

Television Production Sector Review

A survey of TV programme production in the UK

20 September 2005

Context

- This presentation summarises the key findings of the statistical analysis of the UK television production sector conducted by Ofcom over the period from June to September 2005
- The data used in the analysis has been supplied by all the major UK broadcasters and a proportion of production companies operating in the UK. The external production companies featured in the analysis do not represent the total external production sector
- Ofcom has not audited the data independently. Where aggregate figures are shown, they should be interpreted as estimates only
- The presentation states the facts about television production in the UK as they have been reported to us. It does not reach any policy conclusions regarding the sector
- The evidence presented will inform Ofcom's development of policy proposals, which will be published for consultation later this year
- Detailed notes and explanations are provided in the appendix to the presentation

The data in this presentation comprises both supply and demand perspectives

Broadcaster returns

- Data supplied by broadcasters to Ofcom
- Data provided on programmes broadcast, not all programmes commissioned
- Expenditure excludes any indirect overheads of production (e.g. marketing, administration) and reflects the purchase price or the internal transfer price
- Figures exclude cost of sports rights and premium sports and gaming channels
- All figures are nominal and given for calendar years

Producer census

- First ever comprehensive census of the production sector commissioned jointly by Ofcom and PACT
- Supplemented by information from TAC
- Data provided on value of commissions produced in latest complete financial year up to June 2005
- Responses received from 200 production companies account for £1.1b of external production sector turnover (excluding Channel 3 production companies)
- 53% respondents reported turnover >£1m
- 120 respondents based in London (60%)
- 80 respondents based out of London
 - 50 in English regions
 - 15 in Scotland
 - 10 in Wales
 - 5 in N. Ireland

Definitions used in the presentation

Term	Definition
<ul style="list-style-type: none"> • Major UK channel categories 	<ul style="list-style-type: none"> • Main terrestrial channels - network → BBC1, BBC2, ITV1, Channel 4, Five • Main terrestrial channels - regional → BBC1/BBC2/ITV1 regional variations, S4C • Main multi-channel services → Digital channels including BBC digital channels <ul style="list-style-type: none"> – BBC3, BBC4, CBBC, CBeebies, E4, ITV2, Sky One, Disney Channel, Bravo, Trouble, Challenge, Living, UKTV channels, Discovery channels, BBC News, ITV News, Sky News
<ul style="list-style-type: none"> • First run originations expenditure 	<ul style="list-style-type: none"> → Programme production qualifying expenditure for the main terrestrial channels; and multi-channel originations expenditure
<ul style="list-style-type: none"> • External production 	<ul style="list-style-type: none"> → Production by: <ul style="list-style-type: none"> • Qualifying independents • Non-qualifying independents • Vertically integrated multi-channel broadcasters (e.g. BSkyB) • Vertically integrated terrestrial broadcasters, when carried out for another broadcaster (e.g. Granada, SMG)

Summary of key findings – UK production

- UK channels spent £4.7b on programming in 2004. Excluding rights, programming spend has increased by 3% per year since 1999
- Total UK spend on originated programming has grown by 4% per year over the past five years, and amounted to £2.6b in 2004. The main terrestrial channels accounted for 90% of spend on first run originations in 2004
- Excluding BBC digital services, spend by multi-channel services has grown by 18% per year over the period. In 2004, multi-channel spend accounted for £117m of total originations spend
- Across the five main terrestrial channels, 58% of 2004 originations spend was in-house. Channel 4 and Five were the largest external commissioners in terms of hours
- Out of 200 respondents to the Ofcom/PACT Producer Census, accounting for £1.1b of external production market turnover, 58 companies reported turnover of less than £1m. 25 companies reported total turnover of over £12m
- Larger production companies, with turnover in excess of £12m, accounted for 70% and 83% of reported external commissions for the BBC and ITV1 respectively
- Primary TV rights accounted for 80% of total reported production turnover. £118m was reported as TV-related distribution and rights exploitation turnover, and c.45% of this was accounted for by international sales. Interactive media production accounted for 18% of £72.4m of reported non-TV production turnover

Summary of key findings – out of London production

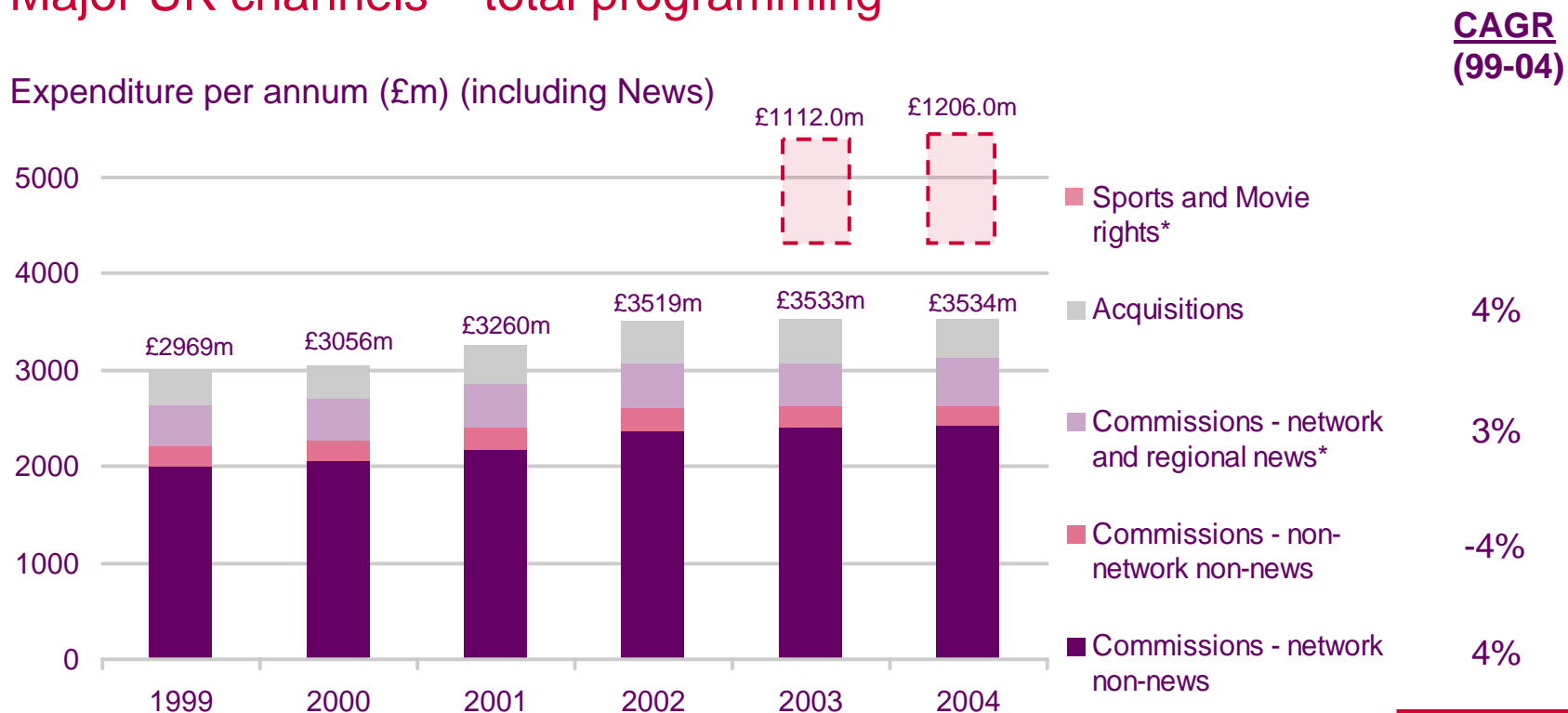
- In 2004, £950m of production was commissioned outside London, 75% of which was for the network. On main terrestrial channels, the value of OOL network production has grown by 8% per year since 2002 while OOL hours of production have grown at a slower rate of 4% over the same period
- Outside London, the BBC and ITV1 accounted for 80% of all network commissions in 2004. Channel 4 and the BBC were the largest commissioners of OOL external production, accounting for 40% and 35% of total OOL network external commissions value respectively
- 60% of £228m of non-network production for the nations and regions was accounted for by in-house commissions. Of the remaining 40% of external non-network production, 20% were commissions for S4C and 20% were other external commissions. S4C functions as a discrete network and Welsh language producers in Wales operate in a distinct “micro market”
- A total of £24m of external non-network production was reported in the census, representing 2% of total turnover reported. £1.6m of external non-network production was reported in the English regions
- 85% of the reported external production sector turnover was accounted for by London based production companies. Only 9 companies based outside London reported turnover greater than £4m

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- General market overview
- External production sector
- Out of London production
- Notes and explanations

UK channels spent £4.7b on programming in 2004. Excluding rights, programming spend has increased by 3% per year since 1999

