peak network hours, to 15,536 hours, perhaps reflecting broadcasters' renewed focus on putting new hours of content into those parts of the schedule where audiences are largest. First-run originations in peak-time network hours (18:00 – 22:30) and regional hours increased by 54 hours and 80 hours respectively. Ofcom's annual report on public service broadcasting, published in July 2009, provides further detail on this.[20]

[20] http://www.ofcom.org.uk/tv/psb_review/annrep/psb09/psbrpt.pdf

Figure 2.21 Hours of first-run originated output on the five main PSB channels Spend on programmes



Source: Ofcom/Broadcasters

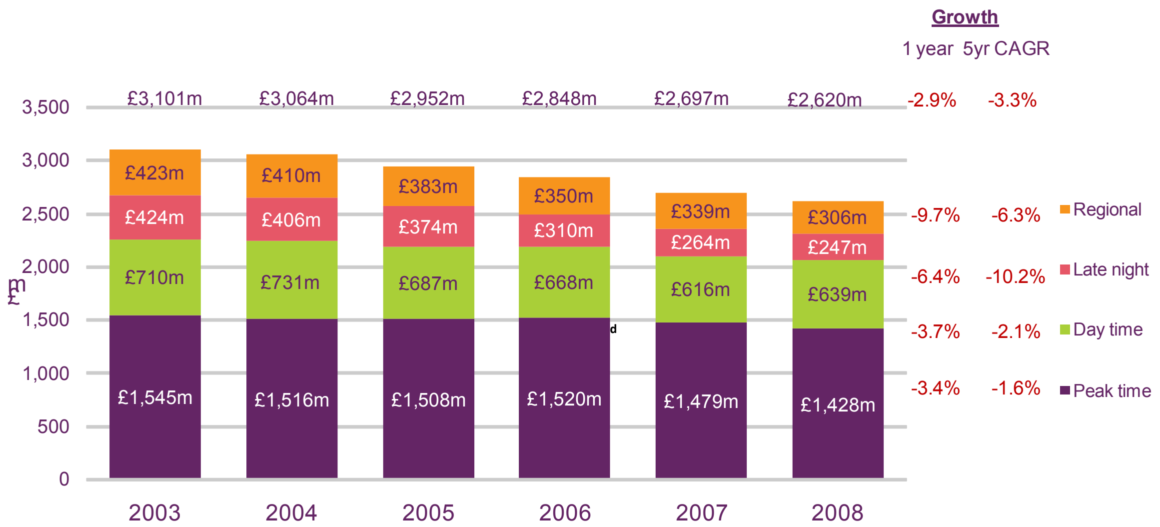
While first-run hours fell out of peak time in 2008, spend in daytime rose by 3.6% in real terms. But as Figure 2.22 illustrates, overall, the five PSB channels invested less in first-run originations. In 2008 prices, they spent £2,620m in 2008, compared to £2,697m in 2007 – a 2.9% reduction.

The fall was particularly marked in regional programming, where spend on first-run originations dropped by 10.8% to £306m between 2007 and 2008. Spend on late-night and peak-time originations dropped by 3.7% to £247m and by 3.6% to £1,428m respectively. Peak time continued to attract the majority of spend, attracting 55% of investment, comparable to that seen in 2007.

Phase One of our second review of public service broadcasting, published in April 2008, found that the five main PSB channels and the BBC's digital channels accounted for 90% (£2.5bn) of investment in networked UK originated output in 2007. The non-PSB channels accounted for 10% (£268m) when excluding Film and Sports channels as the majority of expenditure for these channels is on rights.[21]

[21] http://www.ofcom.org.uk/consult/condocs/psb2_1/

Figure 2.22 Spend on first-run originated output on the five main networks



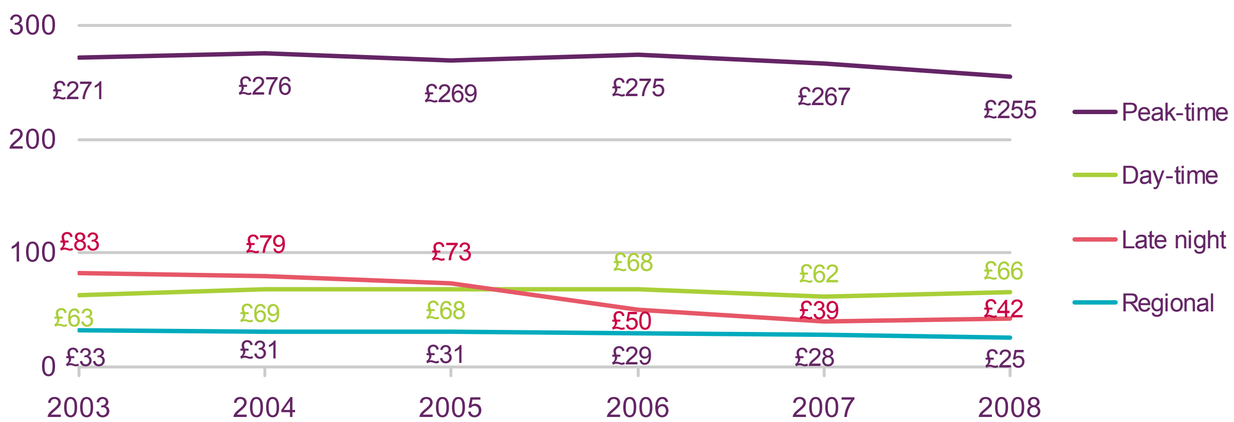
Source: Ofcom/broadcasters.
Note: Figures are expressed in 2008 prices. Figures include GMTV.

Despite falling investment and increased hours of first-run originations, the cost per hour (CPH) of original programming on the five main channels has not fallen for all parts of the schedule, since the trends for hours and spend have diverged. Figure 2.23 shows that the CPH for day-time and late-night output increased year on year between 2007 and 2008, up by £4k (6.5%) and by £3k (7.1%) respectively, to £66k and £42k.

CPH for regional programming fell slightly in 2008, by £3k (or 10.7%) to £25k per hour, while first-run original peak-time programming declined in CPH, down by £12k (4.7%) to £255k. On average, peak-time originations were ten times more expensive to produce than regional programming; the ratio in 2003 was about eight times.

Figure 2.23 Cost per hour of first-run originated content on the five main channels

Cost per hour (£'000)



Source: Ofcom/Broadcasters.
Note: Figures are expressed in 2008 prices. Figures include GMTV.

In 2008, the five main PSB channels and the BBC's digital channels broadcast a weekly average of 176 hours of first-run originations in peak time (18:00 to 22:30), the highest number since 2005. Across the entire day (24 hours), total weekly first-run originations were 661 hours in 2008, down from 673 hours in 2007.

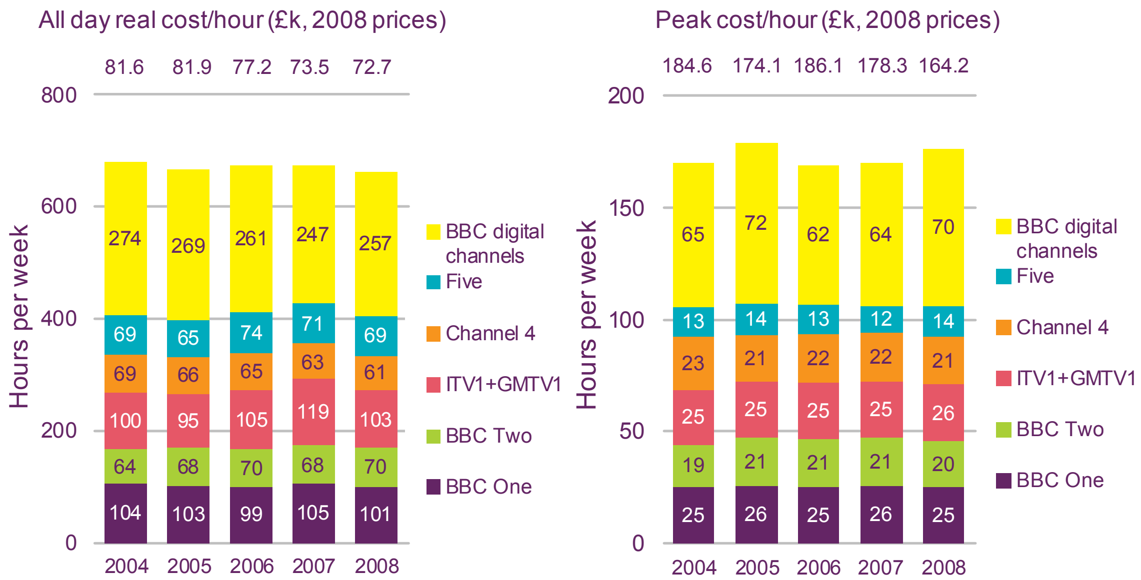
Figure 2.24 shows that real CPH for first-run originated programmes on the PSB channels and on the BBC's digital channels continued to fall in real terms in peak time and across the day in 2008.

Most of the five PSB channels reduced the number of first-run originated hours across their all-day schedules. The exception was BBC Two, where hours increased from 68 to 70. The most significant reductions were seen on ITV1 and GMTV1, where first-run originations dropped by 13.4% (or 16 hours per week) to 103 hours per week in 2008.

On the BBC's digital channels – BBC Three, BBC Four, BBC News Channel, BBC Parliament, CBBC, CBeebies and BBC HD – hours of first-run originations rose by 3.9% (or 10 hours) year on year.

In peak time, hours on two of the five main PSB channels – ITV1 and Five – rose by 4% and 14% respectively. By contrast, hours in peak on BBC One, BBC Two and Channel 4 each fell by one hour a week between 2007 and 2008. The BBC's digital channels increased their total peak-time original hours by 9% in 2008 to reach 70 hours per week.

Figure 2.24 First-run originated output by the PSBs, all day and peak time



Source: Ofcom/broadcasters.
Note: Figures are expressed in 2008 prices.

PSB hours of output, by genre

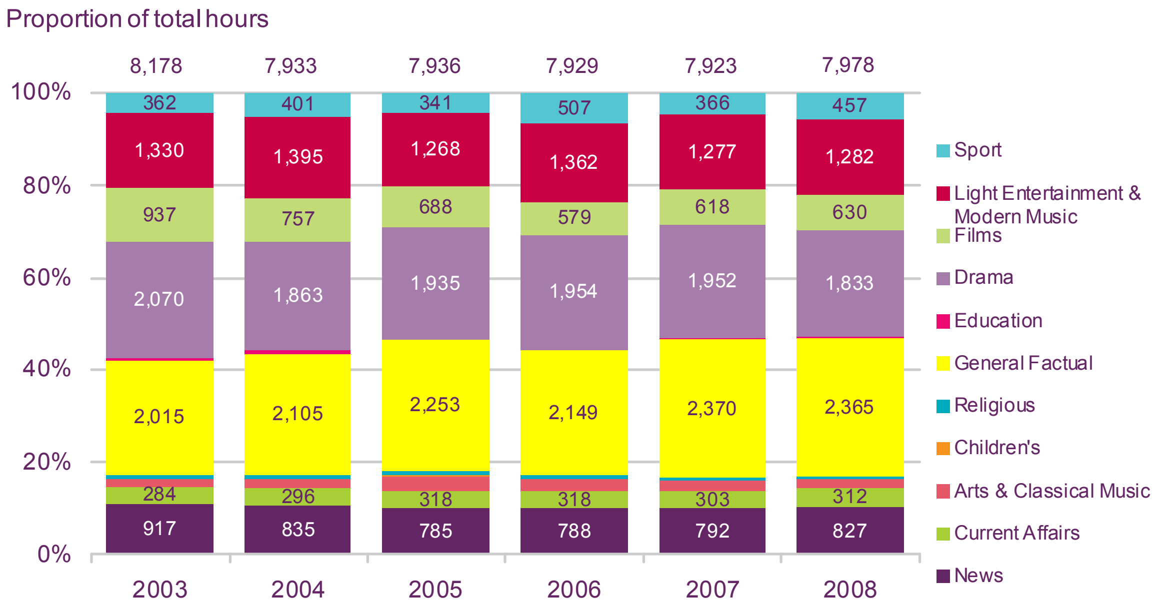
Figure 2.25 sets out the composition of peak-time schedules of all hours, not just first-run originations, of the five main PSB channels by genre. Drama and General Factual, two of the largest components of peak-time schedules, experienced hours reductions during 2008, falling by 6% to 1,833 hours and by 0.2% to 2,365 hours respectively.

Hours of peak-time Drama fell by 119 hours in 2008 to 1,833 hours, down 6.5% year on year and down 13% since 2003. Peak-time News output in 2008 reached its highest level since 2004, with 827 hours broadcast. This was driven by the reinstatement of ITV1's *News at Ten* flagship bulletin in January 2008 for four days per week, brought forward from 22:30. Peak-time coverage of Current Affairs also increased year on year by nine hours to 312 hours in 2008.

Coverage of Sports in peak time increased in 2008, largely due to the summer's European football championships (broadcast by the BBC and ITV) and the Beijing Olympics (BBC). There were 457 hours of Sport broadcast in peak time in 2008 on the five main PSB channels. This represented an increase of 20% on 2007 but was still 11% down on 2006, when the last football World Cup tournament was held, and in which England participated. None of the home nations' football teams qualified for the 2008 European Championships.

The hours of films broadcast in peak time increased for the second consecutive year, reaching 630 hours in 2008, up by 2% on 2007 and 8% on 2006. Hours of light Entertainment/Modern Music, the third-largest category of content in peak-time schedules, rose slightly in 2008 (by five hours) to 1,282.

Figure 2.25 Genre mix on five main PSB channels in peak time, by hours

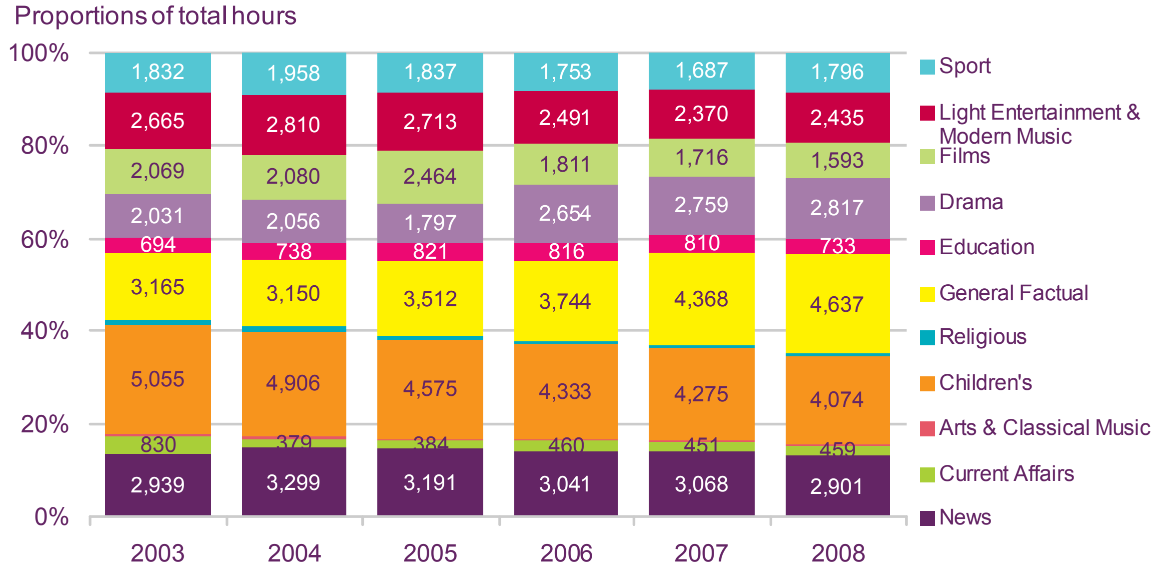


Source: Ofcom/broadcasters.
Note: Figures do not include spend on nations and regions output.

Figure 2.26 illustrates the genre mix for the five main PSB channels in their daytime schedules (06:00 – 18:00). Hours dedicated to General Factual programming continued to increase in 2008, up by 6% on 2007 and an increase of 19% on 2006.

General Factual, which includes programmes around property and leisure, for example, is the largest single component of daytime schedules across the five channels, a trend that emerged in 2007. Children's, the largest part of daytime schedules prior to 2007, fell by 5% to 4,074 hours. Light Entertainment/Modern Music increased its presence in daytime, up by 3% year on year.

Figure 2.26 Genre mix on five main PSB channels in daytime



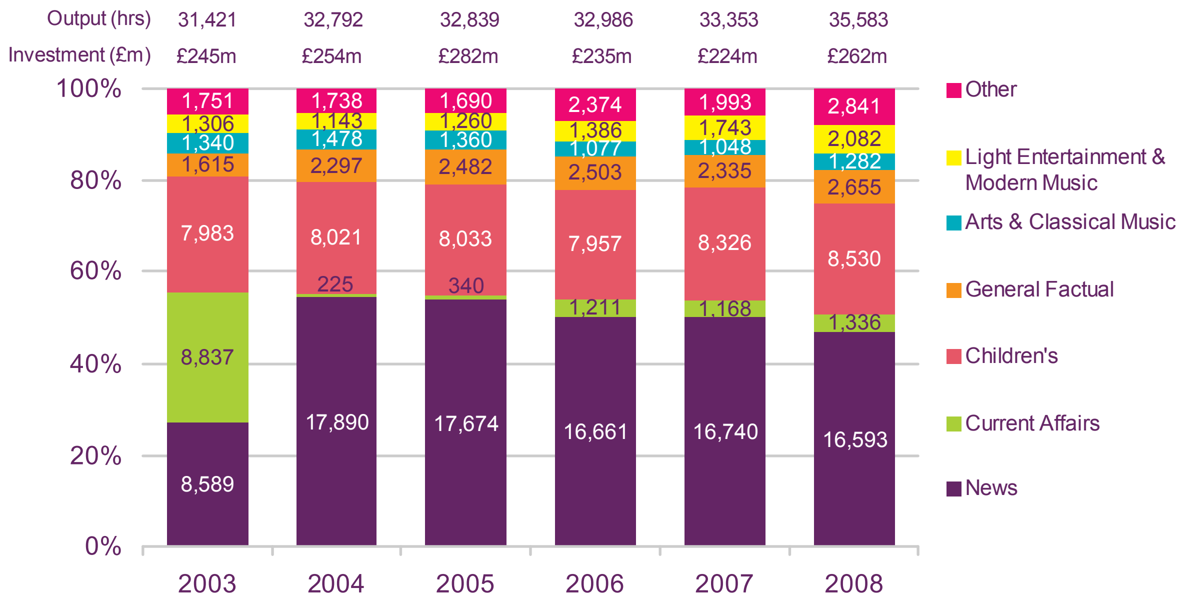
Source: Ofcom/broadcasters.
Note: Includes five main channels plus GMTV1. Figures do not include spend on nations and regions output Genre mixes cover all hours and not only first-run originations.

The analysis of the BBC's portfolio of digital channels reveals rising output in 2008, due to the inclusion of the BBC HD channel, which launched in December 2007 (Figure 2.27). The channel portfolio benefitted from an extra £38m investment in 2008 (in 2008 prices).

The largest single component of the portfolio by hours continued to be the News genre, largely due to BBC News Channel. In 2008, 47% (16,593 hours) of the BBC digital channels' hours were dedicated to News programming, which is down from 55% (17,890 hours) in 2004.

Hours of Light Entertainment/Modern Music rose by 16% year on year to 2,082, while General Factual, which comprised 2,655 hours of the BBC's digital channels' output in 2008, was up 12% on 2007. In 2008, 'Other' genres, which include genres outside of the main six included, and miscellaneous programming, accounted for a growing number of hours in 2008, up by 30% to reach 2,841 hours. Drama, which is included in the 'other' section, saw its hours increase from 666 in 2007 to 1,357 hours in 2008.

Figure 2.27 The BBC's digital channels genre mix, by hours (all-day)



Source: Ofcom/broadcasters.
Note: BBC digital channels include BBC Three, BBC Four, BBC News Channel, BBC Parliament, CBBC, CBeebies and, from 2008 only, BBC HD. Investment figures are in 2008 prices. Other includes: Education, Drama, Film, Religion and Sport. The BBC allocated Parliamentary coverage to the Current Affairs genre in the data for 1998 to 2003. From 2004, it has been allocated to either News or Current Affairs.

2.2.9 Multichannel output, by genre

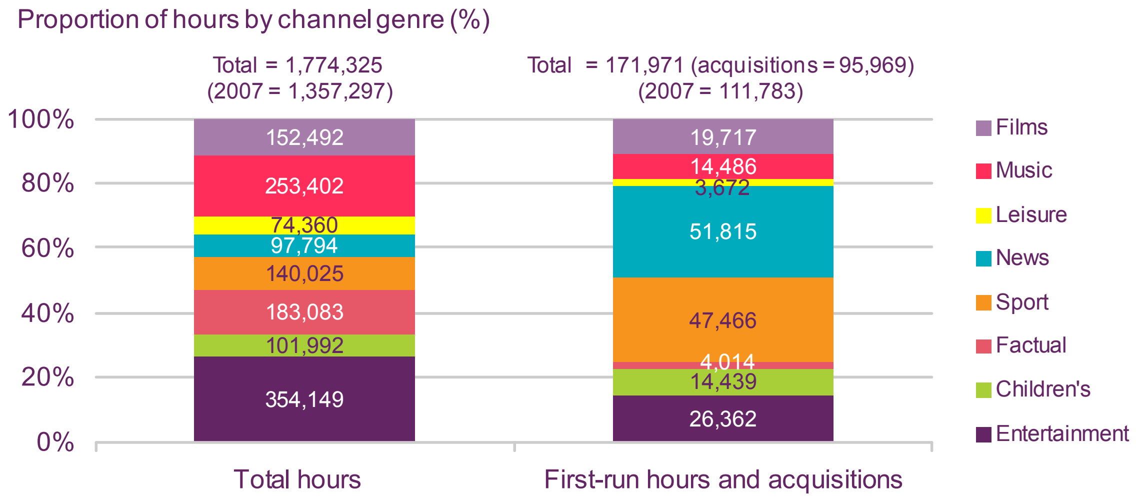
Entertainment and Music accounted for one in every two broadcast hours among key genre in 2008

Figure 2.28 gives a breakdown of broadcast hours in eight key multichannel genres, split by type of channel rather than genre. Entertainment and Music accounted for 50% of all total broadcast hours in 2008, at 354,149 hours and 253,402 hours respectively. Sports and Film channels represented just over a fifth (21%) of broadcast hours, with Factual, Children's, News and Leisure accounting for a remaining one-third of hours (33%).

Total broadcast hours across the eight genres was 1,774,325 in 2008, 75% higher than the 1,012,297 reported in 2007. A number of factors have contributed to this:

- a greater number of channels have been included in the 2008 analysis;
- at the time of writing, a greater volume of returns had been received from channel operators; and
- Film channels, which broadcast 152,492 hours in 2008, have been added to the data for the first time.

Figure 2.28 Total multichannel hours and first-run originations/acquisitions, 2008



Source: Ofcom/broadcasters
Note: Number of total hours have increased year on year due to new channels and a greater number included in analysis. Broadcast hours exclude Sky Box Office and barker channels, which promote TV content. First-run hours include first-run in-house and commissioned content.

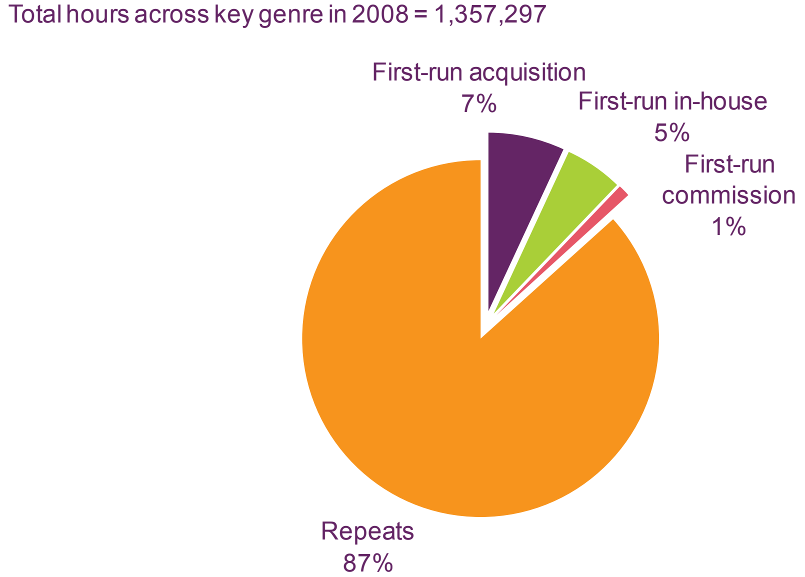
Focusing on first-run originations and acquisitions, Entertainment, News and Sports accounted for two-thirds of broadcast hours (69%) among the eight key genres in 2008. The majority of channel schedules for Sports and News are studio broadcasts or live coverage of events. Music constituted nearly a quarter of total hours, while just 8% (14,486 hours) were first-run originations and acquisitions, due to heavy reliance on often-repeated music videos.

Nearly nine in ten multichannel hours were repeats in 2008

Programme repeats account for the vast majority of multichannel hours across key genres, making up 87% (1,175,326 hours) of total output across the eight key genres in 2008 (Figure 2.29).