Major UK channels – total programming



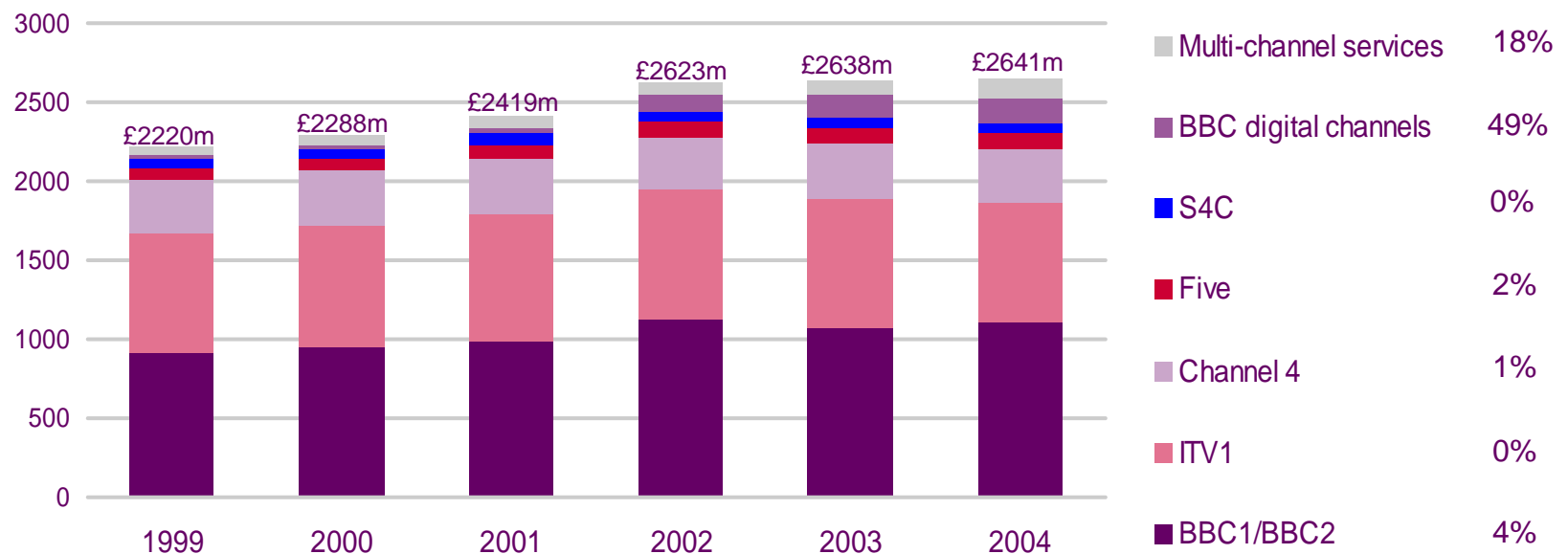
Source: Data from broadcasters

Note: * Data included for ITV News from 2002; Sports/Movies rights from Ofcom Communications Market (2005)

Main terrestrial channels accounted for 90% of first run originations expenditure in 2004. Excluding BBC digital channels, multi-channel accounted for £117m of total spend

Major UK channels – first run originations

First run originations expenditure per annum (£m) (excluding News)



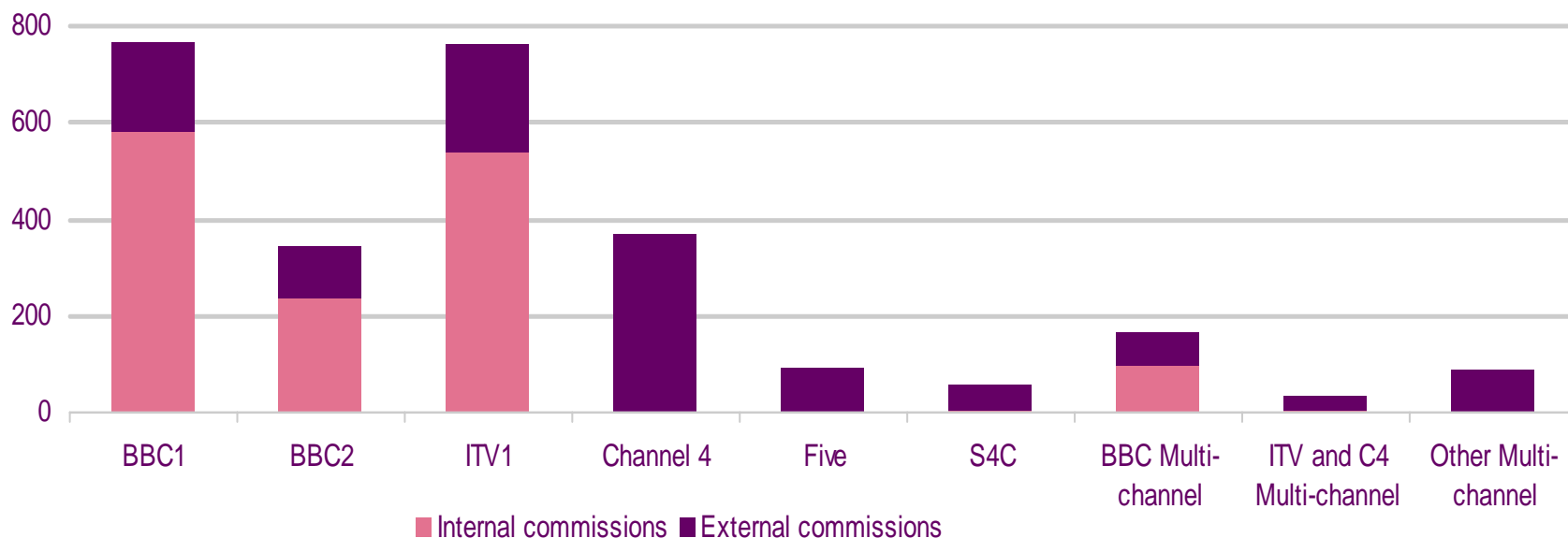
Source: Data from broadcasters

Figures for Multi-channel services exclude Sky's sports, films and gaming channels

Across the five main terrestrial channels, 58% of 2004 originations spend was in-house

Major UK channels – all commissions

2004 first run originations programming expenditure (£m) (excluding News)



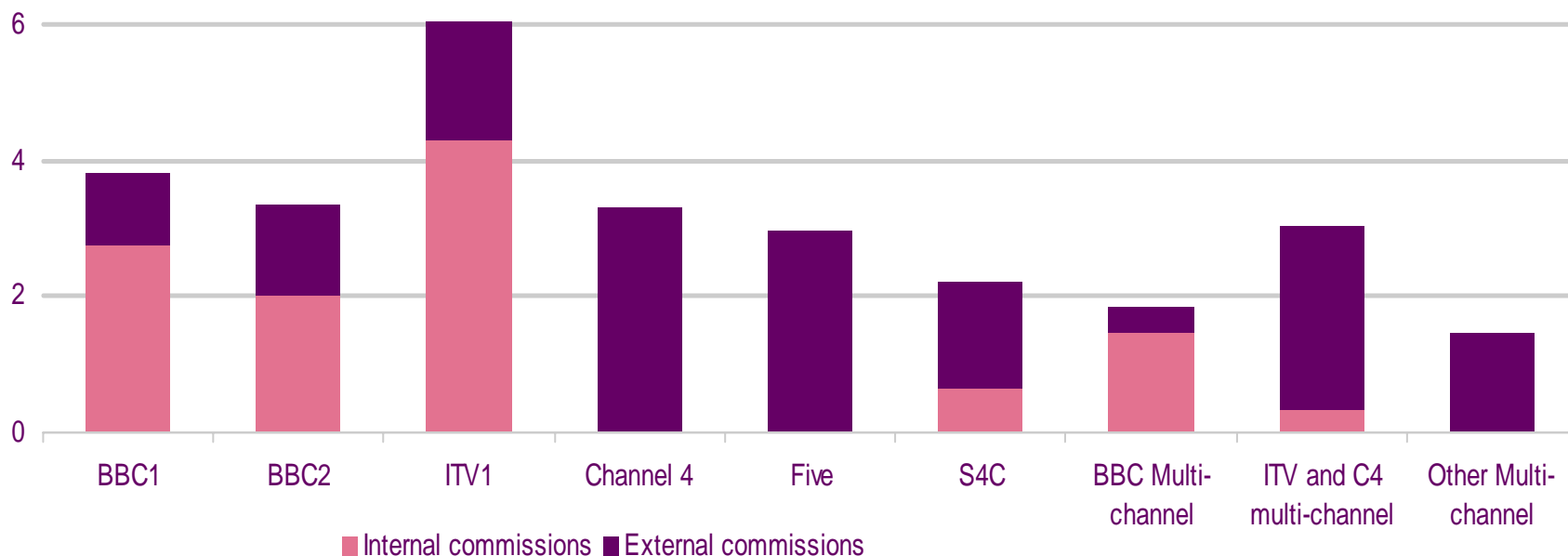
Source: Data from broadcasters

Note: Figures for Other multi-channel exclude Sports and Gaming programming. Figures for ITV and C4 Multi-channel include estimate of brand extensions from main terrestrials.

Channel 4 and Five were the largest external commissioners in terms of hours

Major UK channels – all commissions

2004 first run originations programming hours (000s) (excluding News)



Source: Data from broadcasters

Note: Figures for Other multi-channel exclude Sports and Gaming programming. Figures for ITV and C4 Multi-channel include estimate of brand extensions from main terrestrials.

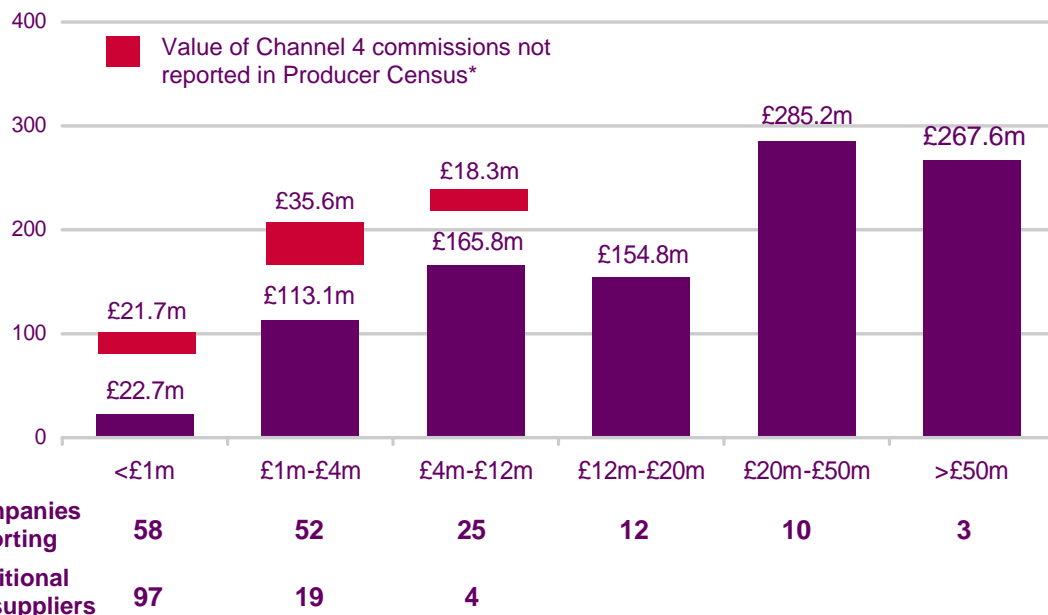
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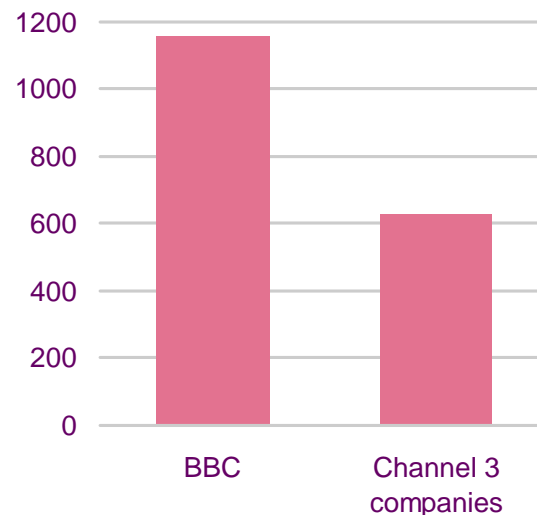
25 companies in the sample reported turnover in excess of £12m

External production

2004 Production value grouped by company total turnover (£m)



2004 comparative value of production by vertically integrated producers



Source: Ofcom Pact Census

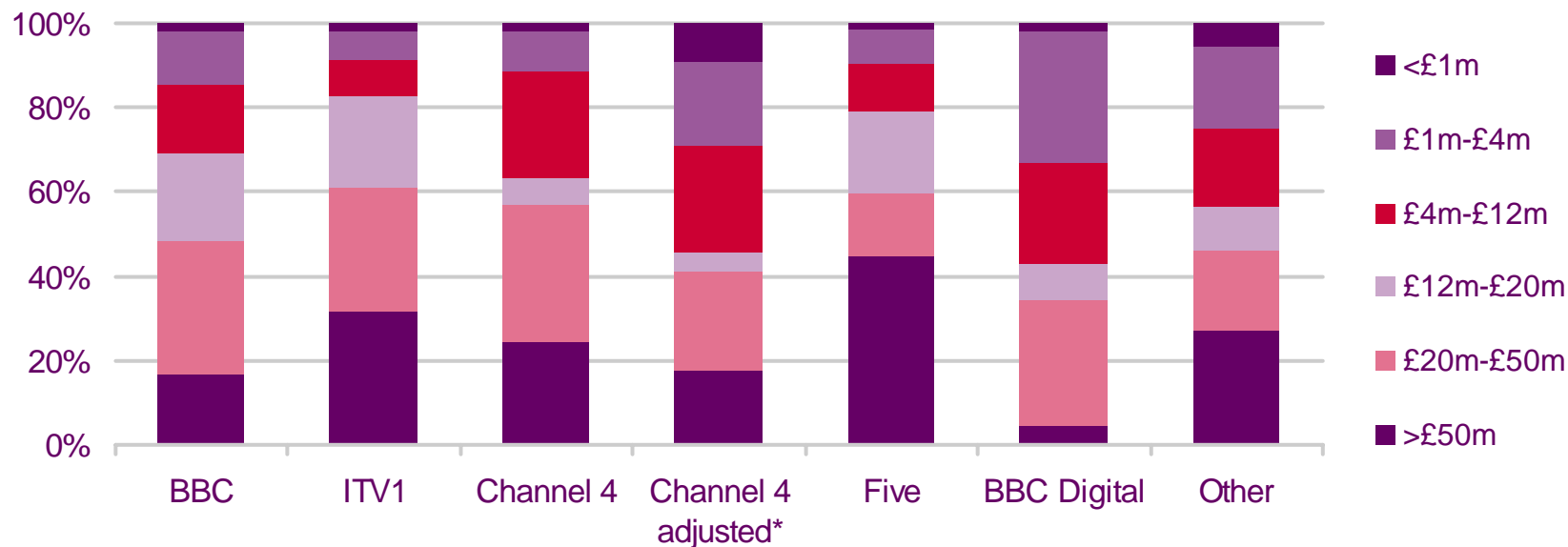
Note: Companies shown on the chart do not represent the total external production sector. All3Media reported as separate companies. All production is UK based production.

*Chart adjusted to show the value of commissions from a number of companies that have been commissioned by Channel 4 but that did not submit a response to the Ofcom Pact Producer Census

Producers with turnover of over £12m accounted for 70% and 83% of reported commissions for the BBC and ITV1 respectively

External production – all commissions

2004 Production commissioned externally by channel and company group



Source: Ofcom Pact Census

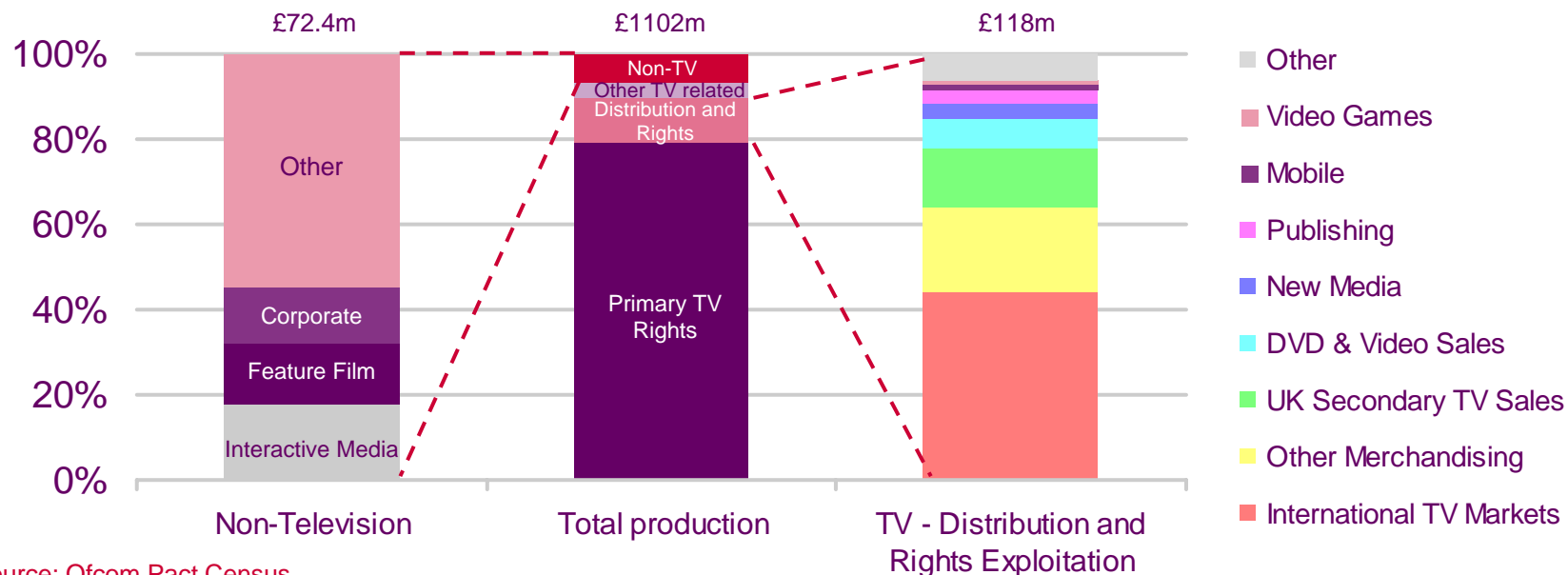
Note: Companies shown on the chart do not represent the total external production sector.