First-run commissioned programmes, made by external producers, accounted for 17,422 hours, or 1% of the broadcast hours in the Entertainment, Sport, Films, Factual, Children's, News, Leisure and Music genres. First-run acquisitions accounted for 7% (76,403 hours) of the total across the key genres, ahead of in-house productions which accounted for 5% (68,429 hours).

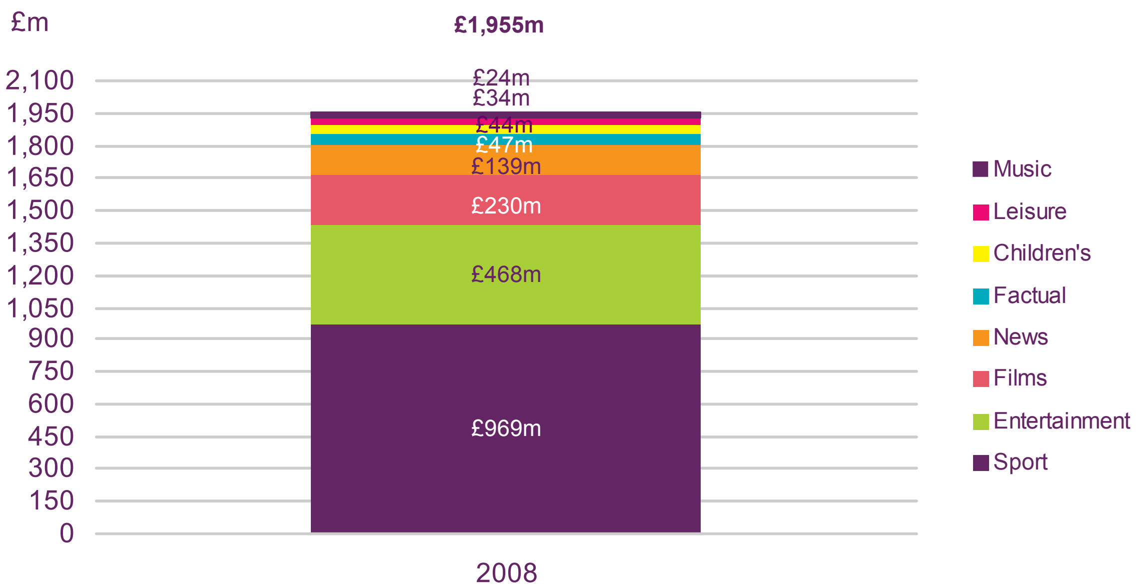
Figure 2.29 Total multichannel hours by source across key genres, all-day, 2008



Source: Ofcom/broadcasters.
Note: Includes Entertainment, Sport, Films, Factual, Children's, News, Leisure and Music

Figure 2.30 shows that commercial multichannel broadcasters invested nearly £2bn in programming during 2008. Sports accounted for 50% of the total, most of which was spent on broadcast rights. A total of £468m was spent on Entertainment channels; Film channels accounted for £230m while News channels spent £139m.

Figure 2.30 Content spend by commercial multichannels in key genres, 2008



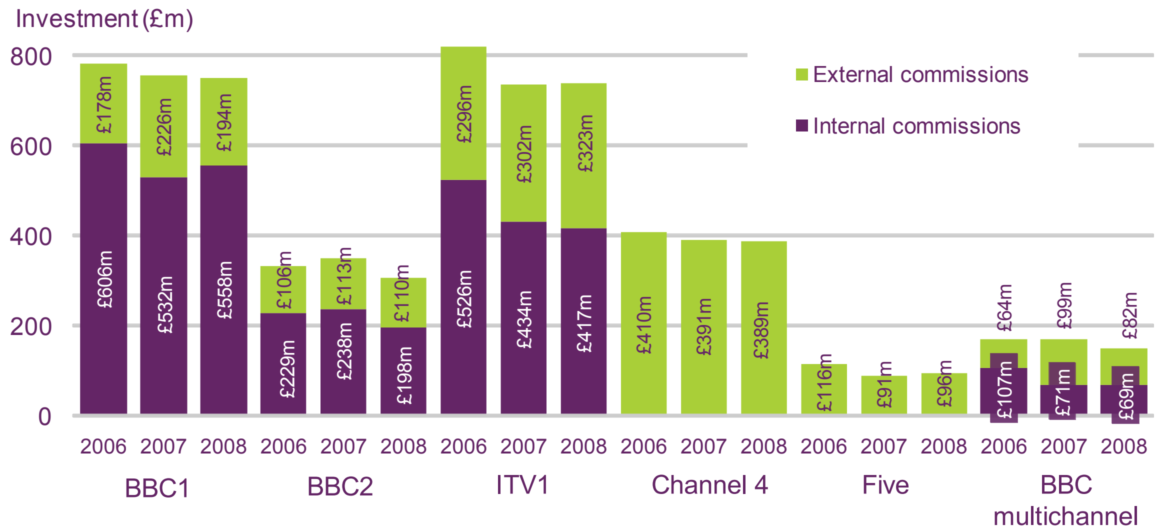
Source: Ofcom/Broadcasters.
Note: Excludes BBC digital channels and PPV channels

2.2.10 The TV production sector

PSB spend on independently-produced commissions maintained in 2008, but in-house spend down

Combined spend by the BBC, ITV1, Channel 4 and Five on first-run commissions has declined by 8% over the last two years – down from £2.64bn in 2006 to £2.44bn in 2008. This trend was also apparent in the commissioning spend of individual channels – all fell in real terms in 2008 compared with 2006 – the largest reductions being on ITV1 (10%) and Five (18%).However, comparing the data from 2007, there were small increases on ITV and Five. Within the combined total, spend on in-house productions fell by 15% in the two years to 2008, but independent commissions proved more resilient, rising by 2% to £1.19bn in 2008. Figure 2.31 shows that all channels, apart from Channel 4 and Five, reported increased spend on independent commissions over the period, although it should be noted that Channel 4 and Five do not produce programmes themselves; all their commissions are externally sourced.

Figure 2.31 Spend on first-run commissions by PSBs



Source: Ofcom/broadcasters. Note: First-run network commissions including News and Sports rights. BBC multichannels included in the chart: BBC Three, BBC Four, CBBC, CBeebies

Pact financial census 2009

Established in 1991, Pact (Producers' Alliance for Cinema and Television) is the UK trade association that represents the commercial interests of companies in independent television, feature film, children's and animation, and new media production companies.

Pact has carried out a financial census of the UK television production sector since 2005, and published the fourth edition of the census in 2009. Its purpose is to estimate the size and performance of the independent production sector, using a representative sample of companies. The 2009 census was carried out between March and April 2009, covering data for the 2008 financial year, typically ending in December 2008. It surveyed Pact members, including subsidiaries of group companies, and received responses from 76 companies, representing 65% of total industry turnover. The figures given in this section are estimates, based on the companies surveyed and adjusted accordingly, to provide approximations for the total market.

Independent production sector revenue growth slows

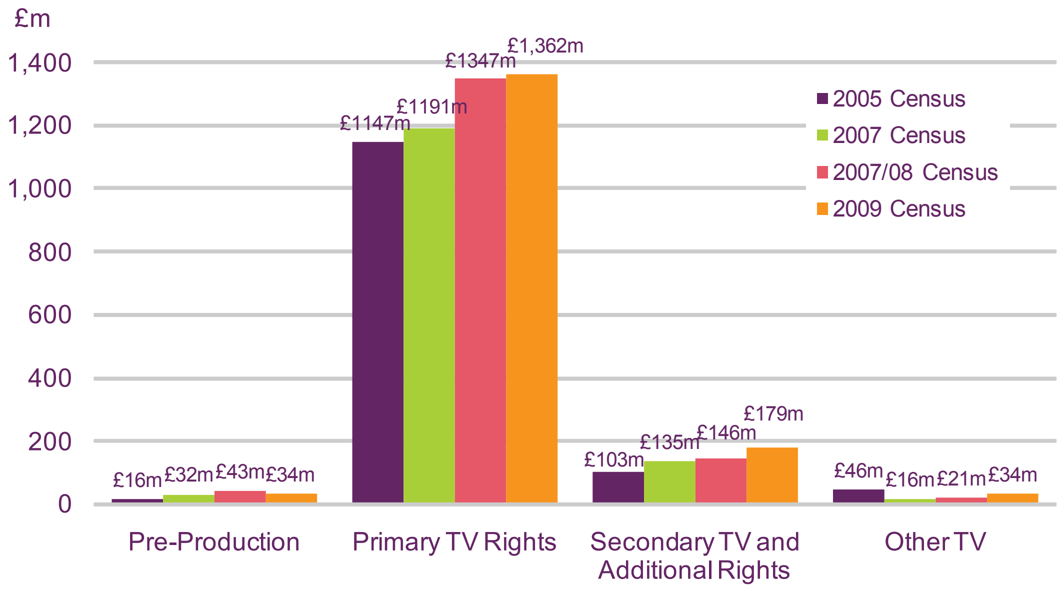
Data from the Pact census indicate that the independent production sector continued to grow, but at a much slower rate in 2008, to just 1% year on year. Pact estimated the size of the sector at £2.16bn, with TV income contributing the lion's share of £1.9bn (88%), but growing more slowly (0.5%) than income from non-TV activities, such as corporate videos and new media revenues, which totalled £256m (Figure 2.32). Within this figure, new media revenues rose by 72% during 2008, ending the year with a total of £66m. Note that these figures are based on estimates by Pact from their census data, and are not comparable with data presented elsewhere in this report, which have been separately sourced on a different basis from broadcasters' audited accounts.

Figure 2.32 TV production sector revenue, by TV and non-TV activities

Source: Oliver & Ohlbaum analysis, Pact census

The sale of primary TV rights continues to be the main source of revenue for the independent sector. Growth in UK primary commissions slowed to 1.1% in nominal terms to a total of £1.4bn in 2008, with secondary and additional rights rising to £179m (Figure 2.33).

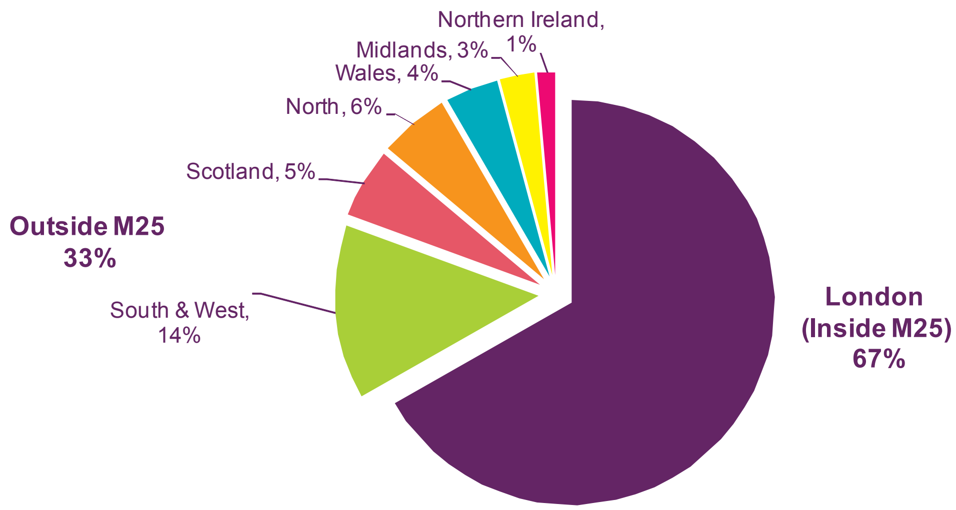
Figure 2.33 Independent producers' sources of UK television revenue



Source: Oliver & Ohlbaum analysis, Pact Census

The 2009 Pact census provides information on the distribution of independents across the UK, based on the location of their offices. Two-thirds (67%) were based in London, with the remainder from the nations and English regions. Figure 2.34 shows the companies' geographic locations.

Figure 2.34 Location of independents' bases



Source: Oliver & Ohlbaum analysis, Pact Census

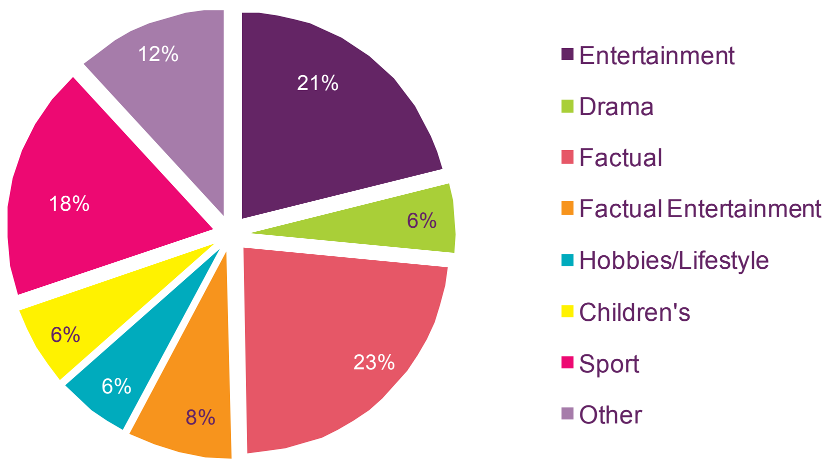
Independent commissions from public service broadcasters

Commissions from public service broadcasters underpin the independent sector. In terms of hours broadcast in 2008, PSBs were more likely to commission in the Factual, Entertainment and Sports genres. Factual programmes accounted for 23% of all PSB-commissioned, independently-produced hours, with 21% in Entertainment and 18% in Sports. Factual

Entertainment accounted for 8%, while Hobbies and Lifestyle, Drama and Children's each accounted for 6% of the total independent hours shown by the PSB channels (Figure 2.35).

Figure 2.35 PSB independent commissions, by genre, 2008

Proportion of Independent hours



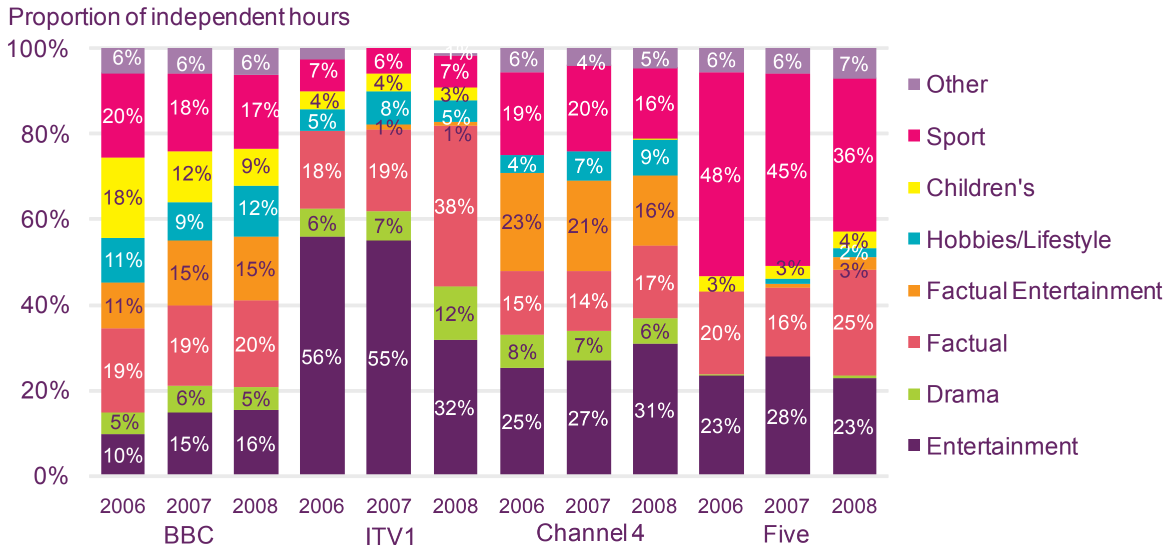
Source: Ofcom/broadcasters

Drilling down to commissioning patterns by individual broadcasters, Figure 2.36 shows the BBC's commissioning from independents tends to be more evenly spread across a wider range of programme genres, compared with other broadcasters, partly because of its commissioning strategy and the way that the *Window of Creative Competition* (WOCC) operates. This programme guarantees independent producers a minimum of 25% of all commissions; in-house commissions are set at 50%; and the remaining 25% is available to in-house or independent productions, or other broadcasters. In 2008 Factual represented 20% of the BBC's independent programmes, with Sport at 17% and Entertainment at 16%.

The ITV network channel commissioned far fewer Entertainment programmes in 2008 – 32% of all hours - compared with 55% in 2007 and 56% in 2006. Compensating for this, the proportions of Factual commissions doubled in 12 months to 38% of all hours in 2008. This was mainly due to changes in programme policy in the night-time schedule, with the demise of dial-in quiz shows.

Entertainment played a growing role in Channel 4's independent commissioning strategy during 2008, and emerged as the largest commissioned genre by hours, accounting for 31% of total independent hours in 2008. Factual programmes accounted for 17% and Factual Entertainment 16%, while Drama reduced from 8% of Channel 4's annual output to 6% in 2008. Five continued to commission more Sports than other genres, accounting for 36% of total external commissions, albeit a lower percentage than in the previous two years (48% and 45%).

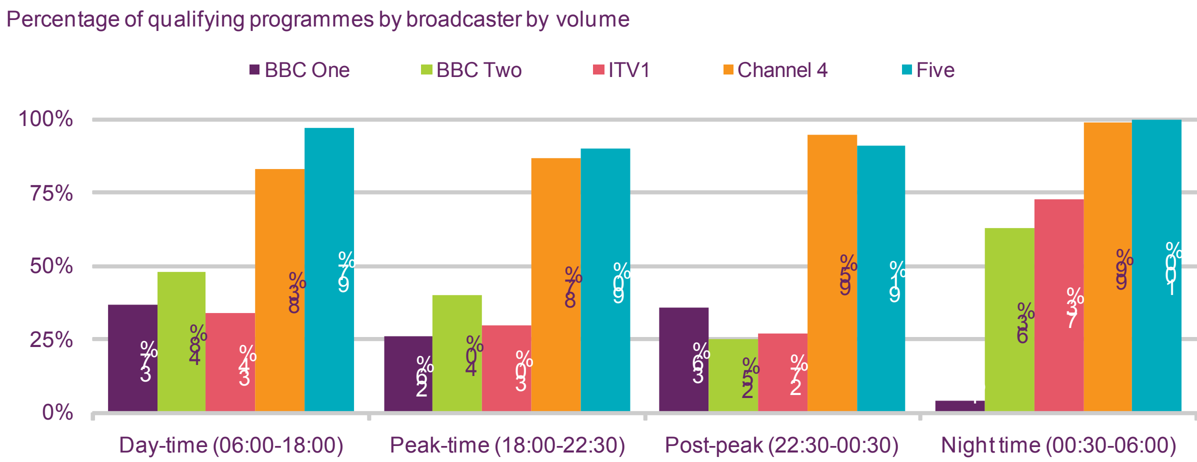
Figure 2.36 PSBs' external commissioning patterns, 2006 to 2008



Source: Ofcom/broadcasters

Figure 2.37 illustrates the proportion of network programmes commissioned from independents, split by day part for each of the PSBs in 2008. For BBC One, BBC Two and ITV1, the proportion of hours commissioned in the main part of the day (from 6am to 12.30am) was well above 25%. In the daytime schedule (from 06:00 to18:00), BBC One commissioned 37% from independents and on BBC Two the figure was 48%, with ITV1 commissioning 34%. The peak-time (18:00 to 22:30) figure was also high for BBC Two, at 40%; BBC One delivered 26% and ITV1 30%. In the two hours immediately after peak time (22:30 – 00:30) the proportions were 36% for BBC One, 25% for BBC Two and 27% for ITV1. During the night-time hours (00:30 – 06:00) BBC Two and ITV1 commissioned a high proportion, at 63% and 73% respectively, whereas BBC One commissioned a much lower amount in percentage terms (4%). Channel 4 and Five, as already stated, commission most of their originated output from independent producers, and this varies little across different times of the day.

Figure 2.37 Independent network productions, by day part, 2008



Source: Ofcom/broadcasters

2.2.11 Compliance with regulatory quotas

Compliance with programme quotas

Television companies in the UK must comply with a range of obligations in the form of programme quotas which set minimum levels of types of programmes that they must broadcast. These obligations are laid down in the Communications Act 2003 and Ofcom has a duty under the Act to monitor and enforce compliance with these quotas, some of which apply to all broadcasters while others are specific to the PSBs. Ofcom has a direct relationship with ITV1, GMTV1, Channel 4 and Five in terms of licensing and regulation, while the BBC is regulated jointly by the BBC Trust and Ofcom. The Trust sets the majority of the BBC's targets and monitors compliance but must consult with Ofcom before changing specific quotas, and must obtain Ofcom's agreement in setting quotas for original productions and out-of-London network productions.

European programming quotas

All television broadcasters licensed by Ofcom in the UK, including multichannel operators, are subject to the obligations of the Audiovisual Media Services (AVMS) Directive[22]. This requires that on each channel, a majority of programmes must be European (including the UK) and at least 10% must be made by independents, of which at least 50% must have been made within the past five years. The European Commission publishes a report on compliance by all EU Member States every two years and the next report, covering 2007 and 2008, is due for publication towards the end of 2009.

TV access services

Quotas setting minimum levels for subtitling, signing and audio description applied to a total of 84 channels in 2008. All PSBs are subject to access service quotas, as are other broadcasters which achieve an average audience share throughout the year of 0.05% or more. Obligations apply only to those channels that then pass an affordability threshold based on their revenue. There is also an exception for those channels that face technical difficulties which cannot be overcome, such as music and news programmes, where there is insufficient space within the dialogue or sound-track to provide audio-description.

PSB quotas and the Communications Act 2003

The Act describes a range of programme obligations applying to public service channels, and Ofcom is responsible for setting appropriate quotas to meet these obligations. Quotas are fixed by Ofcom, taking into account each channel's specific remit and other relevant criteria. They are reviewed when necessary, and the levels may be revised up or down to take account of changes in circumstances and the broadcasting environment. The quotas summarised below apply to all PSB channels - the BBC's terrestrial and digital channels, ITV1, Channel 4, Five and S4C in Wales. They do not apply to multichannel operators or to the commercial broadcasters' digital services:

1. Original productions – programmes commissioned by broadcasters from in-house production resources or independent producers.

2. Out-of-London productions – network programmes made in the UK outside the M25.

3. Independent productions – programmes made by companies which are independent of broadcasters.

[22] The AVMS Directive replaced the Television Without Frontiers (TVWF) Directive on 10 December 2007 and must be transposed into UK legislation by December 2009.

4. National and international News.

5. Current affairs.

6. Nations and regions programmes on ITV1/STV/UTV and the BBC – made and shown in the nations and English regions.

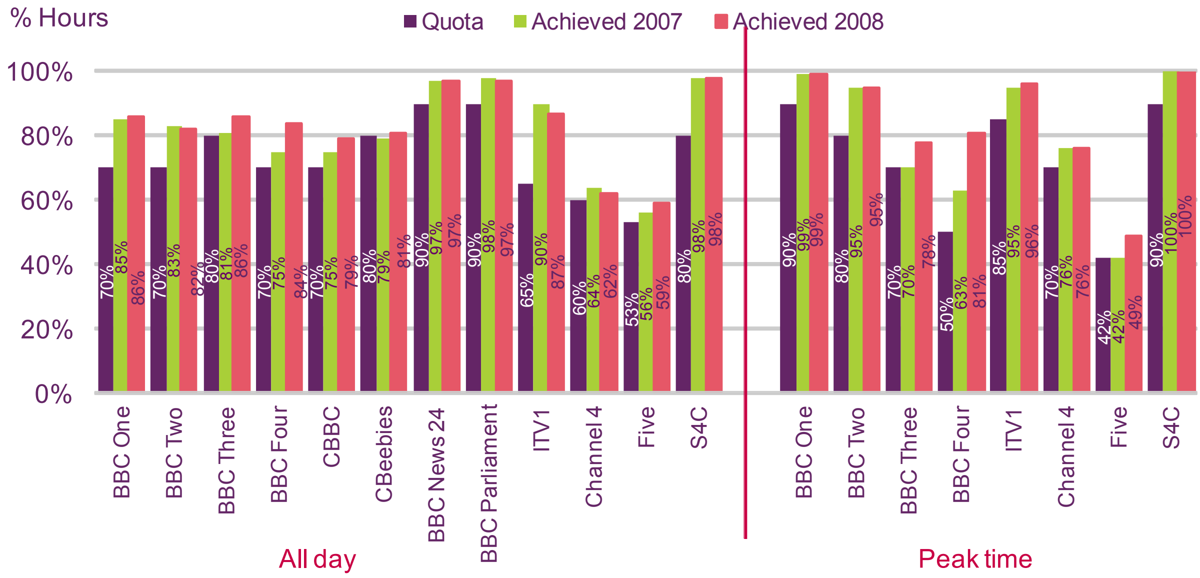
2.2.12 Original productions

These quotas were comfortably met in 2008

Original productions are one of the key elements of public service broadcasting in the UK – they are programmes that are made in the UK and commissioned from independent producers, or a broadcaster's own in-house production facilities. Quotas are intended to maximise television production in the UK for the benefit of the broadcasting industry, by maintaining investment in content, as well as contributing to the viewers' experience. As shown in Figure 2.38, quotas are set at different levels, depending on the broadcaster, and apply to the full broadcasting day (usually 24 hours, except in the case of the BBC's digital channels). They apply separately to peak viewing times (18:00 to 22:30, except for BBC Three and Four, where peak time runs from 19:00 to midnight).