* Channel 4 adjusted number includes the value of production of a number of production companies that have been commissioned by Channel 4 but that did not submit a response to the Ofcom Pact Producer Census

Primary TV rights accounted for 80% of total reported production turnover. £118m was reported as TV-related distribution and rights exploitation turnover

External production

2004 Production turnover (£m)



Source: Ofcom Pact Census

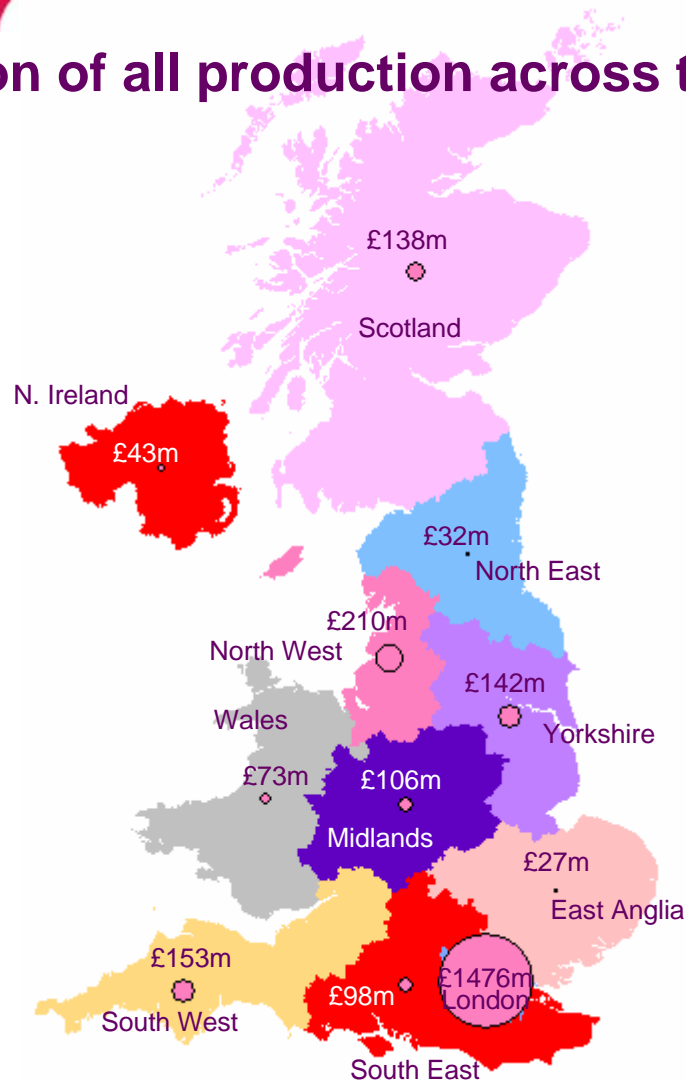
Note: Companies shown on the chart do not represent the total external production sector.

Other turnover includes a wide range of sources, from royalties to rental income and consulting fees

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Estimated distribution of all production across the UK



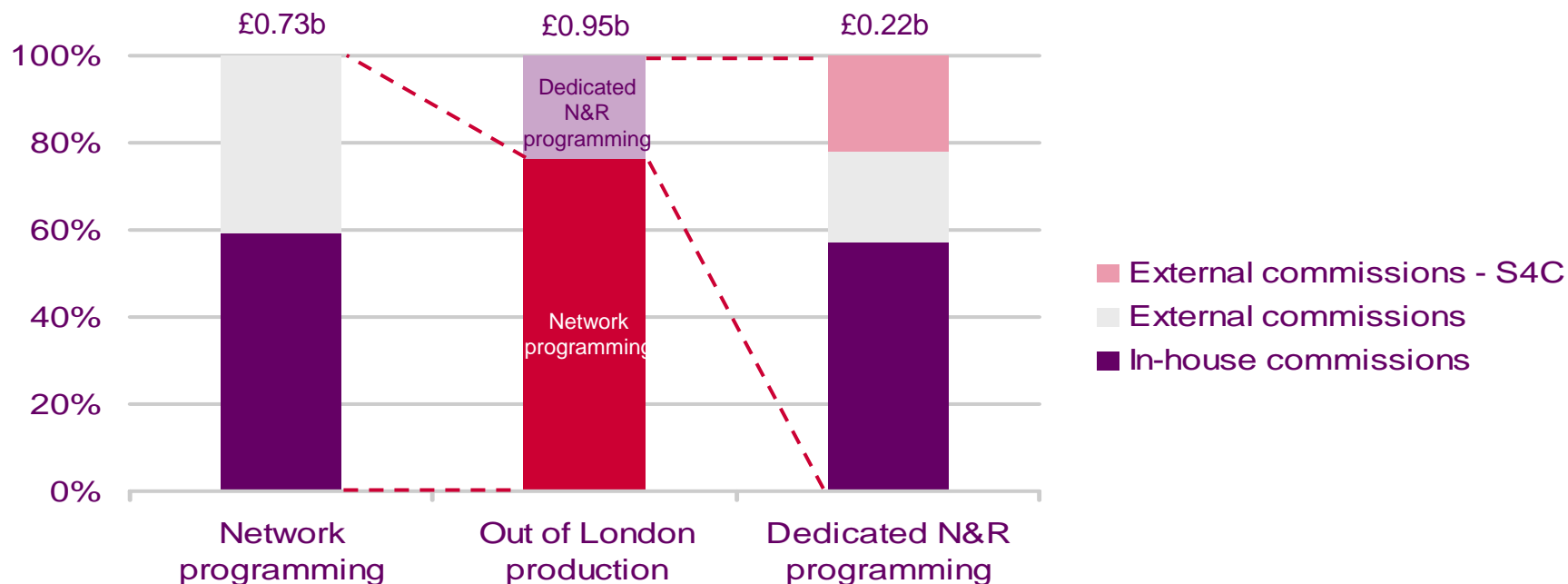
Source: Ofcom Pact Census, Data from Channel 3 regional and national licensees

Note: Data includes News and Sports production as reported in Ofcom Pact Census by vertically integrated production companies.

In 2004, £950m of production was commissioned outside London, 75% of which was for the network

Major UK channel commissions

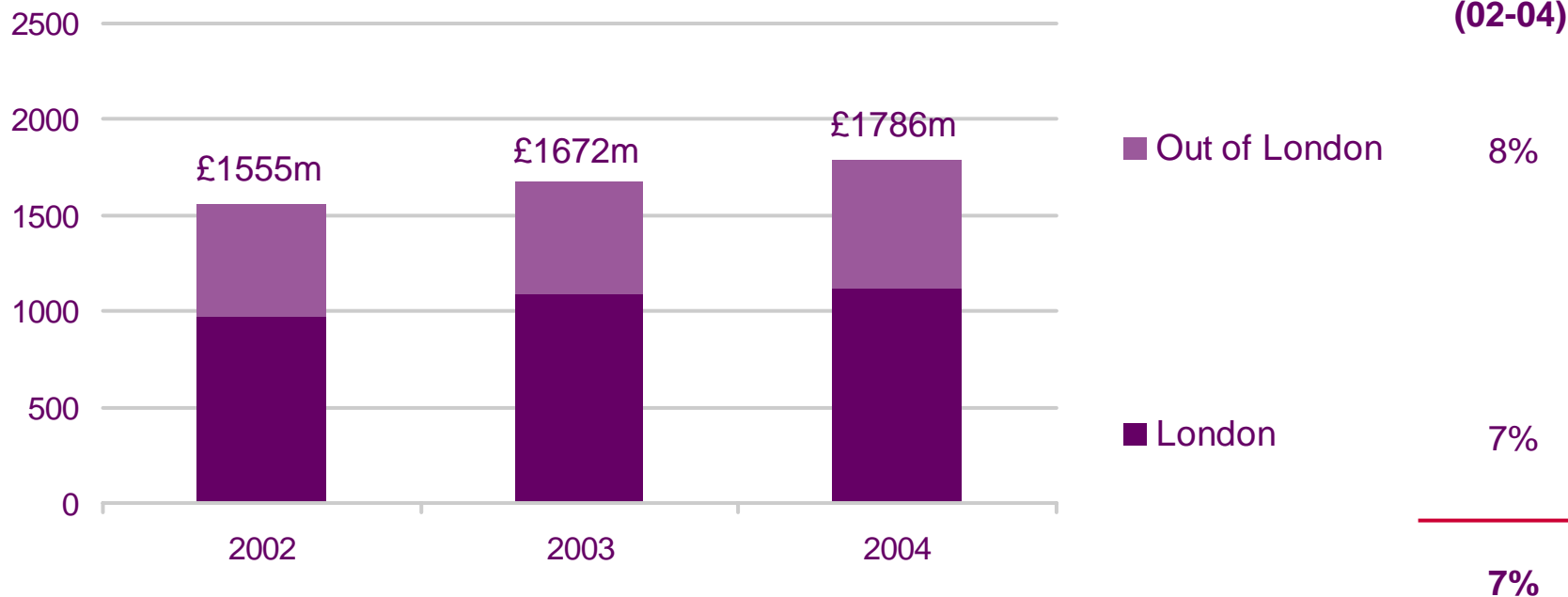
2004 first-run originations programme expenditure (£b) (excluding News)