In 2008 all channels exceeded their quotas – generally by wide margins. The majority of programmes broadcast by PSB channels are original productions (the definition includes repeats). In peak time the proportions achieved were generally higher than all day, at well over 90% of programmes shown by BBC One, BBC Two, ITV1 and S4C.

Figure 2.38 Broadcasters' performance against original production quotas



Source: Ofcom/broadcasters
Note: BBC figures include programmes made or commissioned for other BBC channels. BBC Three and Four peak-time hours run from 19:00 to midnight.

2.2.13 Nations' and regions' production outside London

There were increases in the proportion of output, by value, made outside the M25

The four main PSBs must each broadcast minimum amounts of programmes that have been produced outside the M25. These out-of-London production quotas have two elements – one relating to the value, which applies to the amount of money spent on programmes produced in the nations and regions, and the second relating to the volume of hours broadcast. To qualify against the quota, programmes must comply with two of Ofcom's three Regional Production Definition criteria:

- having a substantive business and production base in the relevant nation or region;
- achieving a minimum level of expenditure in the nation or region; or
- achieving a minimum spend on production talent based in the nation or region.

The quota levels are different for each broadcaster, as shown in Figure 2.39, which illustrates levels achieved by value and volume since 2006. The quotas for the BBC are set at 30% by value and 25% by volume and apply to all its PSB channels. The BBC exceeded these quotas in each of the past three years, achieving 34.9% by value and 33.5% by volume in 2008. Looking ahead, the BBC has undertaken to increase the production and commissioning of programmes from Scotland, Wales, Northern Ireland and the English regions and has introduced a new commitment to produce 50% of output from outside London. Within this, 17% must come collectively from the devolved nations. The BBC is working towards full delivery of this requirement by 2016. In its *Digital Britain* report, the Government noted the BBC's proposals to relocate a number of long-running programme strands to Scotland, and encouraged the BBC to improve on its targets for production in Scotland, while adopting a similar approach for Wales and Northern Ireland. The report also recognised the increasing pressure on the commercial PSBs' production in the nations.

ITV regional licences currently have a higher quota level than the other PSB channels, at 50% for both value and volume, and each of the licensees (ITV Broadcasting Limited, STV, UTV and Channel Television) have met their volume quota in each of the last three years. In 2008 the licensees narrowly missed the value target, achieving 49.9%, having also failed to reach the required levels in 2006 and 2007 by much wider margins (delivering 46% and 44% respectively). Ofcom imposed sanctions in respect of the 2006 and 2007 breaches and is in discussion with ITV Network about the shortfall in 2008.

Before 2005, the quotas were set at 40% of expenditure and 33% of volume; they were increased to 50% for both volume and spend in line with the conclusions reached in Ofcom's first PSB Review [23] of 2004/05. However, reflecting the need to align PSB requirements on the regional ITV licensees with the diminishing value of holding the licences, the second PSB Review[24] decided that the quotas for the networked channel would be reduced to 35%, on a par with the 2004 levels, with effect from 2009 onwards.

Ofcom's second PSB Review[3] also increased the spend and volume quotas for Channel 4 from 30% to 35%, with effect from 2010. As Figure 2.39 shows, Channel 4 has consistently exceeded its quota levels and these increased quotas effectively 'lock-in' the current delivery. In 2008 Channel 4 achieved 31.7% of its output by value and 40.7% by volume against a quota of 30%.

---

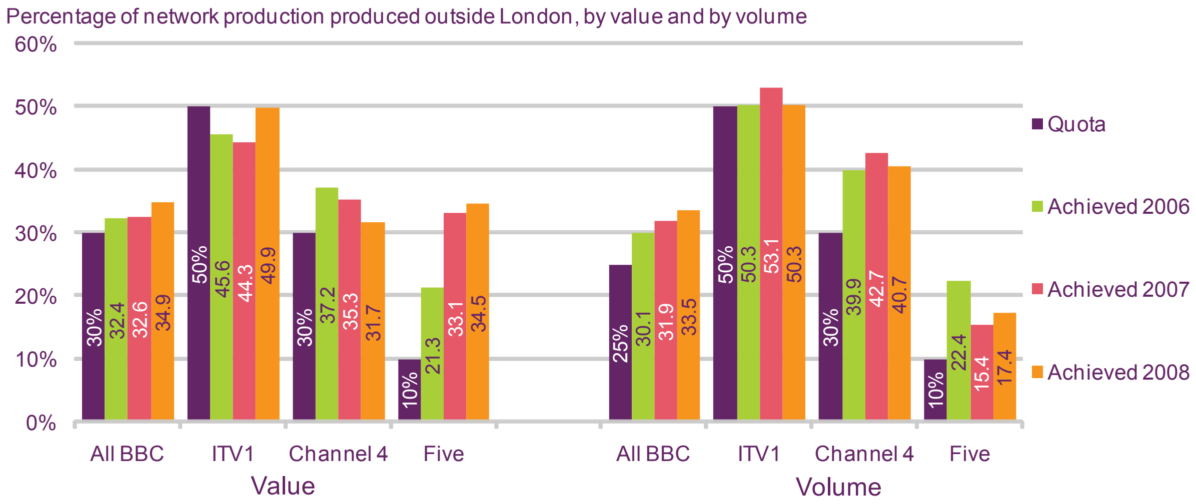
[23] Ofcom's Review of Public Service Television Broadcasting (2004) http://www.ofcom.org.uk/consult/condocs/psb/

[24] Ofcom's Second Public Service Broadcasting Review (2009)

Alongside the 2010 quota revision came the introduction of a new minimum devolved nations quota of 3% of programmes that must be produced outside England. This is a more stretching requirement than Channel 4's own suggestion, that would have taken effect from 2012, and Ofcom has suggested that, subject to funding, this figure should grow substantially in future years. It will consider whether to revise the figure upwards in the future.

Five has a much lower quota commitment, at just 10%, but has exceeded its obligations by large margins over recent years, reaching 34.5% by value and 17.4% by volume in 2008, albeit based on much lower total origination expenditure and volume of hours than the other broadcasters. The out-of-London quota does not apply to S4C.

Figure 2.39 Performance against the out-of-London production quotas



Source: Ofcom/broadcasters

Figure 2.40 shows the breakdown of spend on networked originated programme productions by nation and English region. Of the total UK spend of £1,915m, the majority of programmes were made in London, but this proportion has reduced a little from 63.3% in 2006 to 61.1% in 2008. The total spend in the nations and regions reached £744m in 2008, and a greater proportion of the total UK spend was produced out of the Midlands and East and the South of England than in 2006. The figure for the Midlands and East rose from 5.9% to 6.7%, while in the South spend increased from 8.9% to 10.2%.

Scotland's proportional share of programme expenditure by the PSBs reduced from 2.6% in 2006 and 2007 to 2.5% in 2008, and the level of spend on first-run original productions in Scotland also fell from just under £50m a year in 2006 and 2007 to £48.5m in 2008.

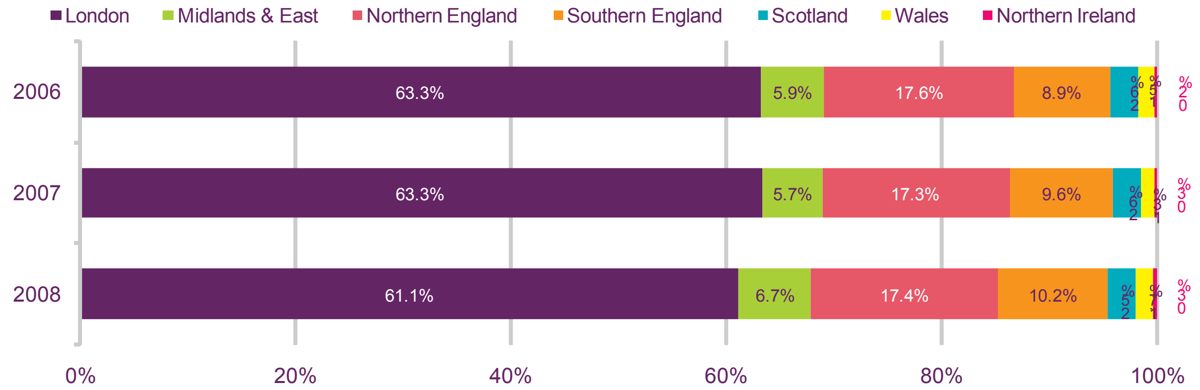
The share of total PSB expenditure in Wales increased from 1.3% in 2007 to 1.7% in 2008, having fallen between 2006 and 2007. The value of commissions from Wales rose to £33m in 2008 from £25m the previous year, compared with £29m in 2006.

The value of programmes produced in Northern Ireland increased by £2m in the last two years, from £4m in 2006 to £6m in 2008. As a proportion of total programme budgets this represented a small increase; from 0.2% to 0.3%.

Expenditure on programmes made in Scotland, Wales and Northern Ireland is expected to grow in future years as the BBC's commitment to producing more programmes in the devolved nations starts to take effect and as Channel 4's new 3% quota for the nations is implemented.

Figure 2.40 Expenditure on out-of-London production

Percentage of production by value



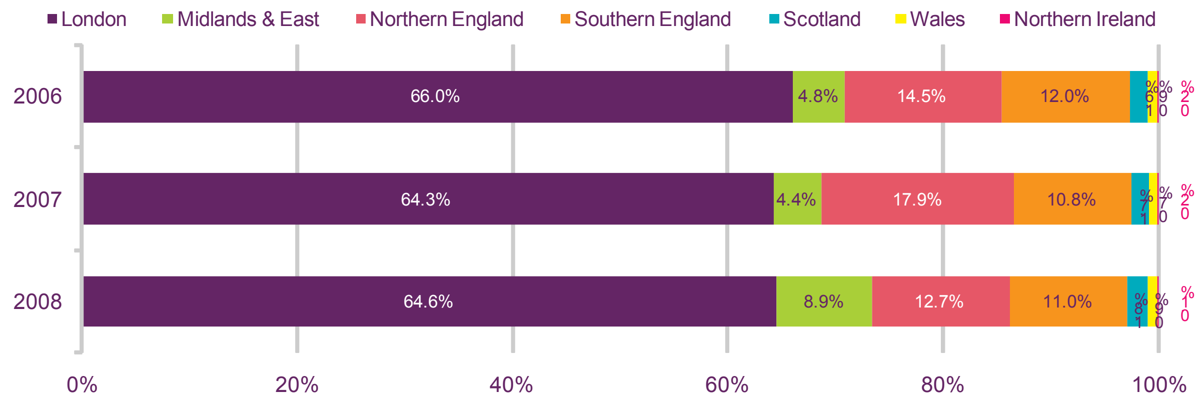
Source:Ofcom/broadcasters

Of the total of 16,100 hours of first-run UK-originated network programmes broadcast by the four main PSBs in 2008, 5,700 hours were made in the nations and English regions, equating to 35.4% of the total, up from 34% in 2006. In the Midlands and East, the proportion fell in 2007, from 4.8% of total hours in 2006, to 4.4%, and increased to 8.9% in 2008 with reductions in the Northern and Southern macro-regions (Figure 2.41).

The number of network hours produced in Scotland, and its share of total volume, improved marginally from 1.6% to 1.8% between 2006 and 2008; in Wales the proportion increased to 0.9% from 0.7% the previous year, returning to the level delivered in 2006. Northern Ireland's share fell to 0.1% in 2008 from 0.2% in the previous two years.

Figure 2.41 Volume of out-of-London production

Percentage of production by volume



Source: Ofcom/broadcasters

Figure 2.42 shows that all the broadcasters, with the exception of Channel 4, raised the proportion of their expenditure on UK original productions made in the nations and regions between 2007 and 2008. The BBC's out-of-London spend rose from 32.4% in 2006 to 34.9% in 2008, while on ITV1/STV/UTV the increase was from 45.6% to 49.9% over the same period. The rise at Five was more significant, albeit from a lower base, growing from 21.3% to 34.5%. The proportion of Channel 4's spend on programmes produced outside London fell from 37.2% in 2006 to 31.7%, partly because the overall programme budget increased. This was also driven by the fact that there were fewer commissions from independents based in Southern England in 2008, mainly in Hobbies and Leisure programming.

The proportion of spend by the BBC on productions in the English regions outside the M25 increased marginally, from 25% of all originated expenditure in 2006 to 27% in 2008. Most of the increase came in the South of England, which attracted 14.2% of all spend in 2008, up from 10.5% in 2007. ITV1/STV/UTV's spend in England rose from 44% in 2006 to 48%, with the Midlands and East macro-region accounting for the largest rise (from 8.4% to 13.4%). The proportion of spend devoted by Channel 4 to productions in England reduced from 35% to 30%, driven mainly by falls in the South (as outlined above), while Five's rose from 21% to 31% in the past three years, across all three macro-regions.

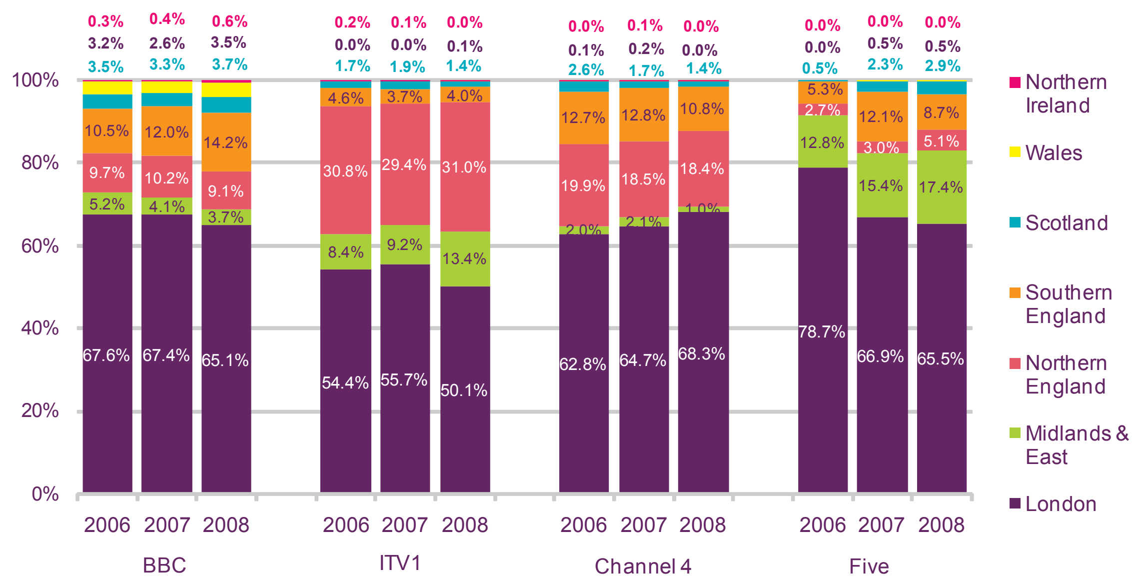
In Scotland, the BBC's spend on original productions as a proportion of total expenditure rose from 3.5% in 2006 to 3.7% in 2008; the value of spend in Scotland also increased. On ITV1/STV/UTV, while the proportion of expenditure increased in 2007 to 1.9% (from 1.7% in 2006), it fell back to 1.4% in 2008, and on Channel 4 the equivalent figure fell from 2.6% in 2006 to 1.7% in 2007 and 1.4% in 2008. On Five there has been a gradual increase, both in the proportion of spend on programme production in Scotland and on the value of that spend over the past three years.

In Wales, most PSB broadcasters raised their share of programme spend as a proportion of total budgets between 2006 and 2008, albeit by small margins. The BBC's spend in Wales reached 3.5% of the total in 2008, compared with 3.2% in 2006. In 2008 ITV1 delivered a share of 0.1% (having funded no programme production at all in Wales during 2006 and 2007), while Channel 4 spent 0.01% of its commissioning funds in Wales, and Five allocated 0.5% of its budget.

The proportions of programme spend in Northern Ireland remained relatively low but increased a little, year on year, on the BBC's channels, rising from 0.3% of total expenditure in 2006 to 0.6% in 2008.

Figure 2.42 Original networked production expenditure, by broadcaster

Percentage of production by value



Source: Ofcom/broadcasters

The *volume* of out-of-London production by broadcaster over the last three years is shown in Figure 2.43.

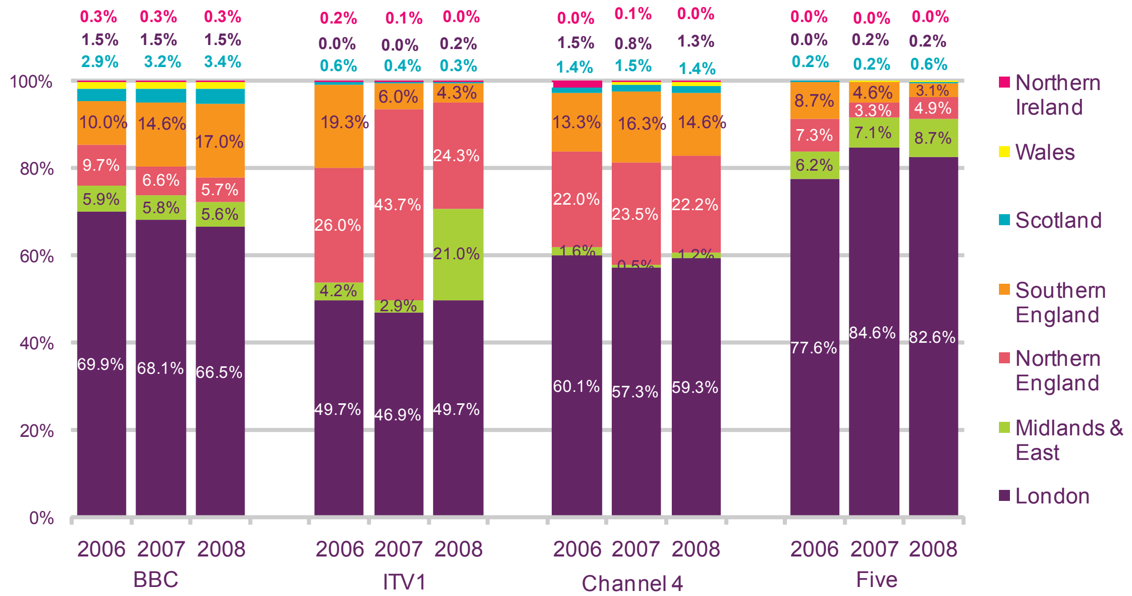
On the BBC's PSB channels, the proportion of hours made in the Midlands and East macro-region has remained steady (5.6% - 5.9% of the total), while the level fell by four percentage points in Northern England, from 9.7% to 5.7%. In the South of England there was an increase of seven percentage points, from 10% in 2006 to 17% in 2008. In Scotland the proportion showed a small increase, while in Wales and Northern Ireland it was unchanged (at 1.5% and 0.3% respectively).

There were significant changes on ITV1/STV/UTV, with an increase of 17 percentage points in the Midlands and East, from 4.2% to 21%, and decreases in Northern and Southern England, which were mainly because of changes in programme production and output for the night-time schedule. The percentage of hours of production in Scotland and Northern Ireland were lower in 2008 than in 2006, but higher in Wales in 2008.

There were no changes of particular note in Channel 4's production volumes in the English regions, while on Five there were small increases in the Midlands and East, with reductions in the North and South of England. The proportion of hours made in Scotland fell on Channel 4 from 1.5% in 2007 to 1.4%, returning to the 2006 level. In Wales the proportion fell from 1.5% to 0.8% in 2007, rising to 1.3% in 2008. On Five the proportion increased a little in Scotland (to 0.6%) staying the same as the 2007 level in Wales. It should be noted that as the number of hours produced in the devolved nations is low, changes in the proportions broadcast year on year are not statistically significant.

Figure 2.43 Breakdown of production volume, by broadcaster

Percentage of production by volume



Source: Ofcom/broadcasters

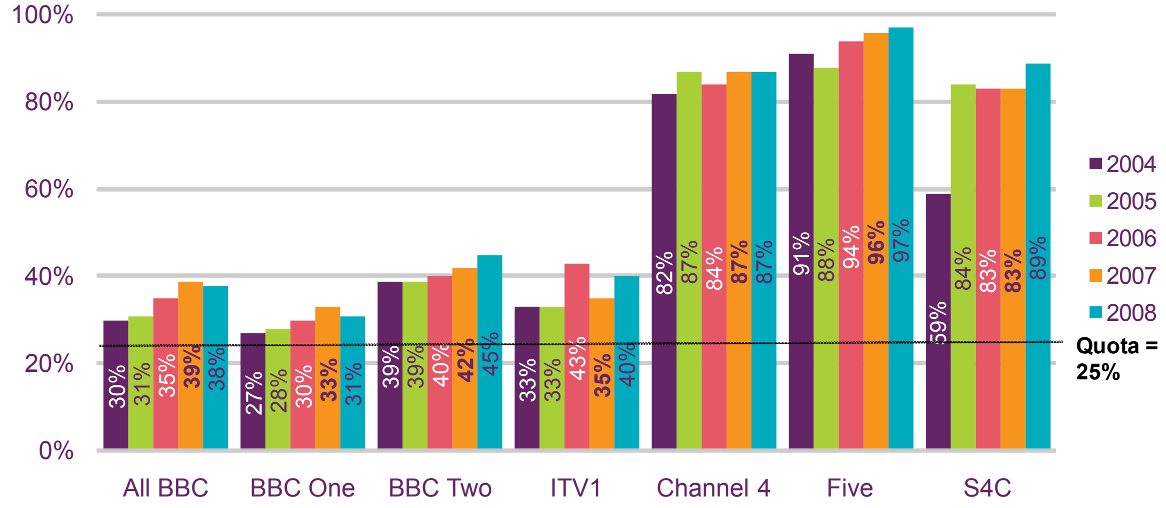
2.2.14 Independent productions

Twenty-five per cent quota exceeded by wide margins

The quota is fixed at 25% for all PSBs, and its purpose is to ensure that production companies that are independent of broadcasters have access to mainstream channels, encouraging programmes from a variety of sources to be produced and shown. The Government's *Digital Britain* acknowledged that the framework of the quota was working well. In a major change to the criteria determining which producers can qualify as part of the quota, *Digital Britain* recommended that STV and UTV should be allowed independent status when producing for PSB networks. This would support the objective in the production sector by encouraging greater access to network commissions by external producers.

Figure 2.44 shows that the quota has been easily exceeded by all broadcasters over the past five years, and 2008 was no exception. The level for the BBC's PSB channels, taken together, has risen steadily from 31% in 2004 to 39% in 2007, with a small reduction to 38% in 2008. BBC One achieved 31% in 2008, while BBC Two rose to its highest level (45%). ITV1 (excluding GMTV) reached 40%, up from 35% in 2007. Channel 4, S4C in Wales and Five source most of their originated programming from independents, as they were not set up to produce programmes themselves. Consequently, the levels of independent output on these channels have always been extremely high and in 2008 Channel 4 reached 87%; Five 97% and S4C 89%.

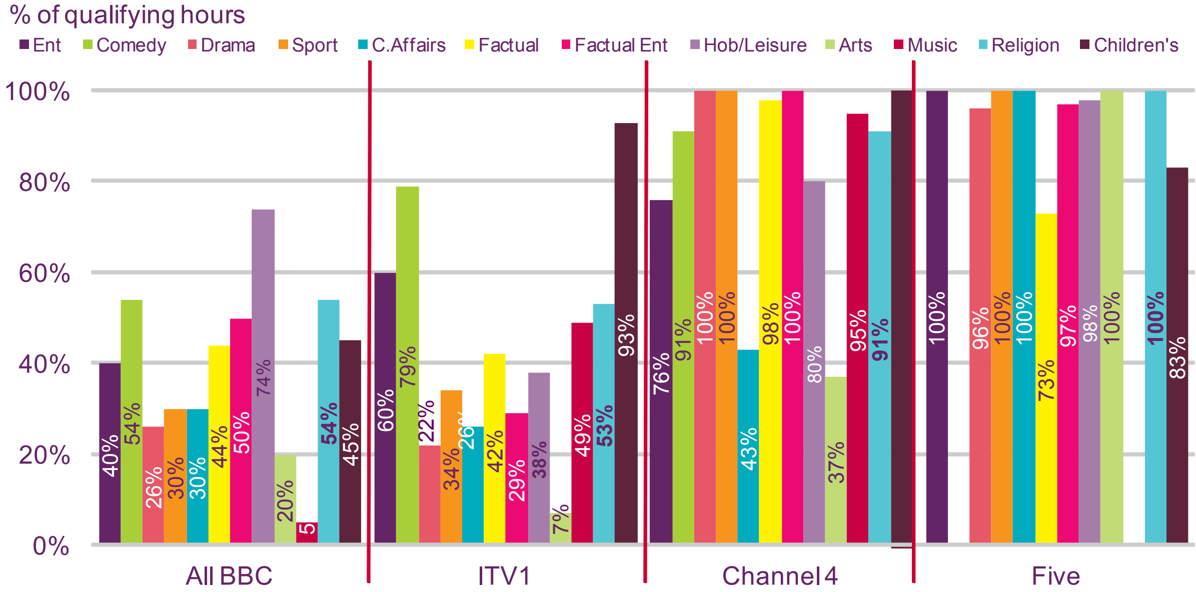
Figure 2.44 Qualifying hours commissioned from independent producers



Source: Ofcom/broadcasters

A further requirement placed on broadcasters relates to the diversity of programmes which must be commissioned from independents. The intention is to ensure that independent producers are active across the full range of budget levels, including prestigious high-budget drama, as well as more mainstream output. While there is no requirement that the 25% quota must be achieved in each programme genre, in most cases it does exceed this level. Figure 2.45 shows how each broadcaster performed in 2008.

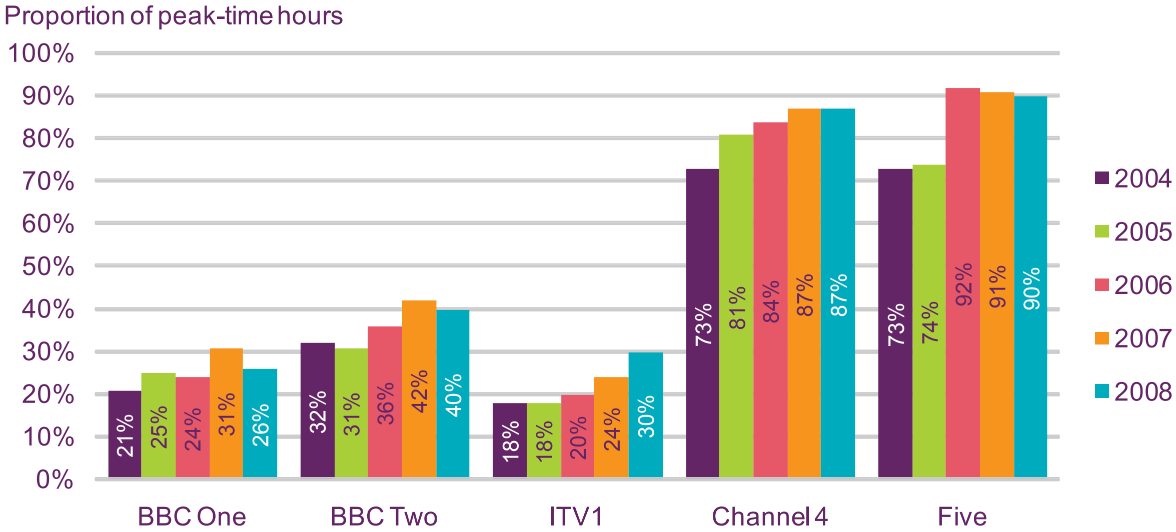
Figure 2.45 Qualifying independent commissions, by genre, 2008



Source: Ofcom/broadcasters

Figure 2.46 shows the levels achieved in peak time over the past five years – illustrating the growth on all channels. Although there is no separate quota for peak time, it is interesting to note that the proportions were all well above 25% in 2008, perhaps reflecting the maturity of the independent sector and the recognition of its value in terms of viewer levels and appeal in the peak-time schedule.

Figure 2.46 Peak-time qualifying hours commissioned from independents



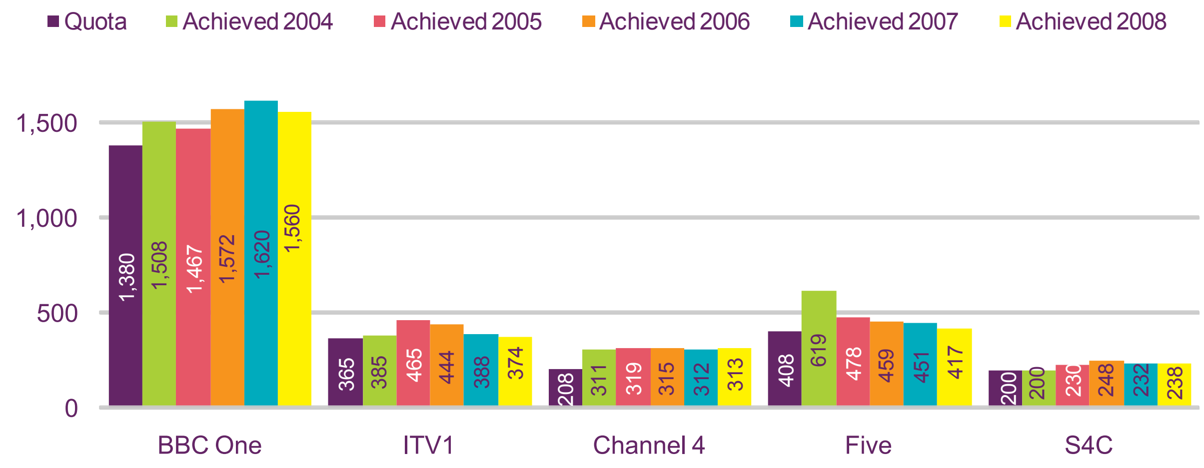
Source: Ofcom/broadcasters. Note: excludes regional programmes

2.2.15 News and Current Affairs

All channels meet quotas

Quotas for News and Current Affairs apply across all PSBs and help to maintain plurality, which the Government recognised in *Digital Britain* to be of benefit to UK viewers and for citizens, adding that plurality in some genres, particularly News, cannot be provided by the market. The following charts show that these quotas have been met consistently over the past five years. BBC One has the highest targets for News, and broadcast a total of 1,560 hours of News programmes in 2008 (Figure 2.47). These figures include the BBC Breakfast service, but exclude the night-time simulcasts from the BBC News Channel. ITV1's news output totalled 374 hours (excluding GMTV), compared with its quota of 365 hours, while Channel 4 achieved 313 hours; Five 417 hours and S4C 238 hours.

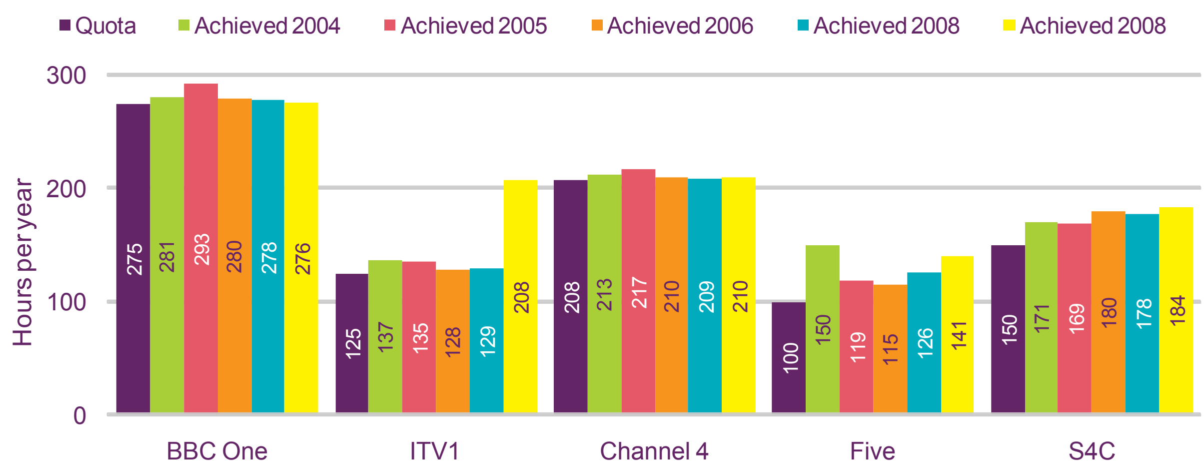
Figure 2.47 Performance against national and international News quotas, all day



Source: Ofcom/broadcasters

Separate quota levels are set for peak time and all broadcasters exceeded the minimum levels required, as shown in Figure 2.48.

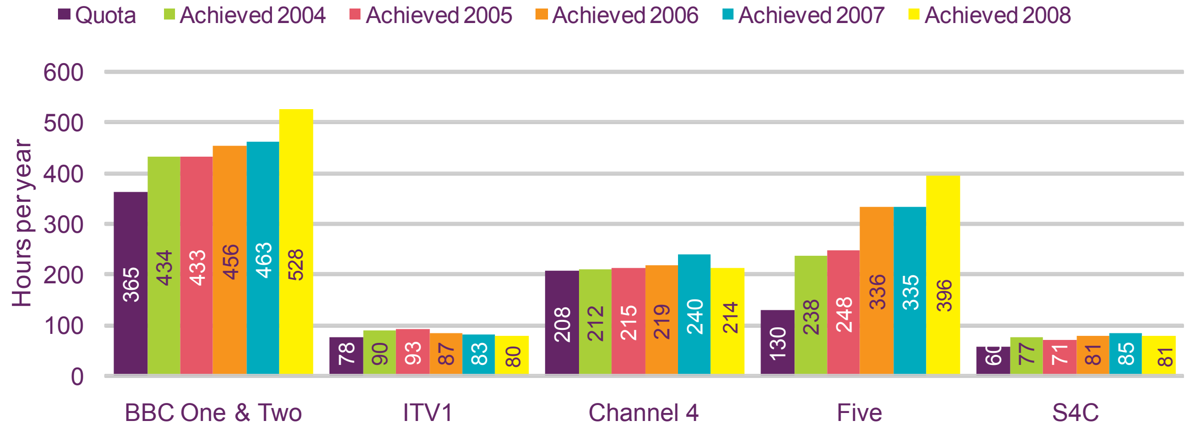
Figure 2.48 Performance against national and international News quotas, peak time



Source: Ofcom/broadcasters

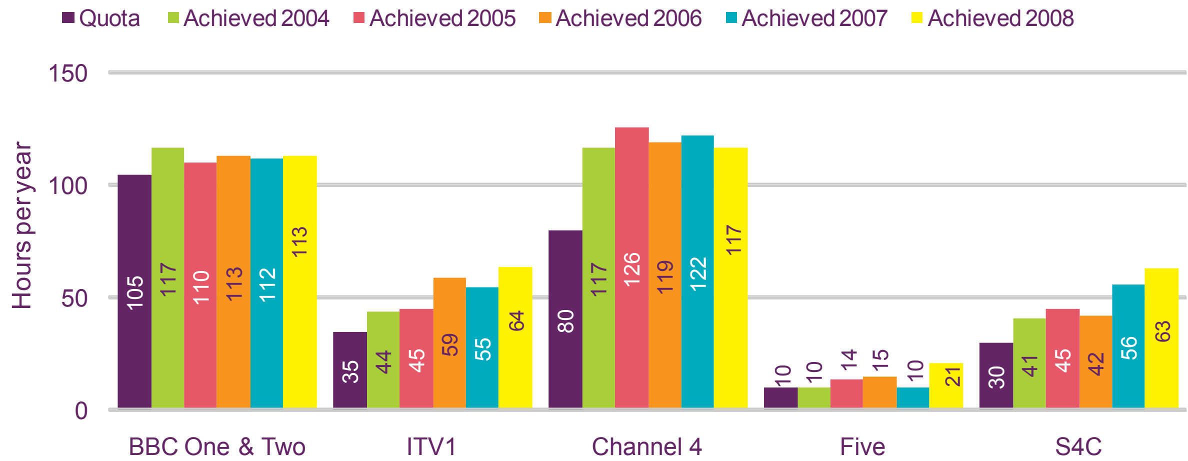
Current Affairs quotas apply across the whole day and in peak time, and all broadcasters exceeded their commitments in 2008, as they did in the previous four years, as illustrated in Figure 2.49 and Figure 2.50.

Figure 2.49 Performance against Current Affairs quotas, all day



Source: Ofcom/broadcasters

Figure 2.50 Performance against Current Affairs quotas, peak time



Source: Ofcom/broadcasters

2.2.16 Programmes made for viewers in the nations and English regions

All channels exceeded the quotas in 2008

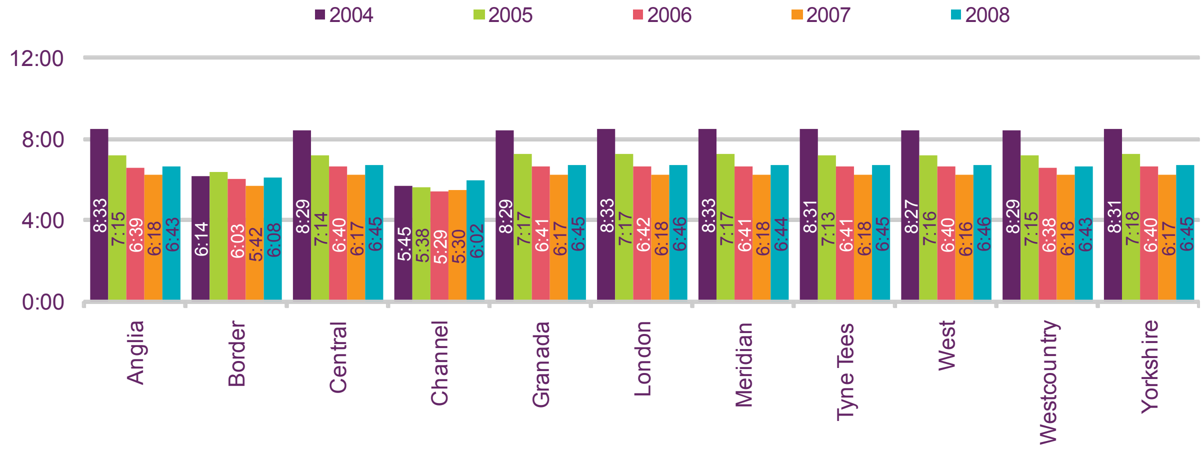
Regional programmes are non-networked programmes, made in the nations and English regions specifically for local audiences. They are mainly shown on ITV1/STV/UTV and BBC One, with some also available on BBC Two.

The ITV quotas are standardised across most of the English regions and in 2008 were fixed at 6 hours 50 minutes a week in total, of which News was set at 5 hours 20 minutes, Current Affairs at 26 minutes and other regional programmes at 1 hour 4 minutes a week. Lower quotas apply in the two smallest regions – Border and Channel. Figure 2.51 shows the average amounts achieved per week over the past five years in all ITV English regions. In 2007 ITV1 reduced the length of its weekday regional lunchtime news and failed to deliver against the quotas. Following Ofcom's intervention, delivery against the quota was achieved from September 2007 and for the full calendar year 2008. The apparent shortfalls of a few minutes a week, which are shown in Figure 2.51, are the result of the lack of advertising minutage around some regional programmes, particularly in peak time, which reduced the amount of time allocated to regional programmes. Ofcom is satisfied that the quota requirements were met in full when these anomalies are taken into account.

Following Ofcom's second PSB Review, ITV1 will increasingly prioritise prime-time regional news, and volumes during daytime will be reduced. From 2009 onwards the minimum quota for regional non-News programmes will be cut from 30 minutes to 15 minutes on average a week in each of the English regions. There will also be changes in the pattern for regional News and a sharing of some material between certain neighbouring regions. As a result of the recommendations of the Government's *Digital Britain* report, proposals are being developed for news consortia to bid for contracts to provide regional news to the Channel 3 schedule.[25]

Figure 2.51 England ITV1 licensees' non-network performance

Average hours of regional programming per week



Source: Ofcom/Broadcasters

In the devolved nations, quotas for non-network programmes are set at higher levels than those in the ITV English regions, and are standardised at 9 hours 20 minutes a week each in Scotland, Wales and Northern Ireland. Figure 2.52 shows the amounts broadcast in the past five years in each of the nations.

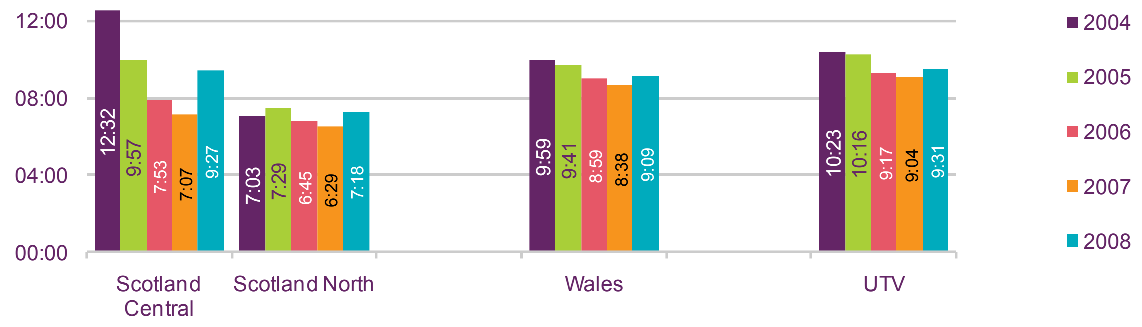
The quota for Scotland Central and Scotland North includes separate production requirements in each part of the region for News programmes, with joint requirements applying to non-News output, allowing programmes to be shared by the two licensees. Figure 2.52 shows the average number of hours broadcast, excluding any double-counting. The introduction of a new news and general interest magazine programme on weekdays, *The Five Thirty Show,* has contributed to an increase in the volume of hours produced in the Scotland Central region in 2008.

From 2009, as a result of Ofcom's second PSB Review, ITV1/STV/UTV will prioritise prime-time non-network News, and consequently the volume during daytime will be reduced. The quotas for non-News programmes in Scotland and Wales will be cut from 3 hours to 1½ hours per week, and in Northern Ireland it will reduce to 2 hours, although peak time in all cases will remain unchanged.

[25] For more details about non-network programmes, see Ofcom's Communications Market Report: Nations and Regions 2009.

Figure 2.52 Nations Channel 3 licensees' non-network performance

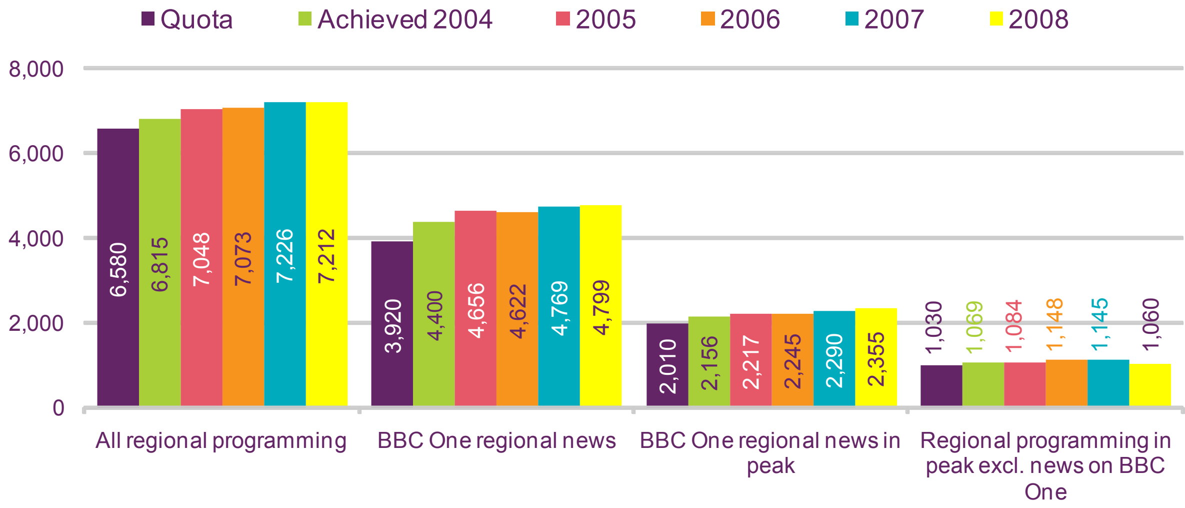
Average hours of regional programming per week



Source: Ofcom/broadcasters

The BBC does not have separate quotas for each of the English regions and nations; the quota set by the Trust refers to the amount of regional programming to be produced across the UK as a whole. This totals 6,580, which was comfortably exceeded in each of the past five years, with 7,212 hours delivered in 2008, almost 10% above the quota minimum. The separate quotas for regional news on BBC One for the whole day and for peak time, as well as other peak-time programmes, excluding BBC One's peak-time News, were also exceeded. The totals achieved over the past five years against the quota levels are shown in Figure 2.53.

Figure 2.53 The BBC's performance against nations and regions quotas



Source: Ofcom/broadcasters

2.2.17 Repeats

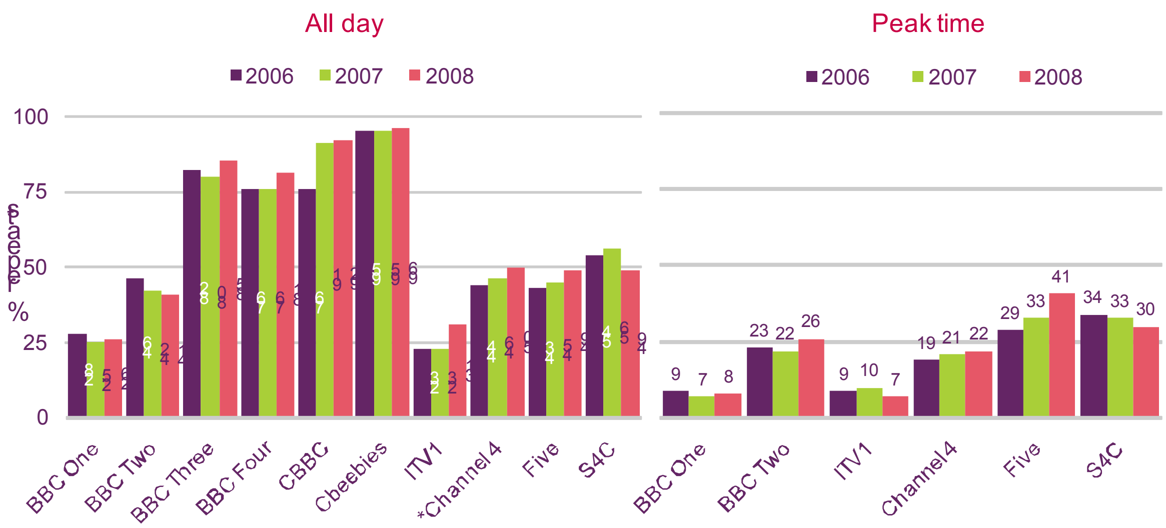
Proportion of repeats edges up

Viewers have often raised concerns about the levels of repeats on screen, so while there are no quotas limiting the number of repeats shown, it is useful to compare figures for the PSB channels. Figure 2.54 illustrates the position for the past three years. Across the whole day, levels of repeats on BBC One have increased by one percentage point, from 25% in 2007 to 26% in 2008, while decreasing on BBC Two from 42% to 41% over the same period.

Repeats on the commercial PSB channels show a more consistent upward trend. On Channel 4, the proportion increased from 44% in 2006 to 50% in 2008, on Five from 43% to 49%, while on ITV1 (excluding GMTV) the level jumped to 31% in 2008 from 23% in the previous two years, mostly because of higher volumes of repeats in the late-night schedule. Repeat levels on S4C reduced in 2008 from 56% overall in 2007 to 49%. On the BBC's digital channels rather higher levels of repeats are screened, particularly on the children's channels, where programmes are designed to be repeated often. The repeat rate reach was over 90% on CBBC and CBeebies.

In peak time the percentages of repeats are much lower, particularly on BBC One and ITV1/STV/UTV, and are generally in single figures. BBC One reported 8% in 2008, up a little from 7% in 2007 while the level for ITV dropped to 7% in 2008, down from 9% and 10% in the previous two years respectively. The proportion of repeats shown by Channel 4 edged up from 21% in 2007 to 22%, while Five's figure jumped to 41%, compared with 29% in 2006 and 33% in 2007. There was a reduction on S4C from 33% in 2007 to 30% in 2008.

Figure 2.54 Proportion of repeats, 2006 to 2008



Source: Ofcom/broadcasters. Note: Excluding programmes first shown on another PSB channel
**Excluding schools programmes*

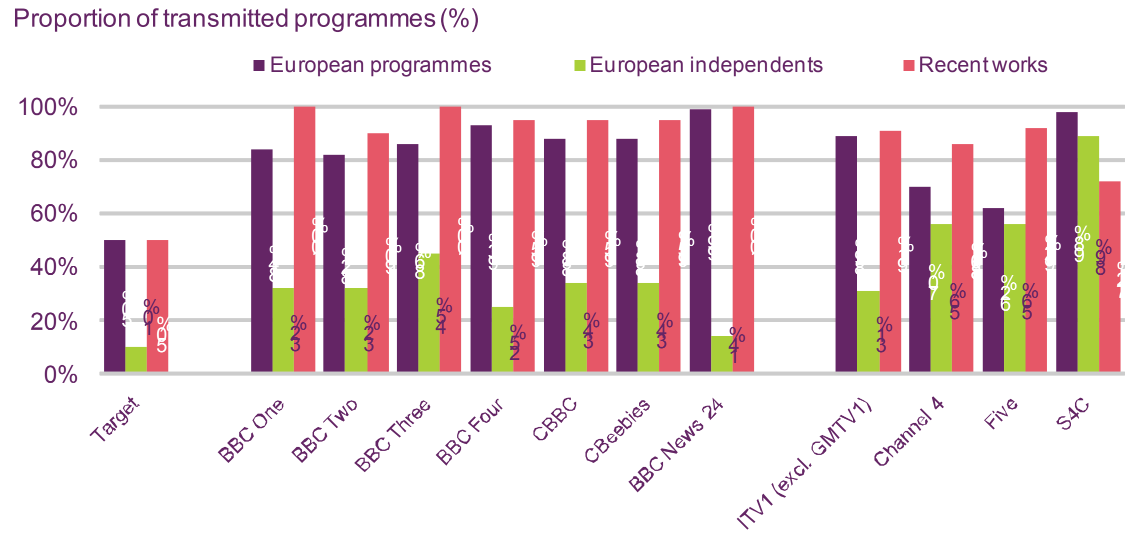
2.2.18 European programming

All PSB channels exceeded quotas

The requirements to broadcast minimum amounts of European programmes are standard for all broadcasters across Europe, and apply to all operators, including PSBs and multichannels. They derive from the European Commission's Audio-visual Media Services (AVMS) Directive and require that, where practicable, a majority of programmes (more than 50%) are European; that at least 10% are made by European independents; and that at least 50% of these have been made within the past five years.