On main terrestrial channels, the value of OOL network production has grown by 8% per year since 2002

Main terrestrial channels – network origination

Originated programme expenditure per annum (£m) (excluding News)

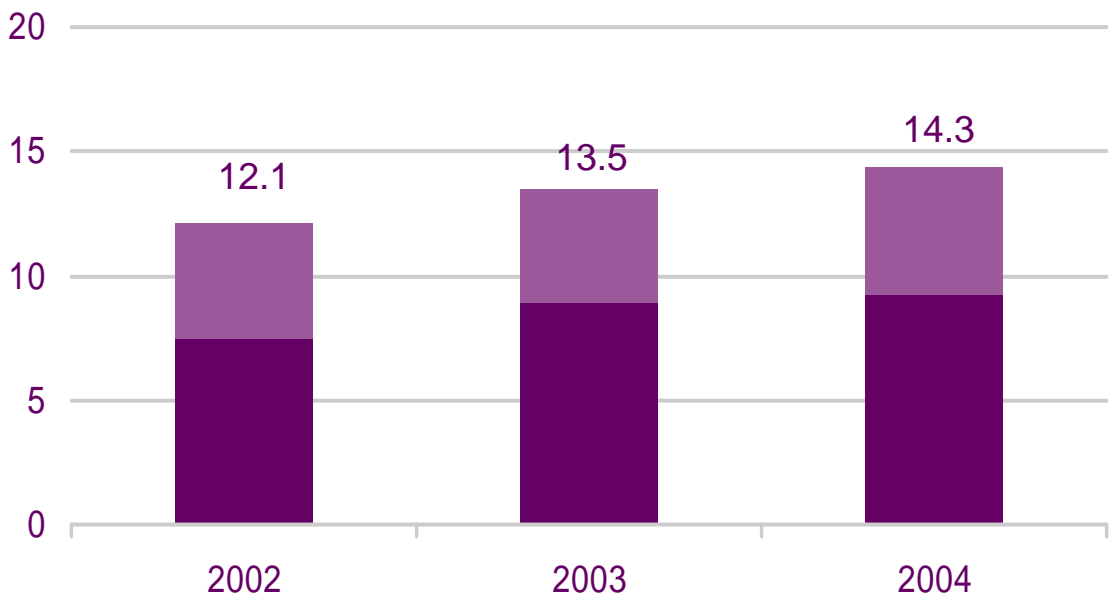


Source: Data from broadcasters

OOL hours of production have grown at a slower rate of 4% over the same period

Main terrestrial channels – network origination

Originated programme hours per annum (000s) (excluding News)



■ Out of London

■ London

**CAGR
(02-04)**

4%

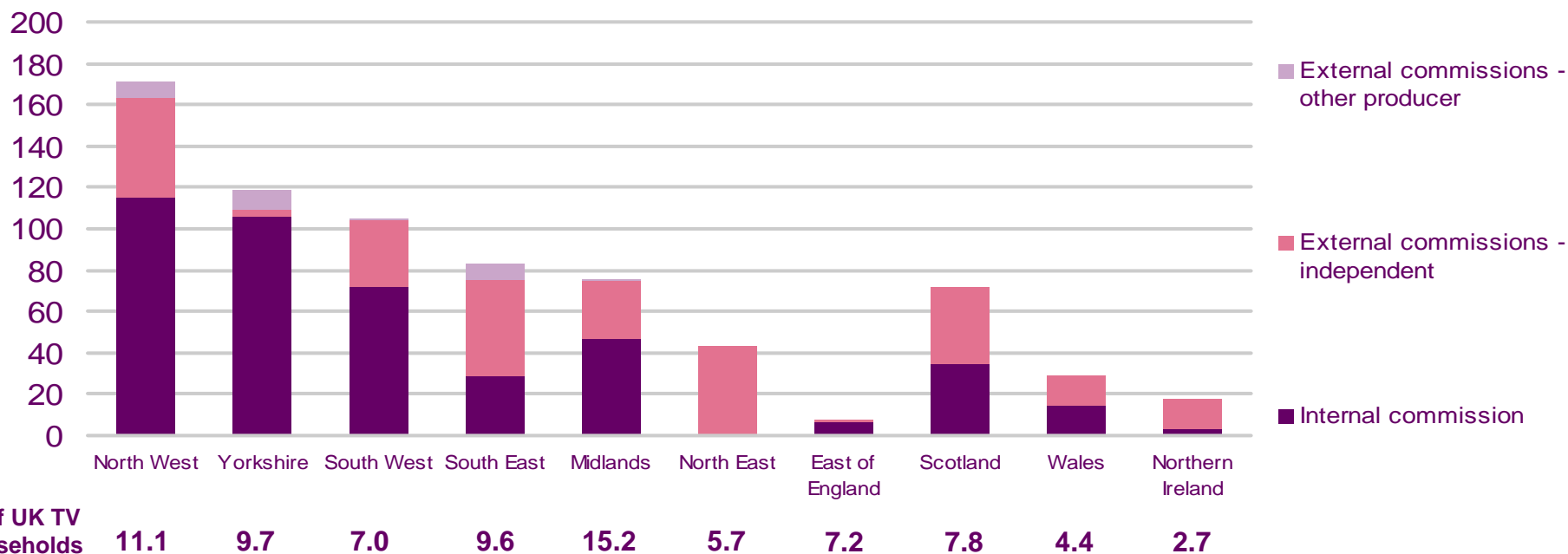
11%

9%

North West and Yorkshire were the largest centres of OOL network production

Major UK channels - network commissions in nations and regions

2004 First-run originations programme expenditure per annum (£m) (excluding News and Sport)



Source: Data from broadcasters

The BBC and ITV1 accounted for 80% of network commissions outside London

Major UK channels - network commissions in nations and regions

2004 First run originations programme expenditure per annum (£m) (excluding News and Sport)



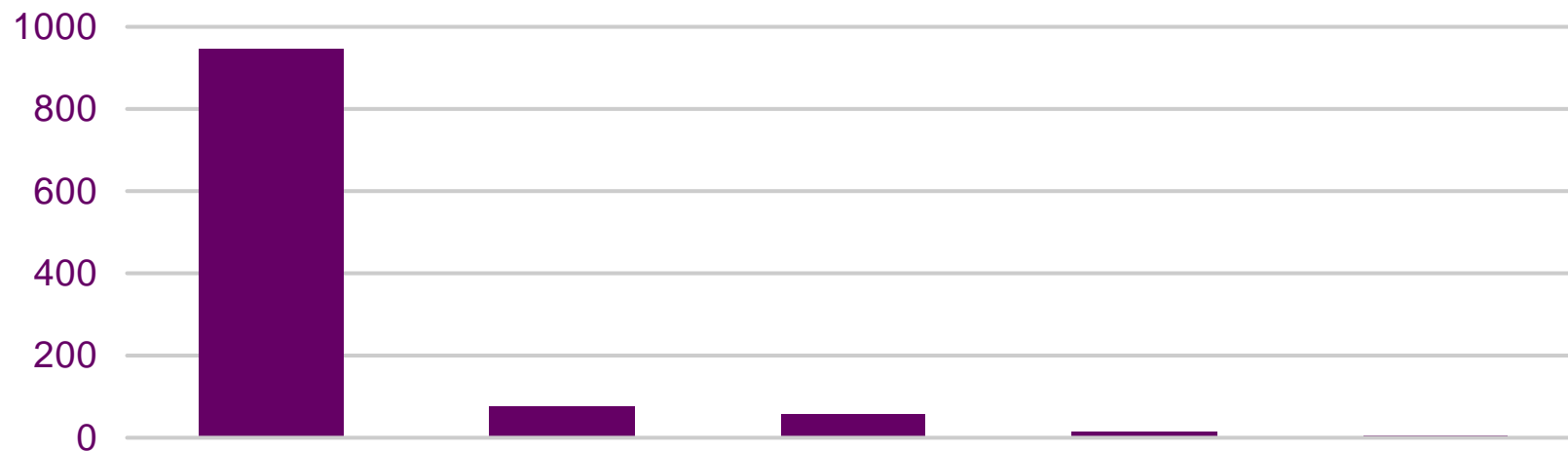
Source: Data from broadcasters

Note: * BBC includes BBC Multi-channels

London based external producers accounted for 85% of reported external production sector turnover

External production companies – all revenues

2004 Total turnover (£m)



	London - inside M25	English Regions	Scotland	Wales	N. Ireland
Companies reporting	115	45	12	10	4
Companies with turnover >£4m	42	6	3	0	0