Figures for all channels are published by the European Commission and results for the UK PSBs are shown in Figure 2.55. All PSB channels exceeded the minimum quota levels, usually by wide margins.

Figure 2.55 Performance against European programming requirements, 2008



Source: Ofcom/broadcasters

2.2.19 Other compliance matters

Listed events

A number of key sporting and other events, considered to be of major national interest, are designated by the Secretary for Culture Media and Sport as 'listed events'. The purpose of these arrangements is to ensure that they are made available on free-to-air channels so that all viewers have access, particularly those who cannot afford subscription television. In March 2008, Five was added to the list of Category A broadcasters (those which must be given a genuine opportunity to acquire the rights to broadcast listed events).[26] Broadcasters are prevented from acquiring exclusive rights and from transmitting coverage of such events on a live and exclusive basis without Ofcom's prior consent. In 2008 there were no instances of any broadcaster failing to comply with the Code on Listed Events.

Ofcom *Broadcasting Code on Fairness and Privacy*

The fairness and privacy sections of the *Ofcom Broadcasting Code* set out how broadcasters should treat individuals or organisations that are directly affected by a particular programme. This applies to people who have either appeared in, or been mentioned in, a programme, or who have a specific interest in the subject matter of a programme, rather than the generally-accepted standards which apply to programmes in order to avoid causing harm and offence to the general public.

Ofcom concluded 213 Fairness and Privacy complaints in 2008. Of these, 71 were adjudicated upon by Ofcom, with five Upheld, 19 Partly Upheld and 47 Not Upheld. Most of the remaining 142 complaints were not entertained (i.e. could not be considered by Ofcom either because they did not fall within its remit for Fairness and Privacy or because Ofcom was prevented from considering them under the applicable statutory criteria). However, in a small number of cases, complainants accepted an offer of Appropriate Resolution which had been volunteered, on a without prejudice basis, by the broadcaster concerned.

---

[26] Further information can be found at: http://www.ofcom.org.uk/tv/ifi/channel5/

TV access services

In 2008, 84 channels were required to provide subtitling, signing and audio description ('television access services') in accordance with Ofcom's Code on Television Access Services, compared with 91 channels in 2007. These 84 channels included all the public service channels, as well as digital channels featuring general Entertainment, Film, Sports, Documentaries, Children's programmes, and Popular Music. The quotas apply to all PSB channels and all other television services which achieved an average audience share over a 12-month period of 0.05% or more, subject to passing an affordability threshold and not facing technical difficulties that cannot be overcome, such as the audio-description of Music and News programmes, where there is little space within the dialogue or sound-track to provide audio-description. A full list of channels that provided television access services during 2008 can be found at:
http://www.ofcom.org.uk/tv/ifi/guidance/tv_access_serv/tv_access_statement08/

Almost all broadcasters met their obligations in full in 2008; the three that did not (GMTV2, National Geographic and Cartoon Network) are required to make up the shortfall during 2009. These amounts were added to the 2009 targets and are shown in the access service reports. A report showing the performance of television channels against the targets applying in 2008 and 2009 can be found at
http://www.ofcom.org.uk/tv/ifi/guidance/tv_access_serv/tvaccessrep/

Intellectual property

The Communications Act 2003 requires Ofcom to report on any issues relating to intellectual property in programmes that have arisen, or been of significance. In 2008 no such issues were brought to Ofcom's attention.

Training

Ofcom's co-regulator, the Broadcast Training & Skills Regulator (BTSR), is responsible for the regulation of training in television and radio. The BTSR brings together training and development expertise from within and outside the sector, working with broadcasters, trade associations and Skillset (the Sector Skills Council for the Audio Visual Industries). Its aim is to help the industry to continue to improve and to provide relevant, inclusive and cost-effective training and career development opportunities for employees and freelancers. Training and development is important, not only because it affects the quality of programmes for audiences, but also because it affects the long-term success of UK broadcasting. However, we note that as a result of the economic downturn, some broadcasters may be reconsidering their support for funding of external training bodies. The BTSR continued to develop its self-evaluation assessment system in 2008, against which broadcasters rate their own performance according to guidelines developed in consultation with the industry. As in previous years, this was complemented by visits to selected radio and television broadcasters, to independently validate the self-evaluation reports. Details of the validation process and the results can be found on the BTSR's website (www.btsr.org.uk).

Equal opportunities

Ofcom is required to ensure that all but the smallest broadcasters make arrangements for promoting equal opportunities in employment, regardless of gender, race and disability. This is done through an annual reporting process and by providing guidance to broadcasters on policies and procedures. In 2008, Ofcom published a summary report of information provided by broadcasters regarding their equal opportunities arrangements during 2007.

Following extensive public consultation, and further discussions with the broadcasting industry, it was decided that the BTSR would undertake the task of co-regulation of equal opportunities arrangements. This started on 1 April 2009, with an industry-led planning group working in partnership with the BTSR to develop the co-regulatory approach. The group will be supported by an advisory group, comprising stakeholders representing women, disabled people and people from ethnic minorities. In the meantime, Ofcom has collected information from broadcasters in respect of their equal opportunities arrangements for 2008, for analysis by the BTSR which will publish a report on the outcomes later in 2009. In future, the BTSR will collect information directly from broadcasters. More information is available at: http://www.btsr.org.uk/EqualOpps.

2.3 The television viewer

2.3.1 Summary

In this section we examine the main trends among television viewers during 2008 by analysing the availability and take-up of digital television platforms, the patterns of consumption among television viewers, channel shares and audience demographics, and consumer attitudes towards content.

The key points in this section include:

- By the end of Q1 2009, take-up of multichannel television on main sets had increased **by 2.4 percentage points year on year to stand at 89.6% (page 121).**

- **In multichannel homes, the five main PSB channels shed 1.2% (0.7 percentage points) of their audience share during 2008,** but their portfolio channels all continued to grow. As a result, the combined share of the five PSB channels and their portfolio channels rose by 1.6 percentage points to reach 71.9% in 2008 (**page 133**).

- **The aggregate audience share of channels in the Entertainment genre is continuing to grow.** The genre's multichannel share totalled 21% in 2008, up by seven percentage points since 2003 (**page 140**).

- **Just 35% of analogue-only viewers are now aged 44 or under, compared to 53% of the UK population** (down by four percentage points on 2007). It is possible that the analogue television viewing universe is growing older, because younger viewers are migrating to digital television platforms more rapidly (**page 142**).

- **The proportion of viewers who believed that TV content had 'got worse' over 2008 increased with age**, with viewers in the 65+ category being twice as likely to hold this view (46%) as 15-24 year olds (19%) (**page 144**).

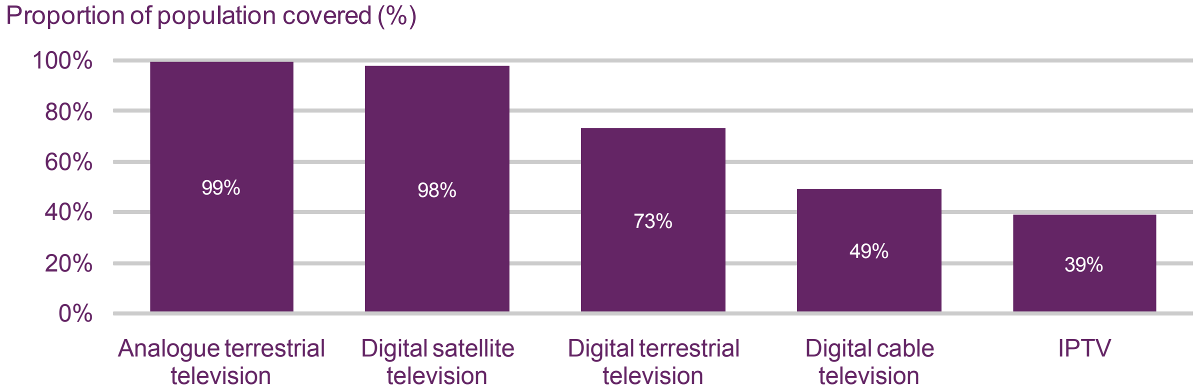
2.3.2 Availability of multichannel broadcast platforms

UK viewers have a choice of five main platforms for receiving television – analogue terrestrial, digital terrestrial, cable, satellite and IPTV. The availability of the platforms differs considerably (Figure 2.56). Analogue terrestrial television is available to almost all of the UK population. Among digital television platforms, digital satellite reaches 98% and digital terrestrial television (DTT) 73%.

Cable television is currently available to just under half the population (49%). However, in May 2009, Virgin Media announced that it had identified 500,000 homes that would be linked to its cable network, of which 50,000 are to be added in 2009.

When larger regions begin digital switchover from later this year the availability of DTT will start to increase and should match analogue coverage once full switchover is complete in 2012. Tiscali TV, available to 10 million (39%) of the population is the only operator to deliver live television channels over its IPTV network. It offers a range of television subscription services to consumers in a number of cities. BT Vision's live television channels are delivered using DTT[27] while on-demand content is delivered over the broadband connection.

Figure 2.56 Availability of television platforms



Source: Ofcom research/operators

Each of the three main digital platforms offers a free-to-view service. Freeview is available via terrestrial TV, while satellite now offers two main non-subscription options including: *Freesat* from ITV/BBC and *Freesat from Sky*.

Cable customers can also receive a free TV service as part of a combined package, but still have to pay a monthly line rental charge to access this service. Consumers can subscribe to additional channels if they choose via Top Up TV on DTT, Sky on digital satellite and Virgin Media and other small cable operators.

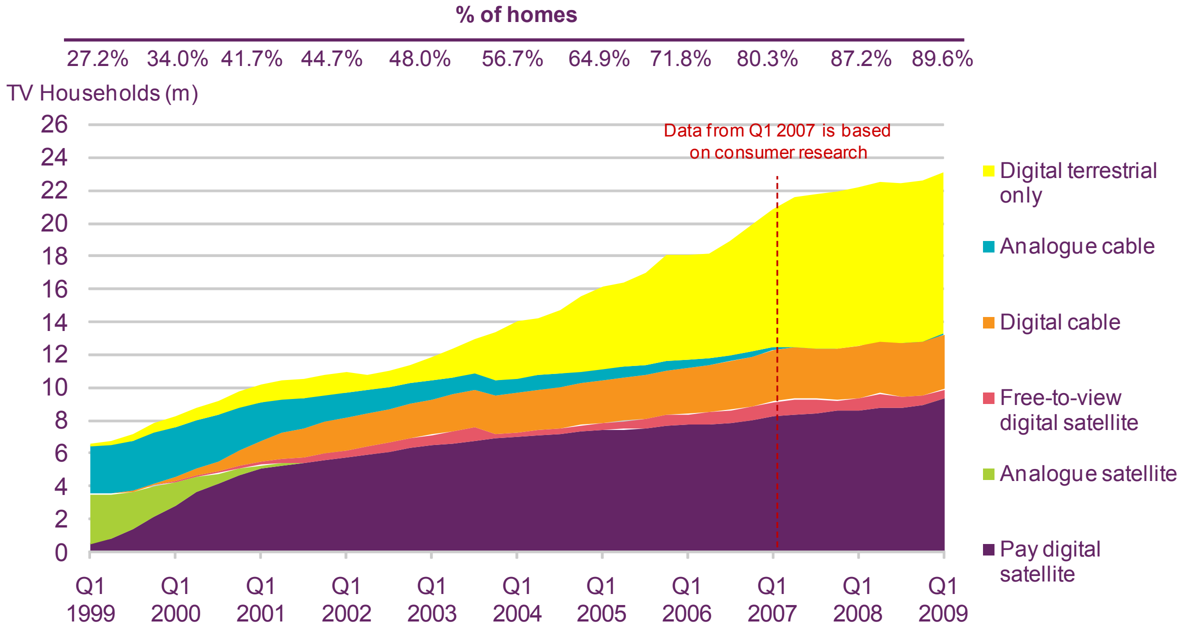
2.3.3 Digital TV take-up

Take-up on main television sets slowed in 2008

By the end of Q1 2009, take-up of multichannel television on main sets in UK households had increased by 2.4 percentage points year on year, to stand at 89.6% (Figure 2.57). DTT and pay digital satellite continued to be the two most common ways of receiving television on main sets[28], followed by digital cable and then free-to-view digital satellite.

[27] BT Vision is not classed as an IPTV service in our figures because its live scheduled services are broadcast through DTT rather than by broadband. BT Vision homes are therefore included in DTT homes.
[28] There are around 60.2 million television sets in the UK, of which around 25.4 million are 'main' sets (which broadly equates to the most-watched set in each TV household), and approximately 34.9 million are 'secondary' sets (in bedrooms, kitchens, etc).

Figure 2.57 Take-up of multichannel television on main sets

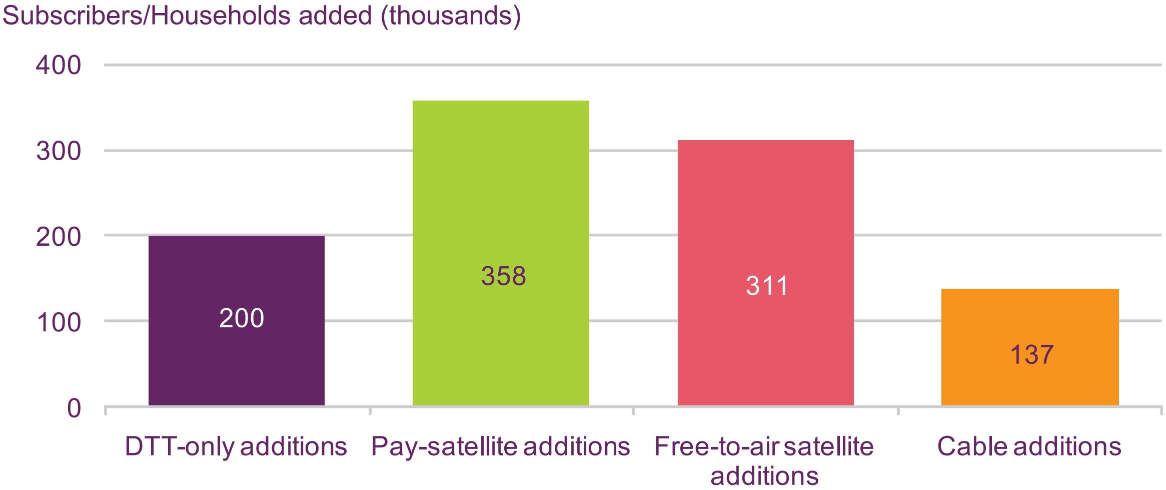


Source: GfK research from Q1 2007 onwards; previous quarters use platform operator data, research and Ofcom estimates. Note: Digital terrestrial relates to DTT-only homes

Figure 2.58 sets out the net additions of main television sets to DTT, satellite and cable over the twelve months to Q1 2009. The number of main sets connected to DTT rose by just 200,000 during the year, compared to an increase of 1.3 million the year before.

Pay platform subscriber additions rose at a higher rate, with BSkyB adding 358,000 net subscribers and Virgin Media attracting a further 137,000 over the year (both up slightly on the previous year's additions of 332,000 and 125,000 respectively). According to our survey results, free satellite platforms grew by 311,000 additions over the period.

Figure 2.58 DTT, satellite and cable net additions, year to Q1 2009



Source: Cable additions relate to Virgin Media reported results, pay-satellite additions are Ofcom estimates based on BSkyB results. Free satellite additions based on BBC/ITV Freesat sales figures. DTT additions taken from GfK consumer research. Note: 'DTT-only additions' are first-time DTT acquirers who have no other multichannel platform in the home.

All television sets

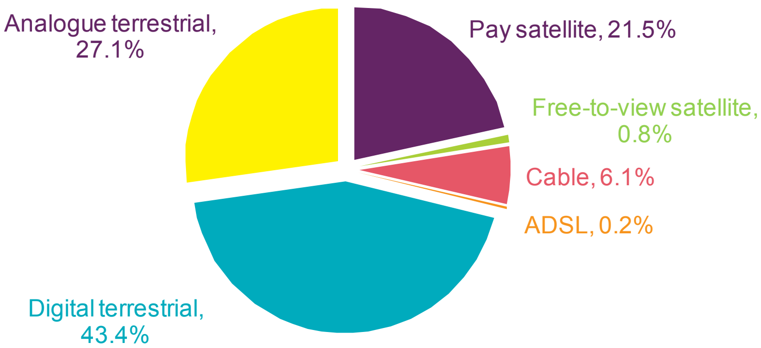
Around 73%, or 44 million, of the 60 million television sets in the UK (both main and secondary), had been converted to multichannel by Q1 2009, up by 5.7 percentage points in a year.

Figure 2.59 illustrates that analogue terrestrial television accounted for just over a quarter of the total set universe (27%) in Q1 2009, equivalent to around 16.2 million television sets (around 2.7 million main and 13.5 million secondary sets). This was down by around five percentage points from 32% twelve months earlier.

The number of sets receiving a signal through a digital terrestrial decoder rose by around 2.7 million over the year to 26.1 million, equivalent to a 43% share of all sets (up by four percentage points year on year). Survey results indicated that over a fifth (22%) of all television sets are now connected to a pay-satellite service, up by one percentage point year on year, and there were around 3.7 million sets (6.1%) connected to cable by Q1 2009, broadly in line with the figure a year earlier.

Figure 2.59 Platform share among all TV sets for Q1 2009

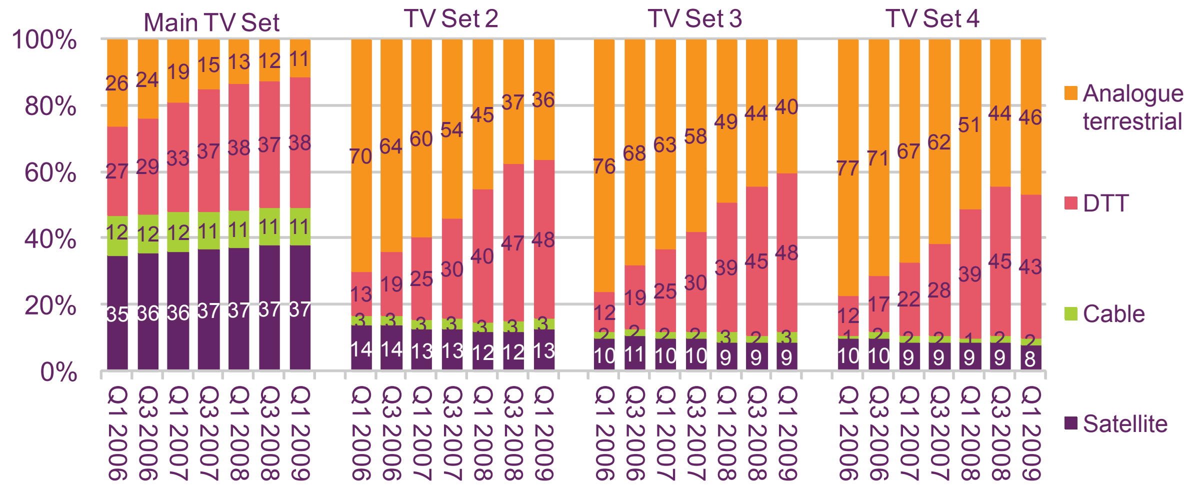
Total TV sets = approximately 60 million



Source: GfK research for Q1 2009.
Note: Figures may not add up to 100% owing to rounding

The share of sets that different digital television platforms attract varies by set number, as illustrated by Figure 2.60. In Q1 2009 satellite (free and pay) and DTT had a similar share of main sets, at 37% and 38% respectively. However, on second and third sets, DTT was the most widely-used platform, with take-up of 48% in each case; this was 12 and eight percentage points higher than the next most commonly used platform, analogue terrestrial. (Note: sets are classified as ‘main, 2, 3 or 4’ purely according to the way consumers describe their sets. The classification does not refer to any particular framework for prioritisation; for example location in a particular room or spend on set).

Figure 2.60 Platform shares by platform, TV sets 1 - 4



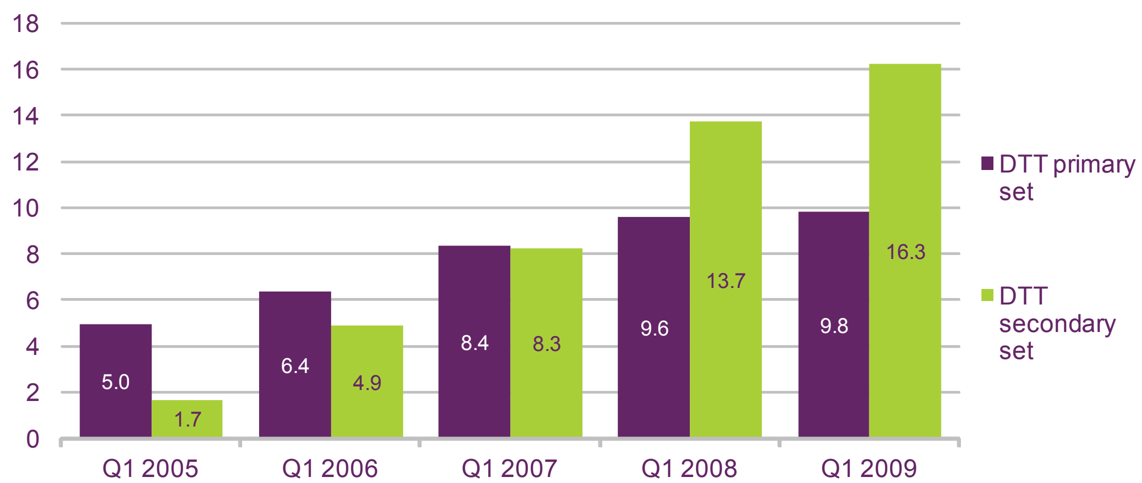
Source: GfK research

DTT device sales

The number of DTT devices used on secondary sets overtook the number used on primary sets during 2008. By the end of Q1 2009 there were 26.1 million DTT-enabled sets, of which 9.8 million were primary and almost 16.3 million were secondary sets, resulting in 62% of all DTT devices now being connected to secondary sets (Figure 2.61).

Figure 2.61 DTT on primary and secondary sets

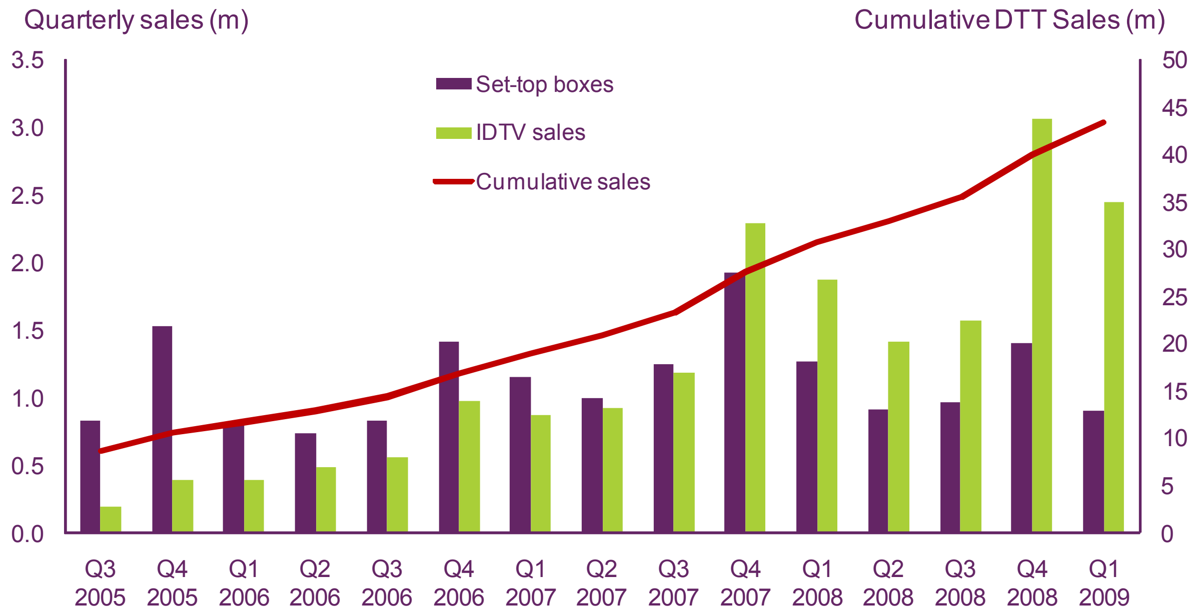
DTT on primary and secondary sets (millions)



Source: GfK research

Over the past year around 12.7 million DTT units have been sold, compared to around 11.7 million in the previous year, an increase of 8.5%. In Q1 2009 alone, DTT-enabled equipment sales reached almost 3.4 million units, up by 7% on the Q1 2008 figure. Integrated digital television sets (IDTVs) accounted for almost 73% of these sales (2.5 million units - around 93% of TV sets sold now include a digital tuner). *Freeview* set-top boxes made up the remaining 27% (900,000 units), although sales were down 28% year on year, as integrated TVs have become increasingly popular.