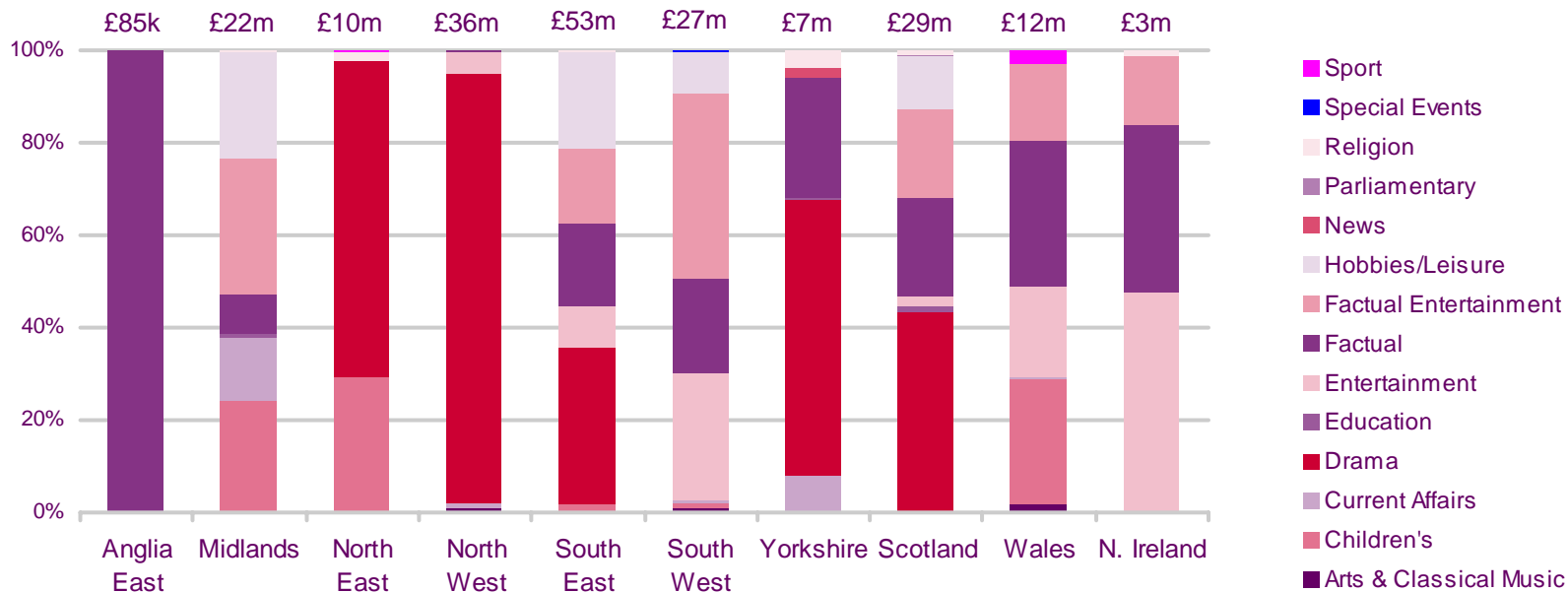
Source: Ofcom Pact Producer Census

Note: The companies are shown by location of their main offices, not by location of production. Total turnover includes TV production as well as non-TV turnover.

Genre mix of external production across the nations and regions

External production – network commissions

2004 Value of external production across UK nations and regions



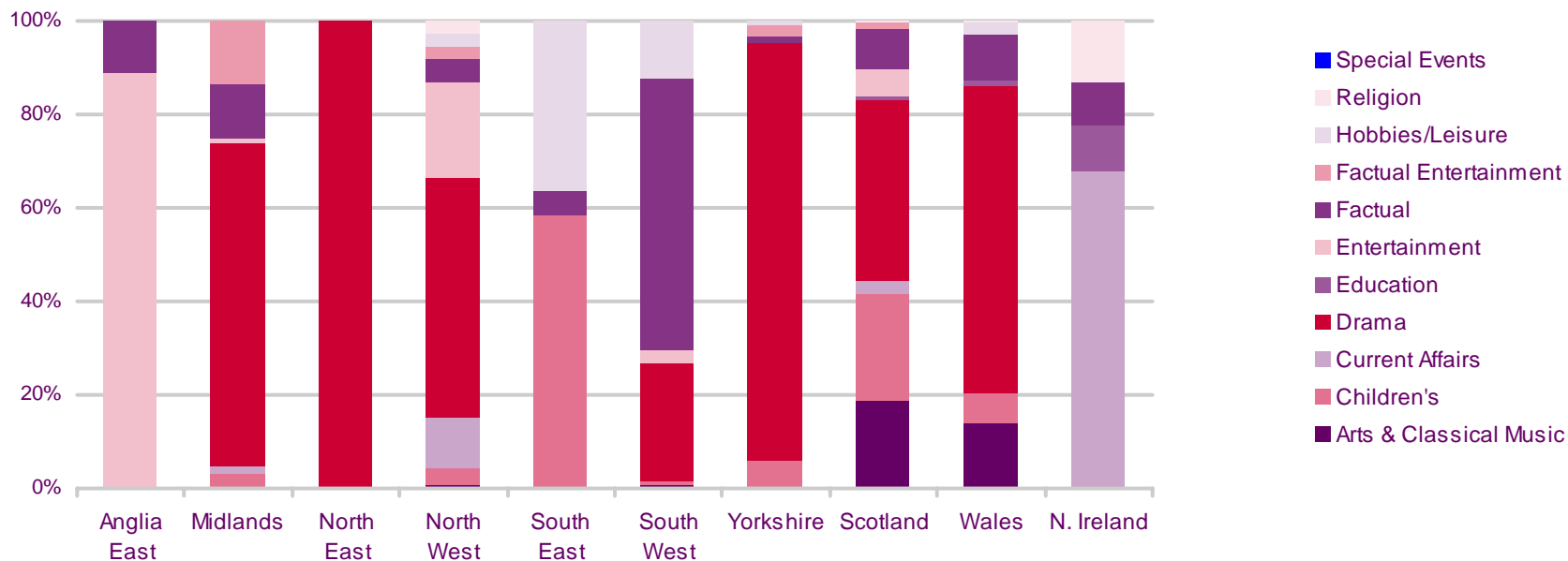
Source: Ofcom Pact Census

Note: Figures exclude BBC, Granada, GMTV, SMG and UTV

Genre mix of in-house production across the nations and regions

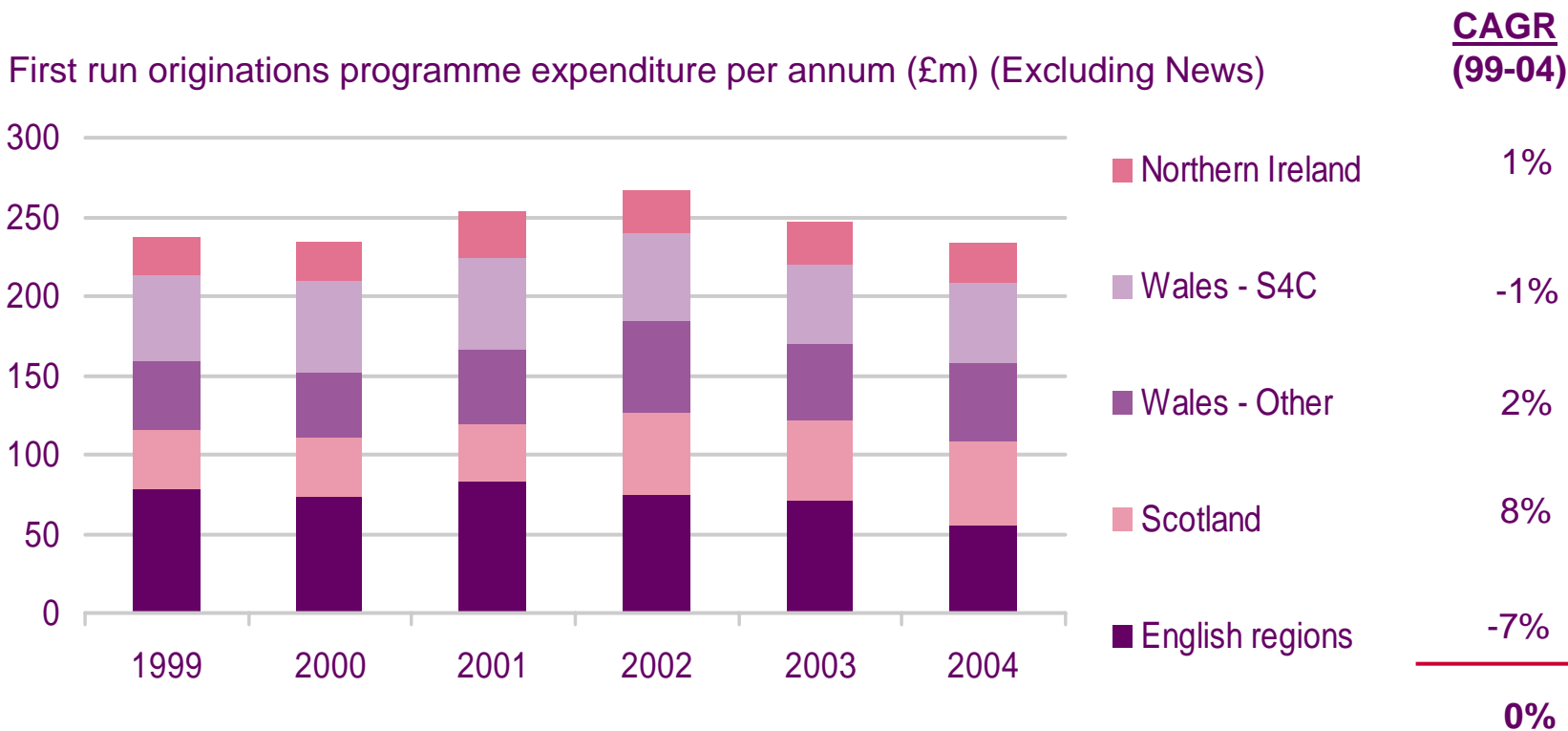
In-house production – network commissions

2004 Value of in-house production across UK nations and regions (excluding News and Sport)



Expenditure on non-network programming has declined since the peak reached in 2002

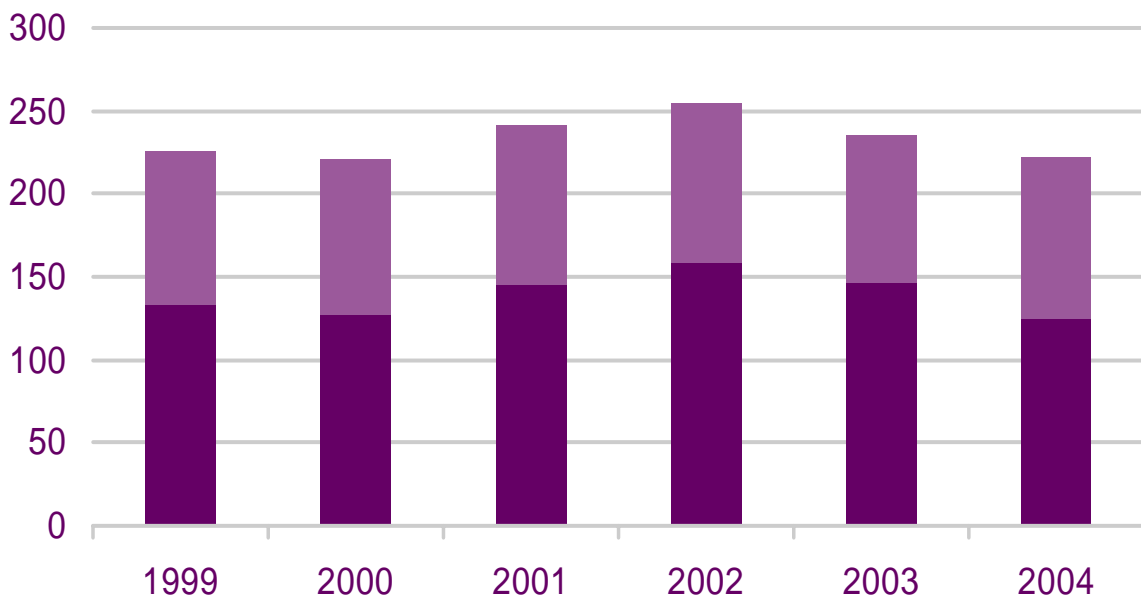
Non-network programmes – all commissions



The mix of in-house and external commissions has remained relatively constant

Non-network programmes – all commissions

First run originations programme expenditure per annum (£m) (Excluding News)



**CAGR
(99-04)**

■ External
commission

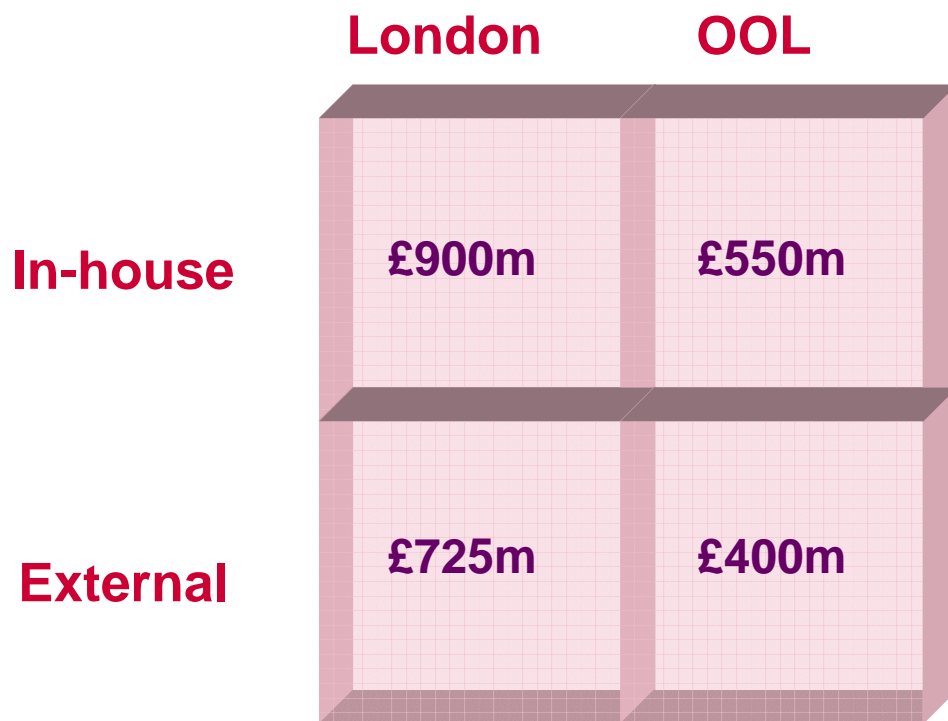
1%

■ In-house
commission

-1%

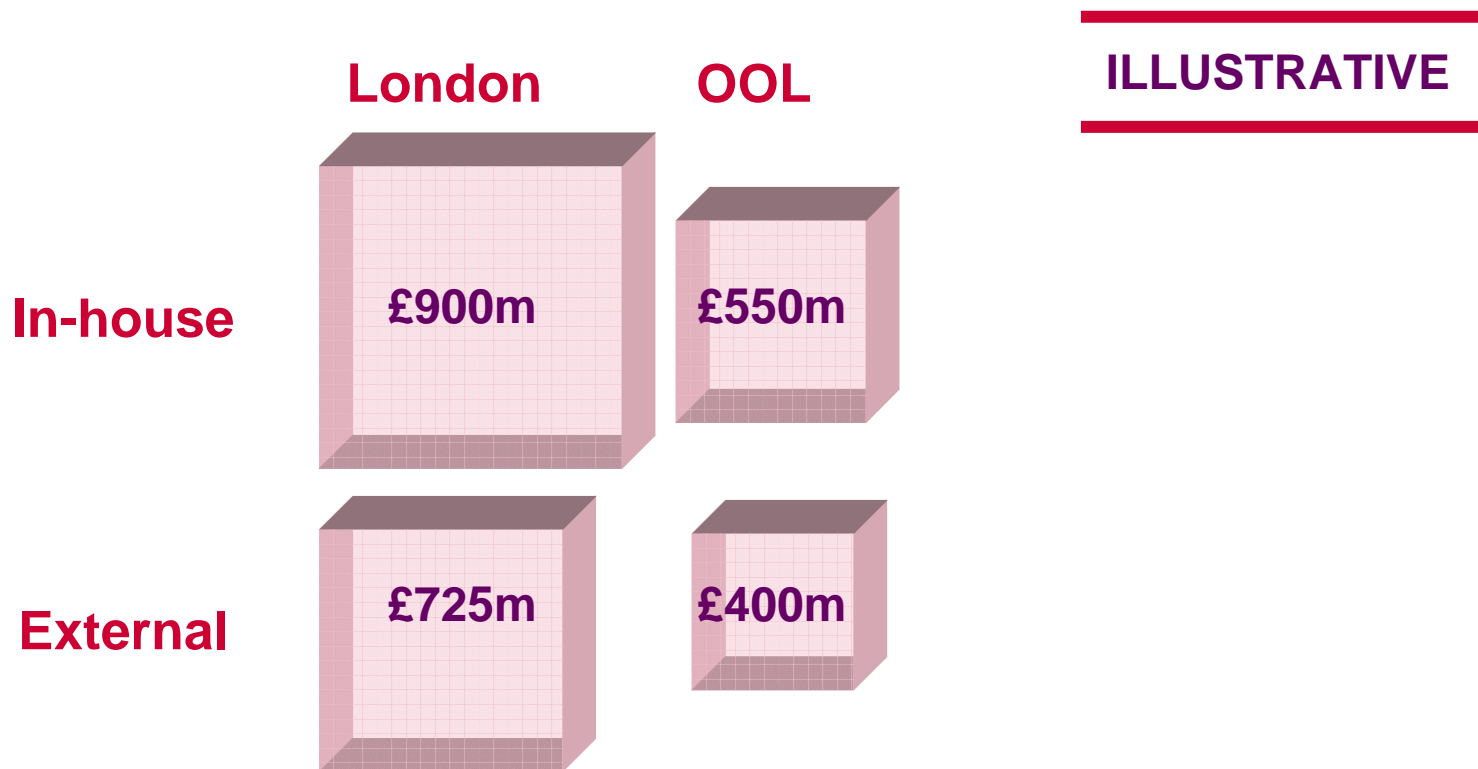
0%

Summary – estimated structure of originated TV production in the UK



ILLUSTRATIVE

Summary – estimated structure of originated TV production in the UK



The producer census was jointly funded by Ofcom and PACT and was conducted by Digital-I