Figure 2.62 DTT quarterly and cumulative sales since launch of *Freeview*



Source: Sales figures from GfK, as adjusted by Freeview

2.3.4 Consumption of television services across the day

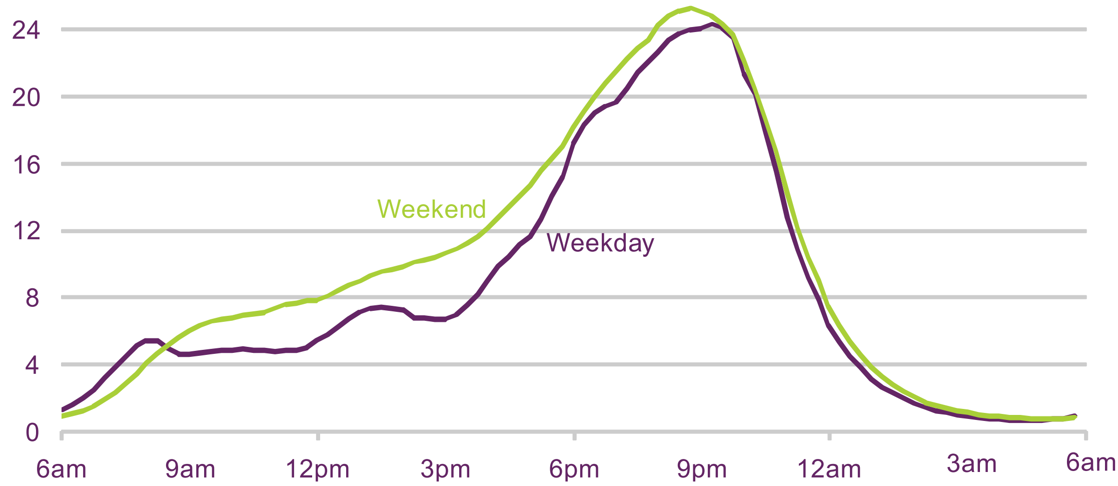
Average TV audiences at weekends are generally larger than on weekdays

The average weekday TV audience peaked at just over 24 million viewers at 21:15 – 21:30 in the evening during 2008; at weekends, the peak came earlier (at 20:45 – 21:00) and was higher at 25 million (Figure 2.63).

The weekend average audience was typically higher at all times of the day than on weekdays. The exception was 05:15 – 08:30 where a weekday audience peak of 5.4 million at 08:00 – 08:30 was driven by children (see the following analysis). Weekday audiences peaked at just over 7 million viewers over lunchtime but remained lower than the weekend equivalent throughout the period.

Figure 2.63 Average 2008 audiences, weekdays/weekends: by day part, all homes

Average audience (millions)



Source: BARB

Patterns of viewing, by time of day and age

The average weekday audience by day part and age is illustrated in Figure 2.64. Four trends stand out:

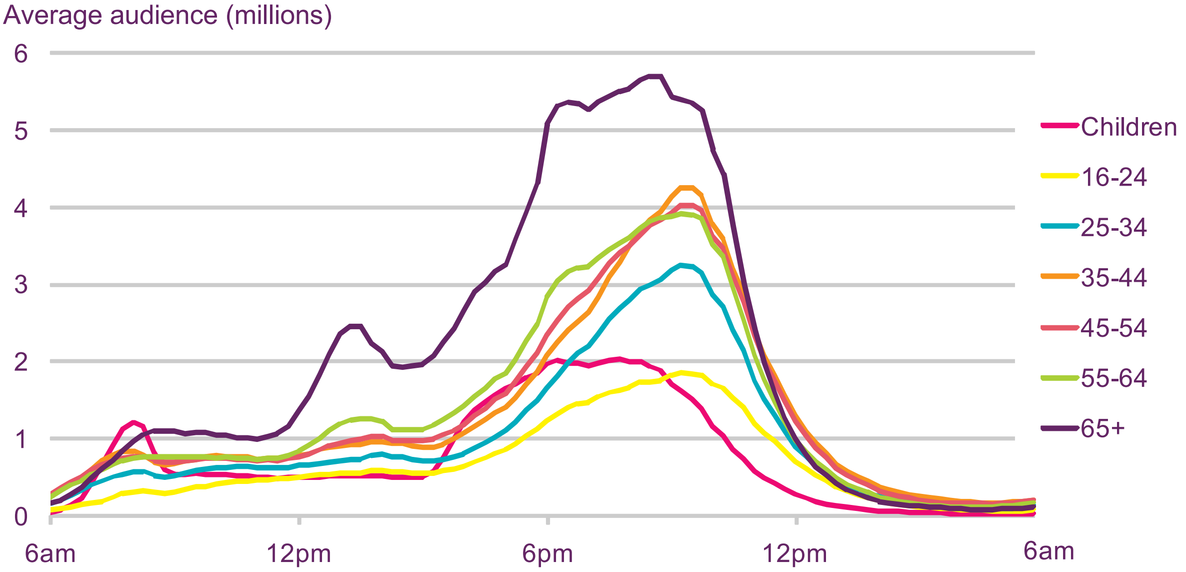
- there were more TV viewers over 65 than in any other age group at most times of the day. Among this age group, there was a small broad breakfast peak at 08:45 – 09:15, a lunchtime peak at 13:15 – 13:45 and a broad evening peak from 18:00 – 22:00 (defined here as the interval where the audience exceeds 5 million);

- the 16-24 audience was the least likely of any adult age group to watch TV at any time of the day and was the only audience in 2008 where the peak time average failed to reach 2 million viewers;

- third, there was a substantial increase in the size of the peak-time viewing audience aged 25-34 when compared to 16-24s, possibly reflecting the changing life circumstances of people in the older age band; and

- the children's audience was unique in exhibiting a sharp well-defined peak at breakfast and in watching television in large numbers for a comparatively sustained period of time between 18:00 and 20:30. Unsurprisingly, the children's audience peak was earlier than average.

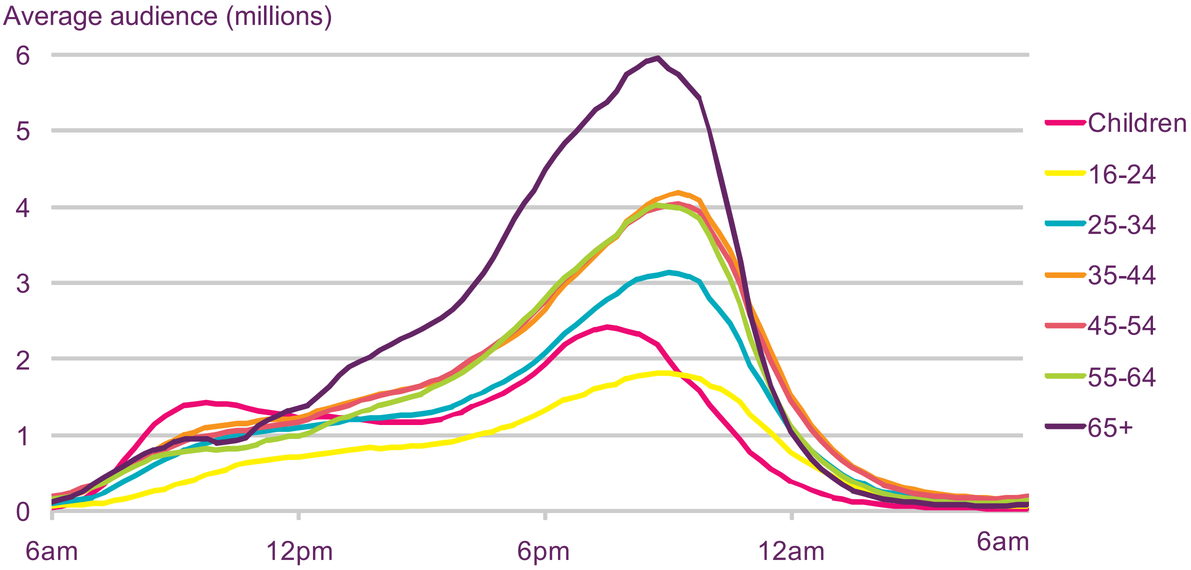
Figure 2.64 Average 2008 weekday audiences, by day part and age, all homes



Source: BARB

Many of the trends in weekday viewing were reproduced at weekends (Figure 2.65). For example, there was still a morning peak for children in 2008, while people over 65 still watched TV in larger numbers than any other adult age group for much of the day. But the viewing peaks for both audience groups tended to be higher at the weekends (6 million for people over 65 and 2.4 million for children) while they were broadly similar in size for other audiences.

Figure 2.65 Average 2008 weekend audiences, by day part and age, all homes



Source: BARB

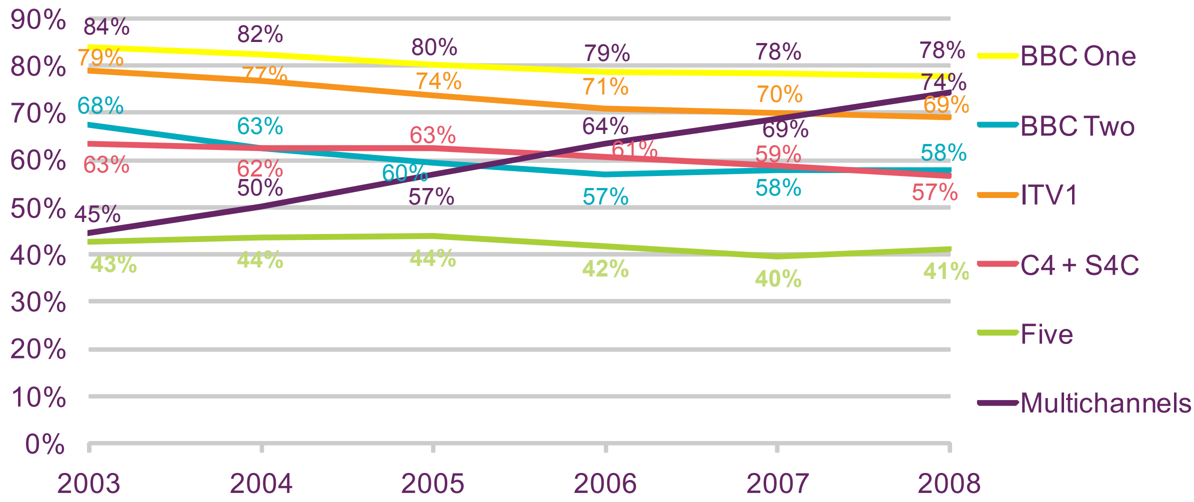
2.3.5 Channel reach

Figure 2.66 illustrates how the collective reach of multichannel services rose by 29 percentage points (or 67%) to 74% between 2003 and 2008. In this section reach is defined as the proportion of viewers who watch a particular channel for at least fifteen consecutive minutes over a period of a week (fifteen-minute weekly reach).

This growth meant that the combined reach of multichannel services exceeded that of any one individual PSB channel except BBC One, and surpassed ITV1 for the first time in 2008. Concurrently, the reach of all PSB services fell over the same period, with BBC Two and ITV1 experiencing the greatest absolute reductions – ten percentage points each – to stand at 58% and 69% respectively in 2008. The reach of Channel 4, BBC One and Five fell by six, six and two percentage points each respectively over the same period. Year on year, however, BBC Two's fortunes appeared more positive; for the first time since 2003, its reach exceeded that of Channel 4/S4C.

Figure 2.66 Average weekly TV reach in all homes, by channel

15-minute consecutive weekly reach – full weeks

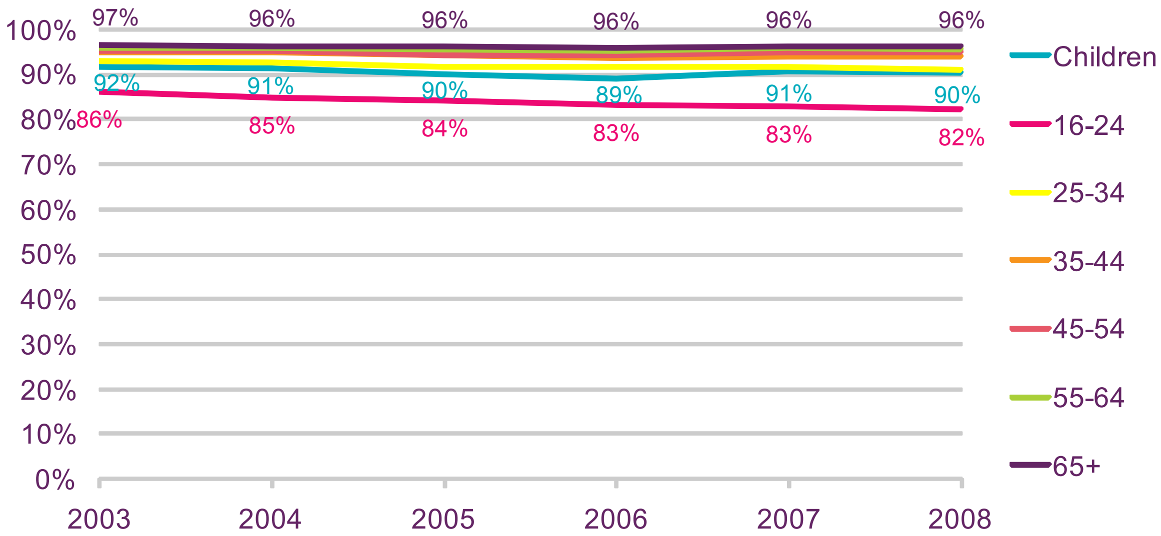


Source: BARB

Figure 2.67 breaks down TV reach by age. Viewing among people in the older age groups, where reach is highest, has remained relatively stable over the past few years. By contrast, TV reach among younger audiences (which was already lower than average) has been in decline since at least 2003, falling by four percentage points among 16-24 year olds and by two percentage points among 25-34 year olds, to 82% and 91% respectively in 2008. The younger adult age group may be spending less time watching TV as they divide their time between an expanding range of media consumption opportunities (for example, social networking sites, downloading and listening to music or watching video clips and TV online).

Figure 2.67 Average weekly TV reach in all homes, by age

15-minute consecutive weekly reach – full weeks



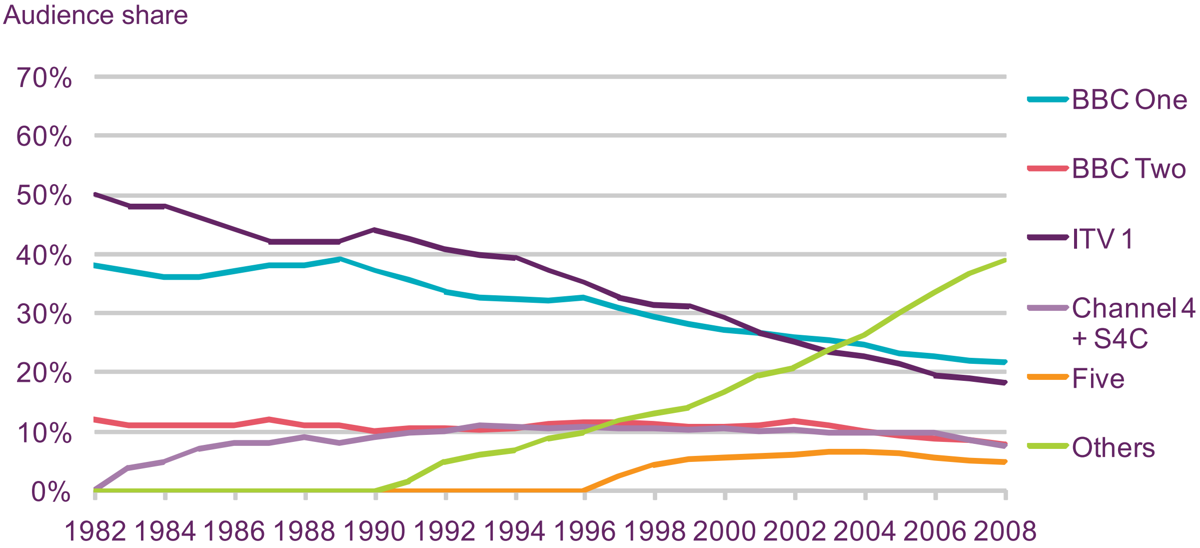
Source: BARB

2.3.6 Viewing share among the five main PSB channels

Multichannel viewing share in all homes, all day, continued to climb during 2008, reaching 39% thanks to the growing popularity of digital television platforms and multichannel services (Figure 2.68). Year on year, multichannel share expanded by 6%, and since 2003 it has risen by 64%. As a result, the five main PSB channels (BBC One, BBC Two, ITV1, Channel 4/S4C and Five) have all, to a greater or lesser degree, experienced reductions in viewing share over the same period.

The television broadcasting landscape has been transformed by the widening availability of digital television platforms. This can be seen by comparing 2008 channel shares with those from 1982 – the year when Channel 4 launched. At that point, ITV attracted a 50% share of viewing in all homes, while BBC One was the nation's second favourite channel with a 38% share; BBC Two accounted for the remaining 12% of viewing. BBC Two's share over this 26-year period has fallen by a third and stood at 8% in 2008; moreover, BBC One has been more effective than ITV1 at maintaining its share – although both experienced substantial reductions over the period, of 43% and 63% respectively.

Figure 2.68 Channel shares in all homes, 1982 to 2008



Source: BARB, TAM JICTAR and Ofcom estimates

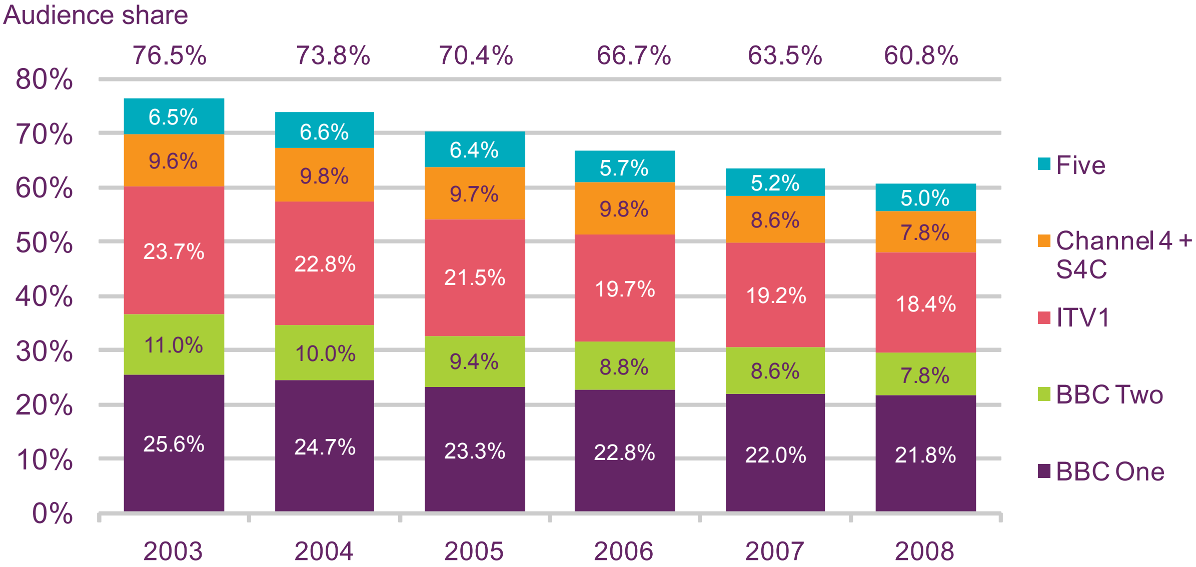
PSB channels' share decline continues in all homes

The five main networks attracted a share of 60.8% in all homes during 2008, down by 2.7 percentage points, or 4.3%, year on year, although there are signs that the rate of decline is slowing (the networks experienced a 4.8% reduction in share between 2006 and 2007). Since 2003, their share has fallen by one-fifth, in the face of growing competition from multichannel services (Figure 2.69).

Since 2007, Channel4/S4C has lost proportionally the most share, shedding 0.8 percentage points, or 9% of its total, during 2008. BBC Two viewing share contracted by 8% over the same period, while ITV1 and Five's share each fell by 4%. BBC One was the most successful of all the main PSB channels at maintaining share during 2008, losing just 0.2 percentage points over the period.

Over a five-year period, BBC Two lost the largest proportion of its share, down by nearly one-third (29%). ITV1, Channel4/S4C and Five each shed around one-fifth of their shares over the same period (22%, 19% and 23% respectively). Once again, BBC One proved most successful at maintaining its audience in the face of multichannel competition, with its share falling by just 15% over the same period.

Figure 2.69 Five main networks' audience share, all homes



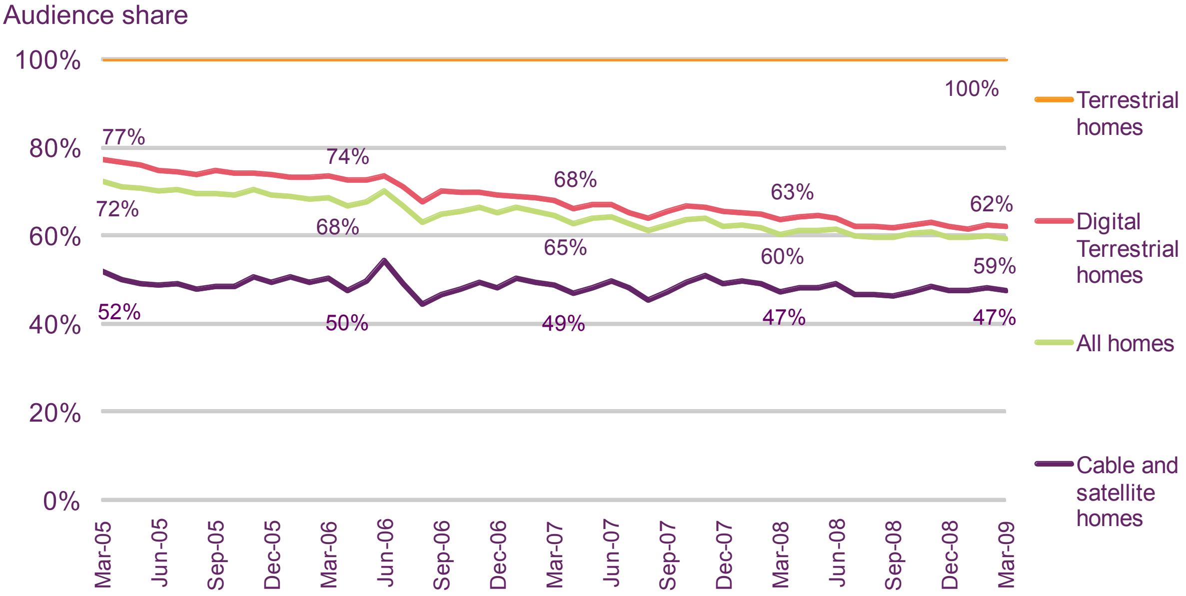
Source: BARB

While the five main PSB channels attracted a 61% share of all viewer hours in all television homes during 2008, this varied significantly by platform (Figure 2.70). The channels commanded a monopoly over viewing in homes that receive television services through an analogue tuner, but compete to varying degrees for audiences' attention in digital terrestrial (DTT), cable and satellite homes.

By March 2009, the share of the five PSB channels in DTT homes had reached 62% (compared to 59% in all homes), and over the last nine months it seems that the share reductions of the previous six years were tailing off. Share was down by 12 percentage points since March 2006, but by just one percentage point in the twelve months to March 2009.

The picture in cable and satellite homes was different. The five channels attracted substantially less share when compared to DTT homes – 47% in March 2009 compared to 62%. Nevertheless, their position in cable/satellite homes was in some senses better-established in 2008, because share had remained relatively stable over a period of time – down by just three percentage points since March 2006.

Figure 2.70 Five main networks' share, by platform



Source: BARB, all day, all viewers, various platforms

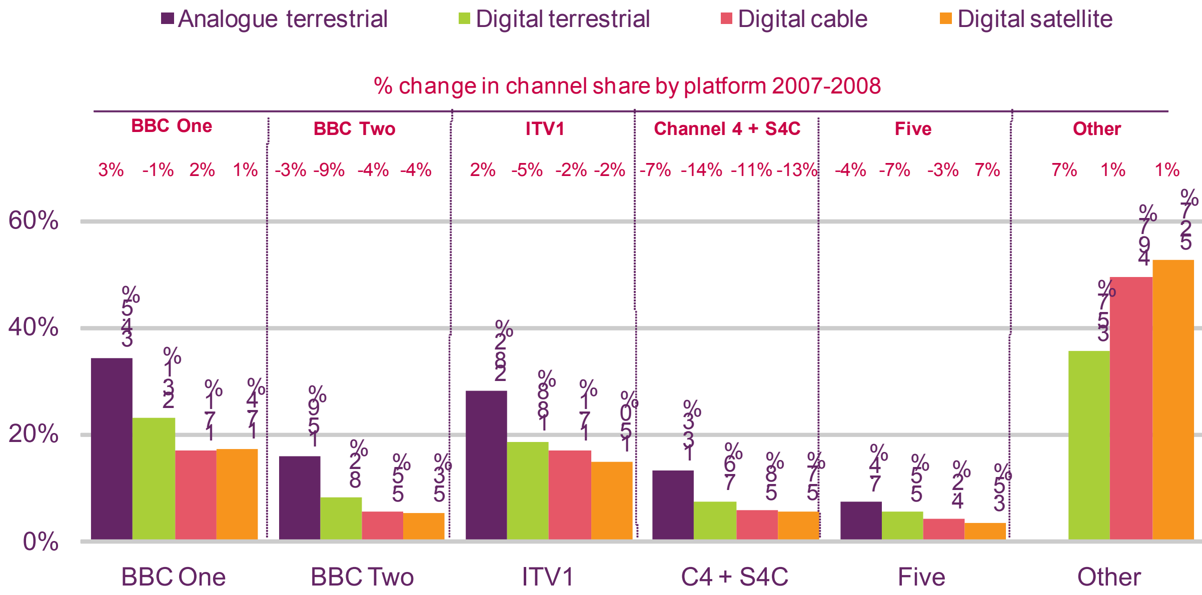
The five main PSB channels' success at holding their audiences varied by platform during 2008 (Figure 2.71). In analogue homes, BBC One and ITV1 attracted a higher viewing share, while Channel 4/S4C lost 7% of its share. This might be explained by the changing demography of the analogue television viewing universe, which has an over-representation of older people.

In DTT homes, BBC One broadly maintained its share (falling by 1% over the period); ITV1's share fell by 5% but BBC Two and Channel 4/S4C experienced the largest reductions, of 9% and 14% respectively. Channel 4/S4C also incurred substantial losses in share in cable and satellite homes, where share fell by 11% and 13% respectively. By contrast, in cable and satellite homes the share reductions for BBC Two and ITV1 were less dramatic, and BBC One's share actually rose by 2% in cable homes and 1% in satellite homes.

Five's performance by platform was perhaps the most varied among the five main PSB channels. Like other PSBs, it lost substantial share in DTT homes (7%); in cable homes its share fell by 3%, while among satellite viewers it managed to increase its share by 7%.

The impact on multichannel services similarly varied by platform. In cable and satellite homes there was a redistribution of share *among* the PSB channels, while the multichannels picked up just 1% of additional share year on year. By contrast, the multichannel operators were the main beneficiaries of falling PSB share in *Freeview* homes, with their claim on all viewer hours rising by 7% during 2008.

Figure 2.71 Channel share by platform, 2008



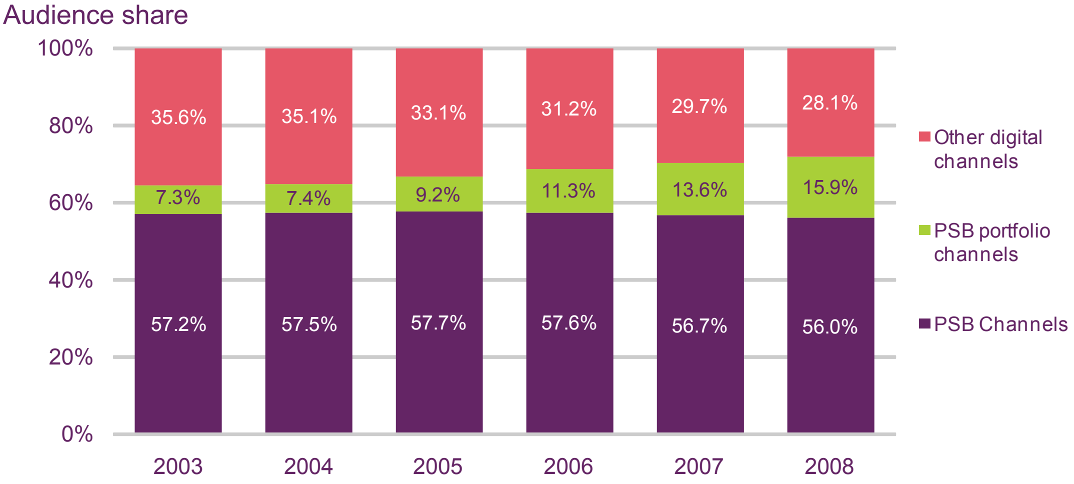
Source: BARB

2.3.7 Multichannel broadcaster share

The PSBs' portfolio channels increase their audience share

In multichannel homes, the five main PSB channels shed 1.2% of their audience share during 2008 (Figure 2.72). But their portfolio channels (BBC Three, BBC Four, CBeebies, CBBC, BBC News, BBC Parliament, ITV2, ITV3, ITV4, CiTV, Men & Motors,GMTV2, E4, More4, Film4, 4Music, Fiver, Five USA) all continued to attract a growing share of viewing. As a result, the combined share of the five PSB channels and their portfolio channels rose by 1.6 percentage points, or 2.3%, to reach 71.9% in 2008. Over the five-year period, the share of the five main PSB channels has fallen by 2.0%, while their portfolio channels have more than doubled their share, from 7.3% to 15.9% over the same period. The portfolio share figure has experienced several substantial 'jumps' over the past five years, most notably when Channel 4 moved E4's business model from a subscription to an advertising model in 2005 and then did the same with Film4 in 2006.

Figure 2.72 PSB and portfolio channel shares in multichannel homes



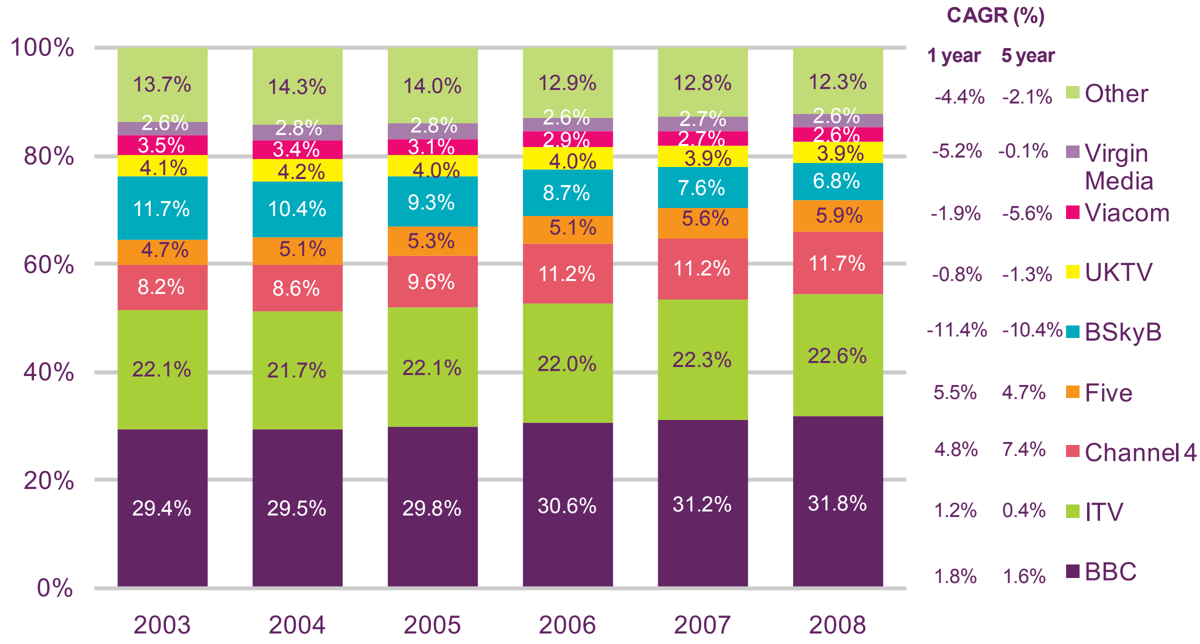
Source: BARB

Year on year, Five's channel portfolio experienced the largest increase in audience share, rising by 5.5%, followed by Channel 4 with 4.8% and the BBC with 1.8%; ITV1's share remained more stable over the period, growing by just 1.2% (Figure 2.73). Over the five-year period, Channel 4's proportional increase in portfolio share was higher than for any other PSB operator. It has risen by nearly 43% since 2003, while Five's has grown by 26%; the BBC's share increased by 8% while ITV's grew by just 1.9% over the same period.

The success of the PSB portfolio channels in attracting viewer hours has put pressure on the share of the remaining multichannel operators. Among the larger operators of channel portfolios, beyond the PSBs, BSkyB bore the brunt of the reductions in viewing share. Its collective share of viewing fell by 11% year on year, and by 42% since 2003. Viacom's share (which includes the MTV, VH1 and Nickelodeon networks) has contracted by 2% since 2007 and by 25% since 2003, while UKTV managed to hold on to a greater proportion of its portfolio share, experiencing reductions of just 1.3% in twelve months and 6.3% over the past five years.

Figure 2.73 Broadcaster portfolio shares in multichannel homes

Audience share

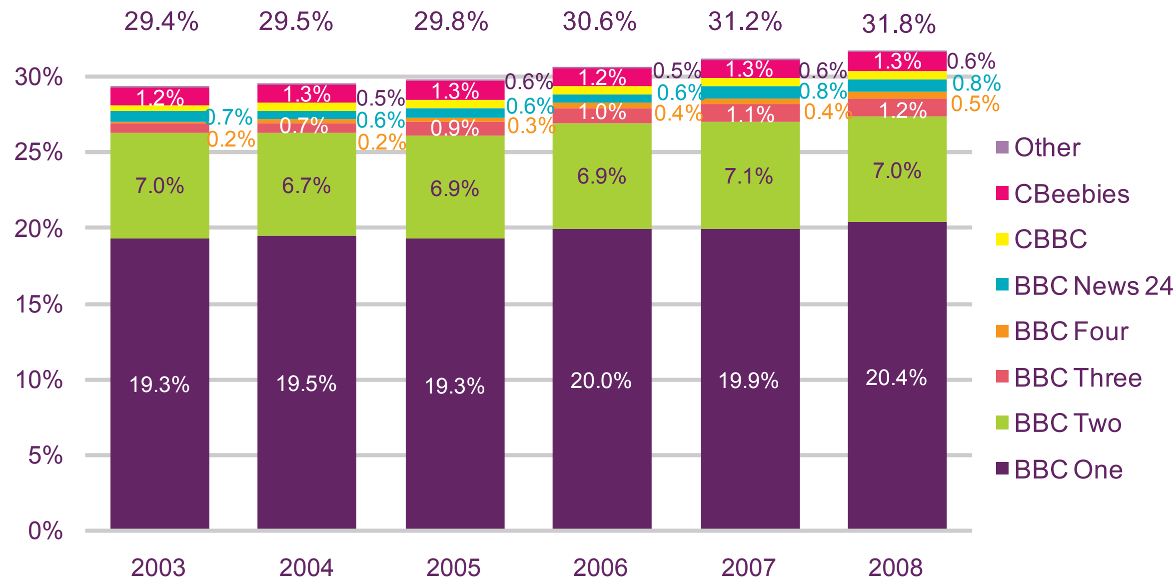


Source: BARB

Within the BBC's channel portfolio, its two main channels have managed to maintain their share of viewing in multichannel homes over the past five years (Figure 2.74). Together they attracted 27.4% of all viewer hours in 2008, up from 27.0% in 2007 and by 1.1 percentage points, from 26.3%, since 2003.

The BBC's digital-only channels contributed a further 4.4 percentage points of share in 2008, up from 4.2% in 2007 and from 3.1% in 2003; their principal growth driver has been BBC Three, whose share has doubled from 0.6% five years ago to 1.2% in 2008. Over the same period, CBeebies has made a consistent and substantial contribution to the BBC's digital channels' share, having rapidly established itself in the children television category soon after its launch in 2002.

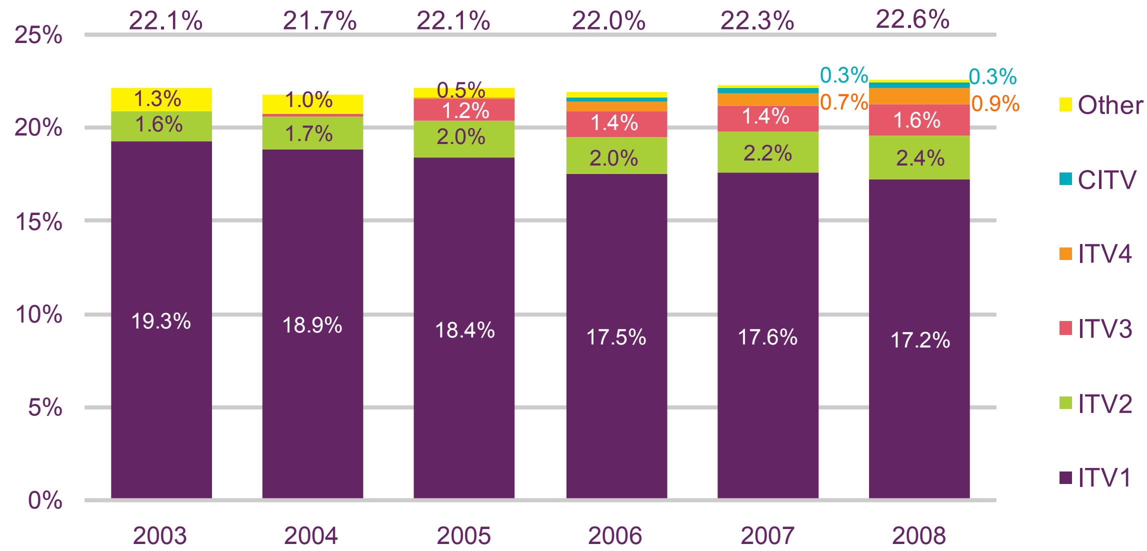
Figure 2.74 BBC portfolio share in multichannel homes



Source: BARB.
Note: 'Other' includes BBC Parliament, BBC Choice and BBC Knowledge

Figure 2.75 illustrates ITV has also managed to build its viewing share in multichannel homes over the past five years – and the digital channels have played an important role in offsetting ITV1's falling share. In 2008, the main channel attracted a 17.2% share of viewer hours in multichannel homes, down by 0.4 percentage points since 2007 and by 2.1 percentage points since 2003. Over the same period the digital-only channels' collective share rose from 2.9% in 2003 to 5.3% in 2008. The net result was a 0.5 percentage point increase in ITV's portfolio share, to 22.6%.

Figure 2.75 ITV portfolio share in multichannel homes



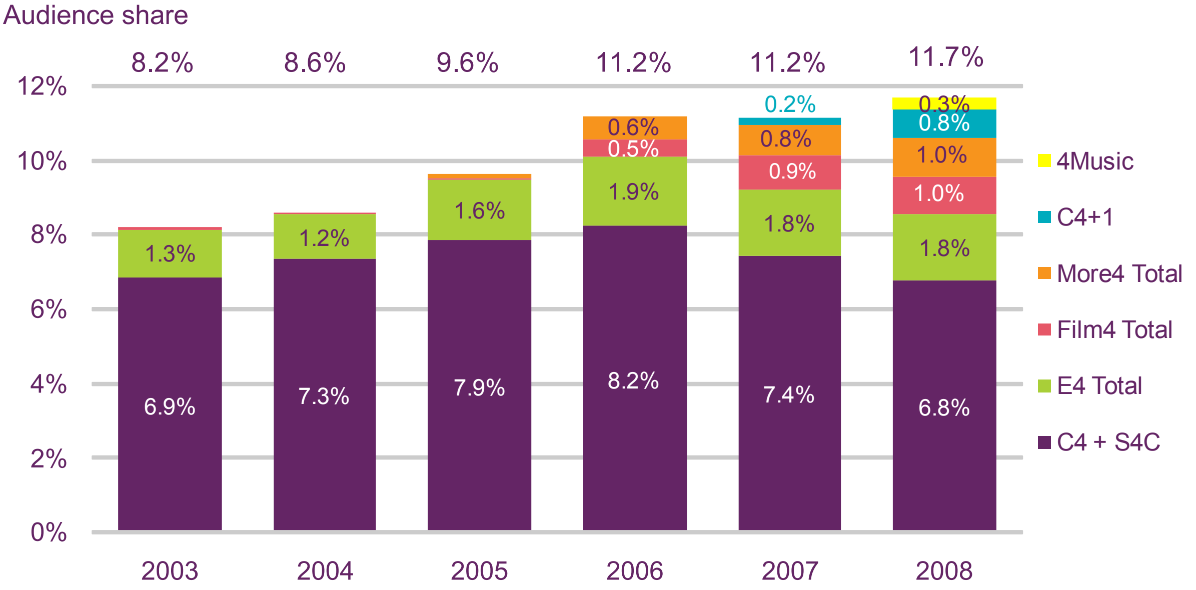
Source: BARB.
Note: 'Other' includes ITV Play, Men & Motors, GMTV2, Granada Breeze, Plus, ITV News. ITV2 and ITV3 include their +1 services

The substantial growth in Channel 4's portfolio share over the past five years can be explained by the expanding range of free-to-view digital-only channels that it offers and by their growing popularity with viewers.

Over the past three years, Channel 4's channel portfolio has evolved rapidly. This has included the migration of both E4 and Film4 to free-to-view business models, the launch of More4 and the introduction of time-shifted versions of these and the Channel 4 parent channel. The net result has been that Channel 4's portfolio share of viewing has risen from 3.0% in 2006 to 4.9% in 2008 (Figure 2.76). Even before its relaunch as an advertiser-funded channel, E4 had already managed to attract a loyal base of viewers. In 2004, it secured 1.2% of all viewer hours in multichannel homes, even when it was reach-limited as a result of its subscriber-only status.

Channel 4 itself, however, has not fared as well as its digital-only channels. It lost 0.6 percentage points of viewing share between 2007 and 2008 and accounted for an average of 6.8% of all viewer hours in 2008. Having benefited from a growing share of all viewer hours between 2003 and 2006 (possibly explained by the earlier digital migration of Channel 4's target audience), it has found its share declining in every year since. The net result is that the main channel's share in 2008 was broadly comparable to that in 2003 (6.8% in 2008 versus 6.9% five years earlier).

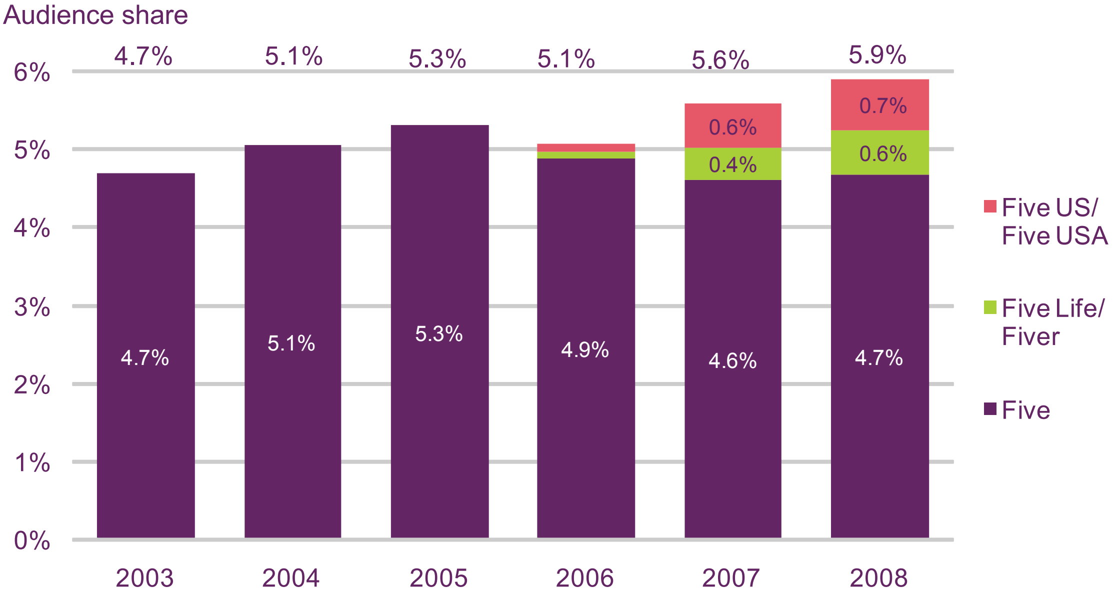
Figure 2.76 Channel 4 portfolio share in multichannel homes



Source: BARB

To some extent, the story of Five's share in multichannel homes has been similar to that of Channel 4. The parent channel saw its share of viewer hours rise between 2003 and 2005, peaking at 5.3%, but its share has fallen back since then (Figure 2.77). In 2008 it stood at 4.7%, down by 0.1 percentage points on 2007 and equal to its 2003 share. At the same time, its two digital-only services, Fiver and Five USA (previously Five Life and Five US respectively), have both managed to build market share since their launch in 2006. In 2008 they secured a 0.6% and 0.7% share of viewing, up by 0.2 and 0.1 percentage points respectively year on year.

Figure 2.77 Five's portfolio share in multichannel homes

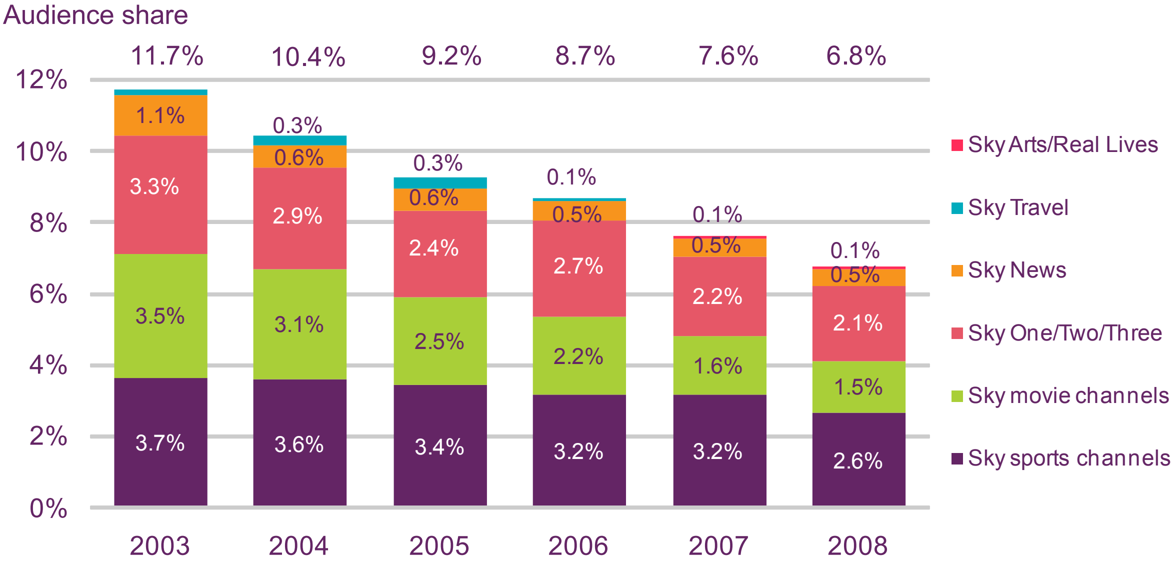


Source: BARB.
Note Fiver and Five USA include their +1 service shares

BSkyB's portfolio share of viewing in multichannel homes has fallen consistently for the last five years, contracting by 4.9 percentage points over the period to stand at 6.8% in 2008; year on year its portfolio share fell by 0.8 percentage points (Figure 2.78).

Much of the reduction was driven by the declining popularity of Sky's Film channels, where share fell by over 50% between 2003 and 2008 to stand at 1.5% in 2008. Sky's Entertainment channels' (Sky1, Sky 2 and Sky 3) share of viewing also contracted by nearly 50% over the same period, to stand at 2.1% in 2008. Some of this reduction was probably explained by the disappearance of Sky's basic-tier channels from the Virgin Media platform for much of 2007 and 2008. It is to be expected that they will recover some ground in 2009 following their reappearance on the platform towards the end of 2008. Sky's Sports services continued to attract a substantial share of viewing in 2008 (2.6%) – and they have lost a comparatively smaller 1.1 percentage points of share since 2003.

Figure 2.78 BSkyB portfolio share in multichannel homes

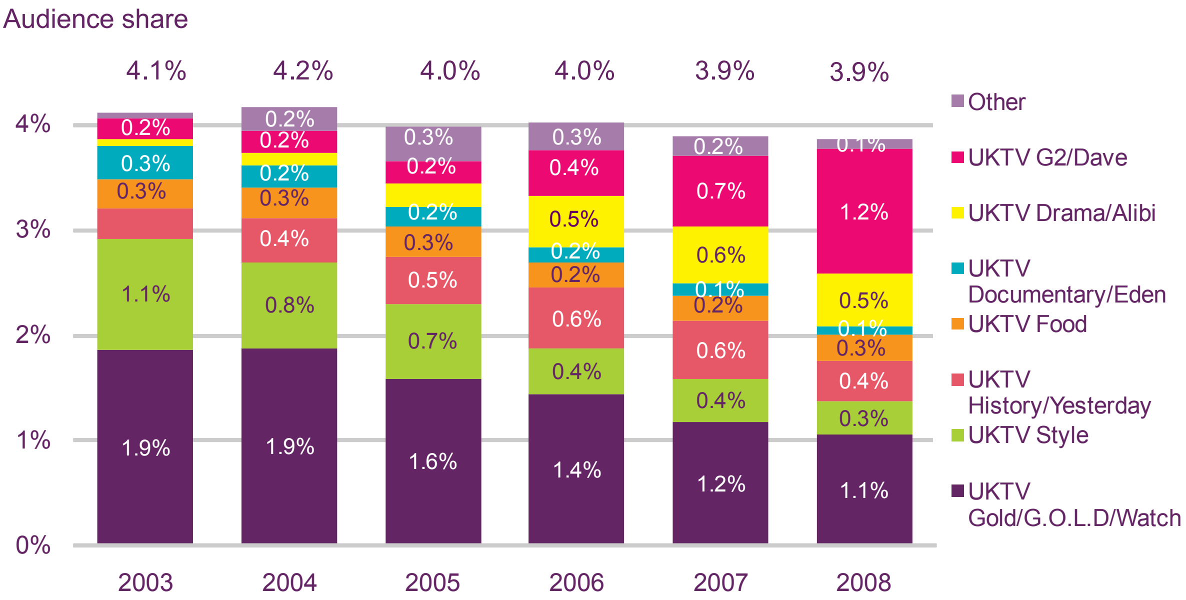


Source: BARB

UKTV's channel portfolio was again dependent on a smaller number of more popular channels in 2008, breaking the trend between 2004 and 2006 of share fragmentation among a larger number of services (Figure 2.79).

The main driver was Dave, which by 2008 had attracted 1.2% of all viewer hours in multichannel homes, up by 0.5 percentage points since 2007 and treble its share in 2006 (when it was branded as UK G2). At the same time, a number of the channels in UKTV's portfolio saw their share remain flat or fall slightly. The net result was an overall portfolio share of 3.9% in 2008, broadly in line with the figure twelve months earlier and just 0.2 percentage points lower than the equivalent figure five years ago.

Figure 2.79 UKTV portfolio share in multichannel homes



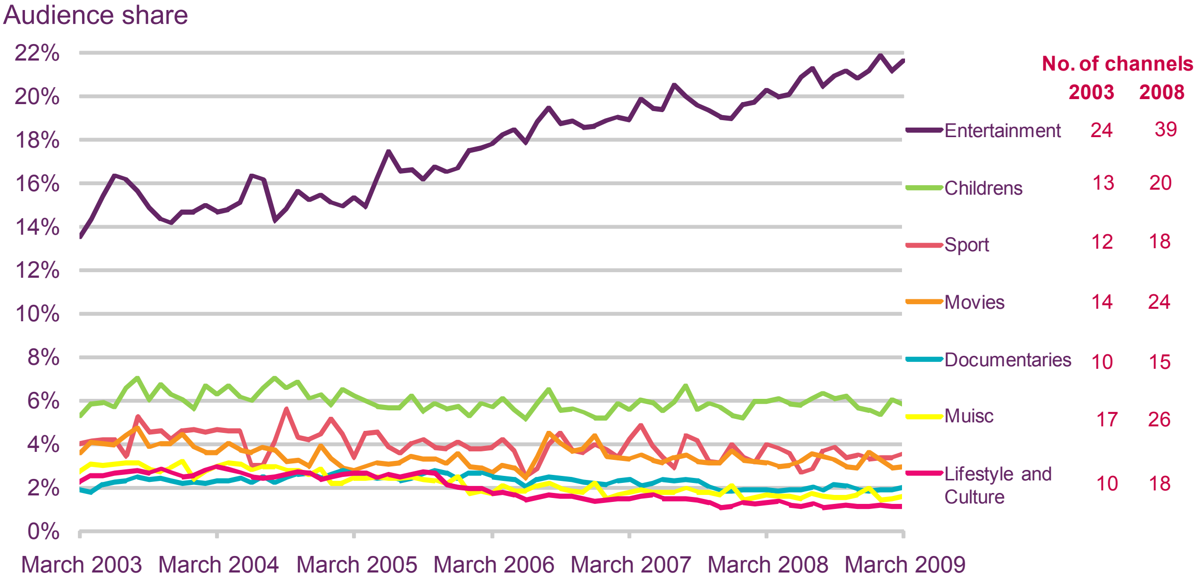
Source: BARB.
Note: UKTV portfolio channels have evolved over the past twelve months. In the 2008 figures, new channel names and shares have been matched to old channels. Trends should be interpreted with caution

Growth in Entertainment channels continues

Figure 2.80 illustrates the growing share of channels that fall into the Entertainment genre (as defined by Sky's electronic programme guide, excluding the five main PSB channels). It reached an average of 21% in 2008, compared to 15% in 2003. Over the same period, the number of channels in the Entertainment category rose by nearly two-thirds, to 39 channels in 2008. But the expanding range of channels in the category did not lead to fragmenting channel shares in this genre category. The most popular channels in the category continued to hold on to much of their share, with the top ten channels in March 2009 accounting for 63% of the genre share, although reduced from the 79% they held in March 2004.

The number of channels in all other genre categories also rose over the period, but their shares of viewing have all been in decline. The Lifestyle and Culture category experienced the steepest fall; 53% over five years (down from 3% in 2003 to 1% in 2008). Music also suffered a steep decline, with share falling by 46% over the period to 2% in 2008.

Figure 2.80 Aggregate share of channel genres in multichannel homes



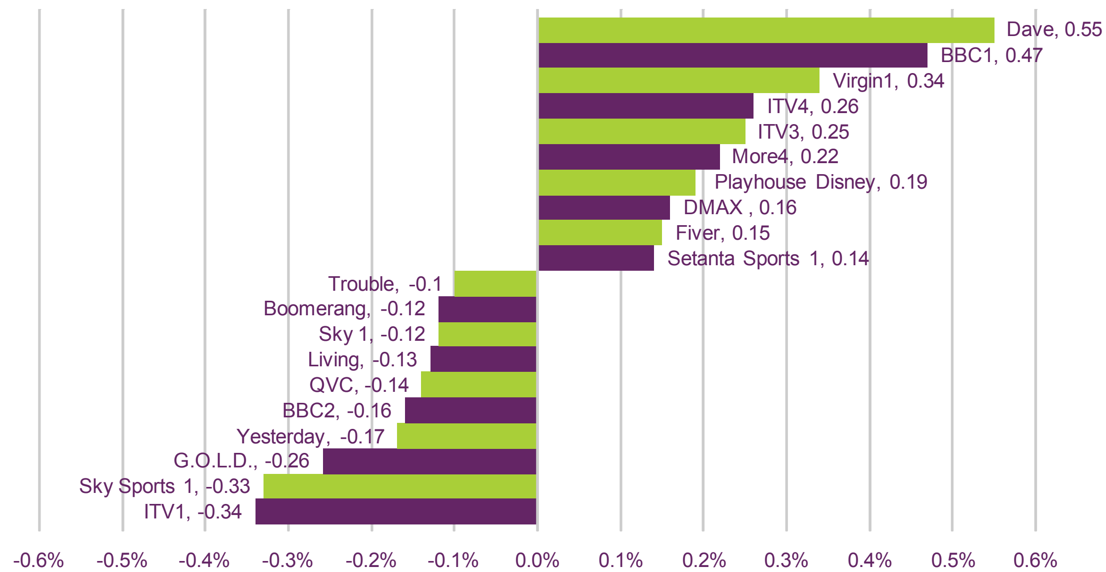
Source: BARB. Note: Number of channels doesn't include +1 services

PSB portfolio channels remain popular with viewers

Figure 2.81 sets out the ten channels in multichannel homes which gained the most share in percentage point terms in 2008, along with the ten channels which lost the most share. Half of the top ten gainers were part of a PSB portfolio, including BBC One, which gained the second-highest absolute share in 2008 (0.5 percentage points), just slightly lower than UKTV's Dave which accumulated a further 0.6 percentage points in 2008.

Of the channels which lost share in 2008, ITV1 shed the highest absolute amount. This channel, along with BBC Two (which ranked sixth) were the only PSB services among the top ten losers; they included Sky Sports 1, and the UKTV Channels G.O.L.D. and Yesterday.

Figure 2.81 Multichannel audience winners and losers, 2007 to 2008



Source: BARB. Note: includes channels' +1 services and shows percentage point change in channel's share of multichannel audience between 2007 and 2008.

Perhaps the most striking feature of the top-twenty channel line-up during 2008 was the degree to which the top ten most-watched channels remained completely unchanged year on year. Besides the five main PSB channels, ITV2, ITV3, Sky Sports 1, CBeebies and E4 continued to occupy the top ten slots in the same positions. There was, however, movement among those channels that ranked in the second half of the top twenty, with only BBC Three holding the same place in 2008 as in 2007.

Reflecting its growing popularity with audiences, Dave emerged as the eleventh most popular channel in multichannel homes in 2008, up by nine places. More4 and ITV4 also rose, by three and four places respectively, between 2007 and 2008 to rank as the thirteenth and seventh most popular channels. .

Figure 2.82 The top channels by share in multichannel homes – 2007 to 2008

Channel	Share 2008	Rank 2008	Rank 2007	Channel	Share 2008	Rank 2008	Rank 2007
BBC One	20.4%	1	1	Dave	1.2%	11↑	20
ITV1	17.2%	2	2	BBC Three	1.2%	12	12
Channel 4	7.4%	3	3	More 4	1.0%	13↑	16
BBC Two	7.0%	4	4	Film 4	1.0%	14	15
Five	4.7%	5	5	Sky One	1.0%	15	13
ITV2	2.4%	6	6	G.O.L.D	0.9%	16↓	11
E4	1.8%	7	7	ITV4	0.9%	17↑	21
ITV3	1.7%	8	8	Living	0.9%	18↓	14
Sky Sports 1	1.4%	9	9	BBC News	0.8%	19	17
CBeebies	1.3%	10	10	Disney Channel	0.8%	20	18

Source: BARB
Note: includes channels' +1 services. Channels are highlighted if their position has increased or decreased by three slots or more. Direction of arrow indicates whether a channel has moved up or down the rankings.

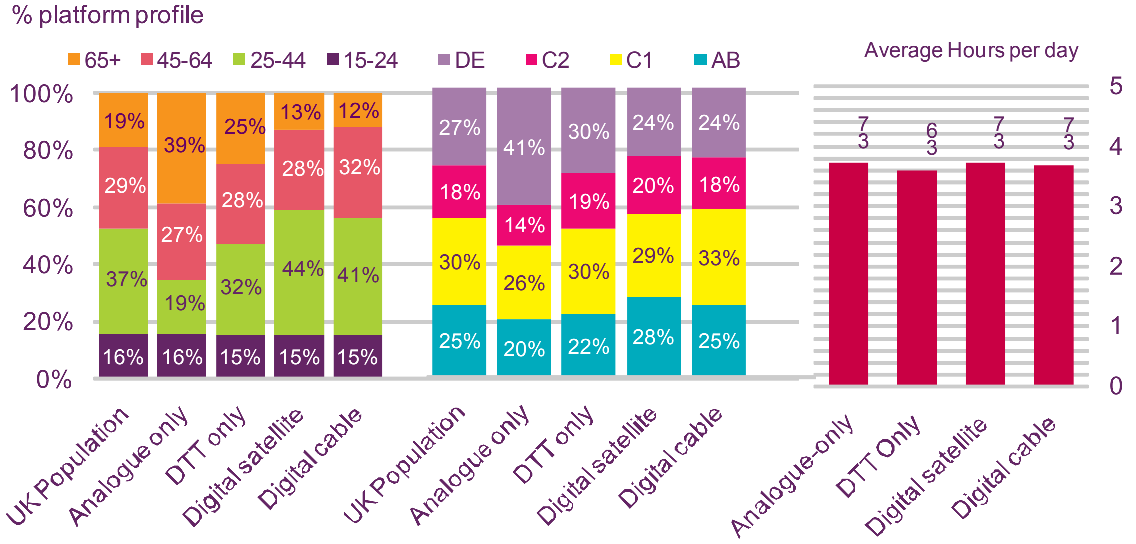
Platform and channel demographics

Just 35% of analogue-only adult viewers are now aged 44 or under, compared to 53% of the UK population (down by four percentage points on 2007). It is possible that the analogue television viewing universe is growing older because younger viewers continue to migrate to digital television platforms more rapidly. Perhaps reflecting the popularity of *Freeview* among older viewers, people over 65 accounted for an increasing proportion of those claiming access to *Freeview* in 2008, up by three percentage points year on year to 25% in 2008 (compared to 19% of the population). The demographic profiles of satellite and cable viewers remained largely stable over the same period.

In a similar vein, the socio-demographic profile of the analogue-only viewing audience skewed progressively towards the DE demographic during 2008. This segment accounted for 41% of the platform's total audience (up from 36% in 2007), while making up only 27% of the population. And *Freeview*'s demography also suggested that among those in the DE category who migrated to digital, DTT was a popular choice. They accounted for 30% of the platform's viewers in 2008, up by three percentage points in 12 months, and compared to just 27% of the population as a whole.

The modest increase in the average hours of viewing per day (from 3.5 hours/day in 2007 to 3.7 hours/day in 2008) for analogue-only homes might also be explained by the progressive ageing of the population of analogue television viewers.

Figure 2.83 Platform demographics by age, social grade and viewing hours, 2008

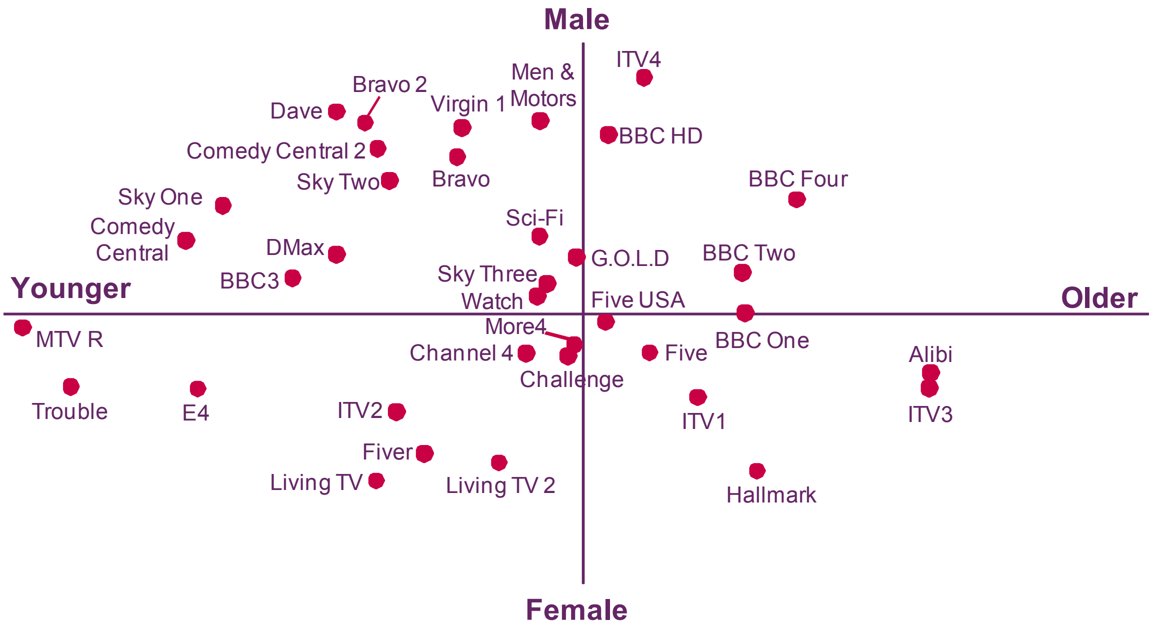


Source: Ofcom and BARB

Figure 2.84 plots the age and gender audience profile of the largest general Entertainment channels in multichannel homes, calculated relative to the adult TV population average. The majority of Entertainment channels attracted a younger-skewed audience, spread across both female and male groups. But with the exception of Channel 4, the main PSB channels tended to appeal more to older audiences, and all the commercial terrestrial channels were female-skewed, while BBC One was evenly split and BBC Two attracted more men. The only other channels which fell securely into the older-male quadrant were BBC Four, and to a lesser extent ITV4 and BBC HD.

BSkyB's entertainment channels all sat within the younger male quadrant, alongside channels such as the Comedy Central channels, Virgin 1, DMax, Bravo, Dave and Men & Motors. Channels such as Living TV, E4 and Fiver attracted a younger female audience.

Figure 2.84 Age and demographic profile of Entertainment channels in multichannel homes



Source: Ofcom and BARB
Note: The profile of a channel is calculated relative to the television population in multichannel homes. Includes channels' +1 services

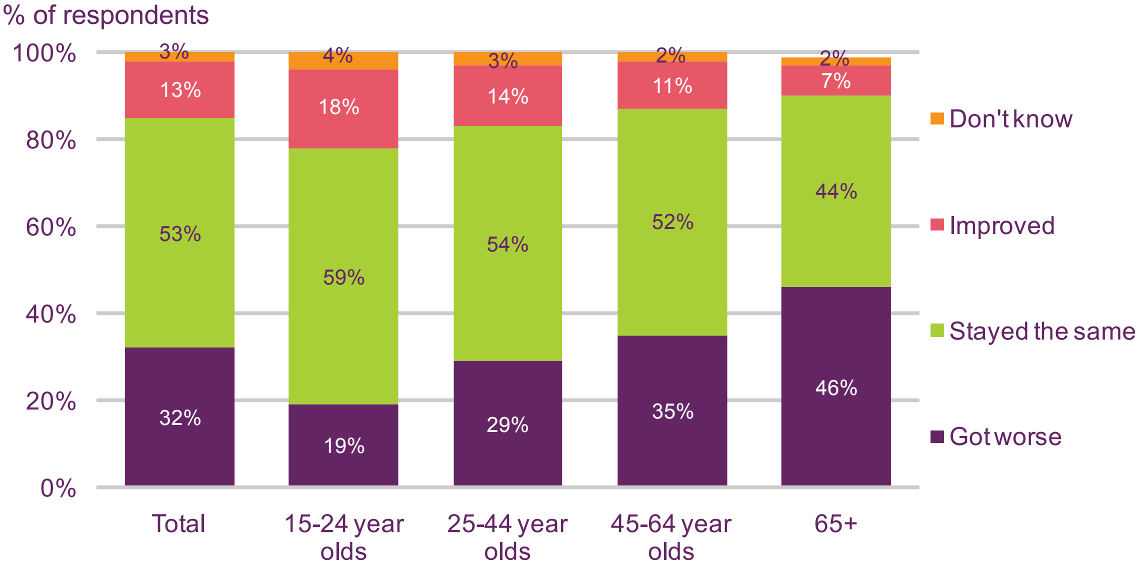
2.3.8 Consumer attitudes toward television

Older viewers more likely to believe TV content has deteriorated in quality over 2008

Ofcom research found that the majority (53%) of adults believed that TV programmes had neither improved nor deteriorated in quality in the last year (the survey was carried out in April and October 2008); 32% believed that they had deteriorated – or 'got worse' - and 13% said that they had improved during the course of the year (Figure 2.85).

The proportion of respondents who believed that content had worsened rose with age, with viewers in the 65+ category being more than twice as likely as those aged 15-24 to believe that programming had deteriorated (46% versus 19%). The reverse was true for those believing that programmes had got better, with 18% of 15-24 year olds expressing this view versus just 7% of over-65s.

Figure 2.85 Consumer attitudes towards television programmes over 2008, by age



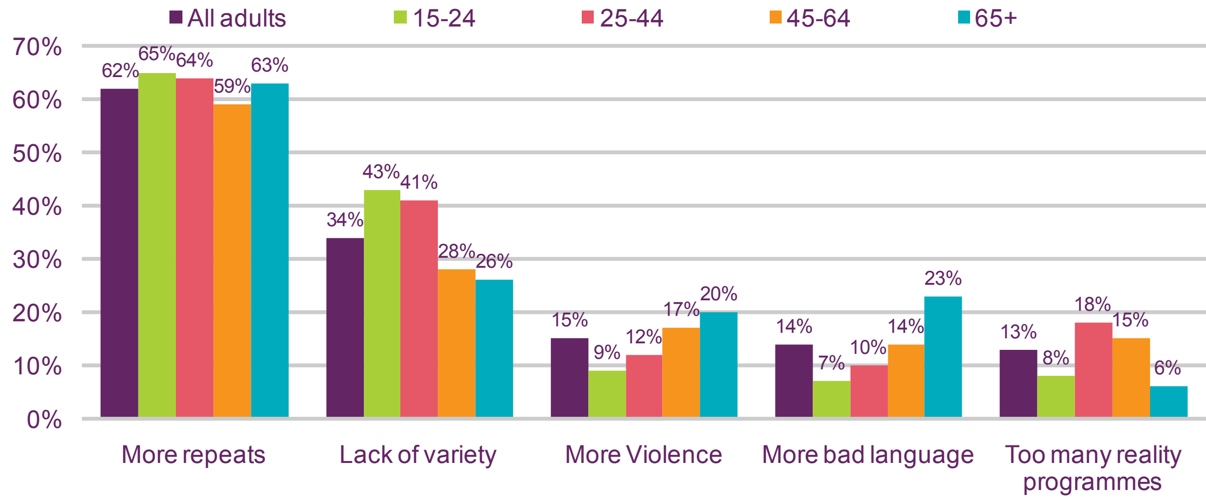
Source: Ofcom research, fieldwork carried out by Continental Research, April and October 2008
T50 – Do you feel that over the past year, television programmes have improved, got worse or stayed about the same? Base: All adults aged 15+ (1987) (333 aged 15-24, 732 aged 25-44 ,597 aged 45-64, 325 aged 65+)

Of those surveyed who believed that programmes had worsened, 62% cited the increased number of repeats as a reason for this, with only minor variations between age groups (Figure 2.86).

Thirty-four per cent stated that there was a lack of variety on TV, with the younger age groups in particular highlighting this as an issue (43% of 15-24 year olds and 41% of 25-44 year olds). A higher proportion of respondents in the older age groups believed that programmes had deteriorated due to the inclusion of more violence (20% of over-65s) and bad language (23% of over-65s) compared to the averages across all age groups (15% and 14%).

Figure 2.86 Reasons why TV programme quality deteriorated in 2008

% of respondents

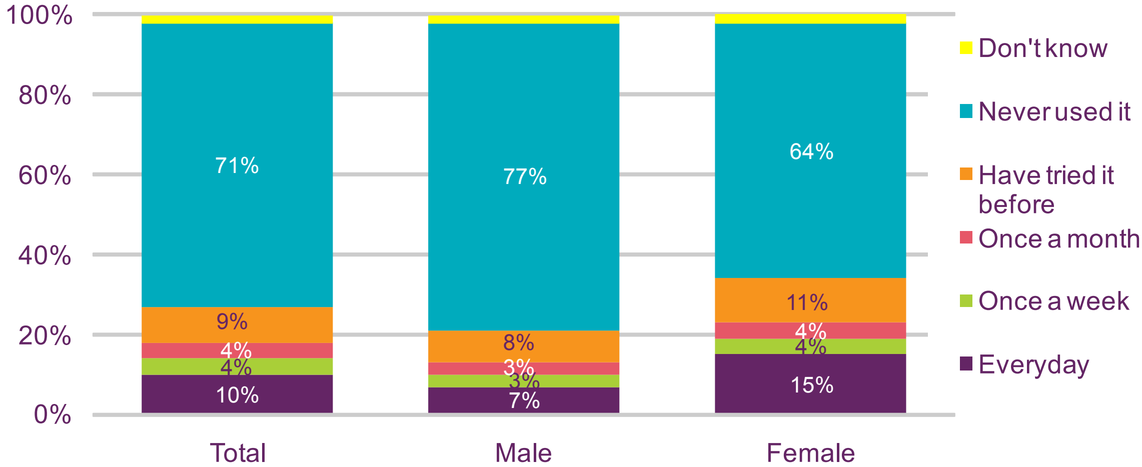


Source: Ofcom research, fieldwork carried out by Continental Research, April and October 2008. Question – In what ways do you think the television programmes have got worse over the past year? Base: All adults 15+ saying TV has got worse over the past year (634) (62 aged 15-24, 210 aged 25-44 , 212 aged 45-64, 150 aged 65+)

Figure 2.87 illustrates that of those who were able to block access to certain television channels, 71% claimed they had never done so, with men being more likely than women to say they had never used this functionality (77% versus 64%). A higher proportion of women claimed that they used the device to block content every day (15%); over double the figure for male respondents (7%).

Figure 2.87 PIN/password-protected TV, 2008

% of respondents



Source: Ofcom research, fieldwork carried out by Continental Research, April and October 2008. Question – How often, if at all, do you use this system? Base: All adults 15+ with a feature which enables them to block access to certain channels (760) (390 Male, 370 Female)