Riverside House
2a Southwark Bridge Road
London
SE1 9HA
Tel: 020 7981 3000



The Eye, 2nd Floor
1 Procter Street
London
WC1V 6DW
Tel: 020 7067 4367



Castle Moat Chambers
Corporation Street
Taunton
TA1 2AW
Tel: 01823 259 113

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Definitions used in the presentation

- First-run originations – An in-house production is a commission from an integrated production arm or company. An external production is a commission from a production company not-integrated with the broadcaster – this can either be a qualifying independent or another vertically integrated production company.
- In the broadcaster data, the Channel 3 production companies (Granada, SMG, UTV and Regional licensee producers) are reported as external producers when commissioned by a channel other than ITV. Talkback Thames is counted as an external producer for all broadcasters.
- First-run originations – location of production. This is based on the standard Ofcom definition of location of production. The exception is for the BBC, who have supplied information under their own 'HATCH' definitions. This is likely to have the effect of increasing the BBC's Out of London production beyond that which would be achieved under Ofcom's definitions. The BBC are migrating to Ofcom's definitions for reporting purposes during 2006.

UK channels spent £4.7b on programming in 2004. Excluding rights, programming spend has increased by 3% per year since 1999

- The information captures expenditure on first-run programming from the majority of UK broadcasters who commission original material.
- Expenditure on Sports and Movie rights and the cost of their production on subscription multi-channels have been aggregated from broadcaster estimates.
- Expenditure on acquisitions by broadcasters may include the licence payments for programming previously broadcast on another channel, either within the UK or outside of the UK. It may include the cost of extending the licence for a previously broadcast programme to other channels within a broadcaster's network.
- Expenditure on news services, both for terrestrial channels and specialist news-multi-channels, and including regional and national news broadcasts, has been separated into a distinct category.
- Non-news production is aggregated into commissions: these are separated into network (broadcasts to all UK households where signals received) and non-network (BBC1, BBC2, ITV1 and S4C region and nation specific broadcasts) commissions.

Main terrestrial channels accounted for 90% of first run originations expenditure in 2004. Excluding BBC digital channels, multi-channel accounted for £117m of total spend

- First run originations includes all original commissions broadcast by the majority of commissioning UK channels
- Figures for BBC1, BBC2 and ITV1 include all non-network non-news commissions
- Figures for multi-channel services include expenditure for the channels of the major multi-channel groups such as Discovery, Flextech, UKTV and Sky. Figures for Sky exclude expenditure on sports and gaming programming

Across the five main terrestrial channels, 58% of 2004 originations spend was in-house

- Figures for BBC1, BBC2 and ITV1 include all non-network non-news commissions.
- Figures for BBC, ITV and C4 multi-channel services are as supplied by broadcasters. Ofcom is advised that these include estimates for a proportionate share of production expenditure where the programme is an extension from the main-terrestrial channel e.g. Celebrity Love Island (ITV1 to ITV2), Big Brother (Channel 4 to E4). Commissions that are first shown on the multi-channel services are accounted for under the multi-channel budget even if there is subsequent re-transmission on the terrestrial channel.
- Figures for S4C account for Welsh language production for S4C by the BBC under the terms of the Charter as an internal commission.
- Figures for Discovery, Flextech and UKTV include the value of commissions across all group channels. Figures for Sky exclude the value of commissions on the Sky Sports and Sky Movie channels and Sky Venue.
- Figures for Discovery exclude the value of programmes commissioned by Discovery US or Discovery Europe for transmission across the European network of channels.

25 companies in the sample reported turnover in excess of £12m

- The 'additional Channel 4 suppliers' are companies who did not participate in the survey but are listed as programme suppliers by Channel 4. The aggregate 'production value' incorporated for them is based on the value of production for Channel 4, and does not include the value of any production they may have undertaken for other channels.
- The BBC's value of production includes output for BBC TV channels. This includes the value of news production.
- The Channel 3 companies value of production is divided into network and non-network production. Granada, GMTV and SMG TV is reported by the companies and includes the value of production for ITV network only, other UK channels and overseas channels. This excludes news production. The 'Licensee regional production' is reported by the Channel 3 licensees and includes the value of production of ITV broadcast programmes in the nations and regions, but excludes the value of any further production or sales of these companies. The figures include the value of local news production.

Producers with turnover of over £12m accounted for 70% and 83% of reported commissions for the BBC and ITV1 respectively

- Respondents to the census were asked to allocate their turnover from TV production to a commissioning channel. The figures include the value of both network and non-network programme sales

Primary TV rights accounted for 80% of total reported production turnover. £118m was reported as TV-related distribution and rights exploitation turnover

- Respondents to the census were asked to break down turnover into three constituents:
 - Primary TV Rights - the value of all licence payments for primary rights under commercial contracts with the respective broadcasters.
 - Distribution and Rights exploitation – the value of licensing a programme or associated intellectual property beyond the primary rights contract. This turnover is typically the producers' share of turnover after costs are deducted by a broadcaster (secondary sales), distributor (international TV sales) or platform owner (New Media, mobile).
 - Non-Television – the value of commissions for content not purposed for initial TV broadcast. This turnover includes activities that are not directly related to the production or exploitation of TV programmes.

Distribution of production across the UK

- The chart includes the value of all commissions to the external production companies, the BBC and the Channel 3 production companies as reported to the Ofcom Pact Census. Not all participants in the census provided a regional breakdown of their production. Data includes network and non-network commission, including News and Sports production
 - News total (£m): East Anglia £8.3m, London £120m, Midlands £12m, N. Ireland £18m, North East £6.7m, North West £5.6m, Scotland £12m, South East £12.4m, South West £11.5m, Wales £6.7m, Yorkshire £10.8m
 - Sports Total (£m): London £105.5m, N. Ireland £3.8m, North West £0.2m, Scotland £6.1m, South East £4.6m, Wales £8.3m

In 2004, £950m of production was commissioned outside London, 75% of which was for the network

- Out of London production is consistent with the Ofcom definition for location of production. The exception is the BBC, where Out of London production is defined according to the HATCH definitions based on the nation or region of commissioning base (in-house) or substantive production presence (external). The BBC are migrating to the Ofcom definition of Out of London production during 2006.
- Out of London production is divided into two categories:
 - Dedicated nations and regions programming – programmes produced for non-network broadcast on BBC1, BBC2, ITV1 and for S4C. In some cases, these may be subsequently shown on network. These can be either in-house commissions (normally produced in the relevant region or nation) or external commissions.
 - Network programming – programmes commissioned for network broadcast on any major UK channel. These can be either in-house commissions or external commissions.

On main terrestrial channels, the value of OOL network production has grown by 8% per year since 2002

- The chart shows the value of network origination for the five main terrestrial channels split between London and the Nations and Regions. The figures exclude sports production as this cannot be accurately apportioned by the broadcasters to a given region or nation.

OOL hours of production have grown at a slower rate of 4% over the same period

- The chart shows the hours of network origination for the five main terrestrial channels split between London and the Nations and Regions. The figures exclude sports production as this cannot be accurately apportioned by the broadcasters to a given region or nation.

North West and Yorkshire were the largest centres of OOL network production

- The major UK broadcasters have supplied information on the region and nation where network commissions were produced, and the value and volume of total commissions by Ofcom definition of TV region and nation for 2004. As the detail of information of TV region is not required in the annual Ofcom return, the broadcasters have originated new information for the purposes of this review. Where possible, broadcasters have allocated commissions based on the Ofcom definition of Out of London production, with the exception of the BBC.
- However, where a production or a producer operates across a number of regions and nations, or their location is not known, it has been necessary to allocate production according to the best available information. This has subsequently been checked by Ofcom against other sources.

The BBC and ITV1 accounted for 80% of network commissions outside London

- The major UK broadcasters have supplied information on the region and nation where network commissions were produced, and the value and volume of total commissions by location according to the Ofcom Out of London definition. Here, the data is shown as disclosed by the terrestrial channels and non terrestrial multi-channels.
- The BBC multi-channels are included in the BBC data.
- Data for all channels includes both internal and external commissions.

London based external producers account for the vast majority of reported external production sector turnover

- Respondents to the census were asked for the location of their primary production office, as well as any secondary production facilities. The information in this chart is the total turnover (from all activities) of companies according to the location of their primary production office. This is therefore not equal to the value of TV production in the given regions and nations.
- The number of companies with a primary production base in each nation and region is given. The annual turnover in the last financial year reported for these companies was self-stated in the census return.
- The information excludes the turnover of the BBC or Channel 3 production companies.

Genre mix of external production across the nations and regions

- Respondents to the census allocated their production for both network and non-network broadcast to the Ofcom TV regions and nations according to the Ofcom definition location of production. They were asked to select the most relevant genre to describe the production from an extensive list of defined genres as used by Ofcom with broadcasters: these have been summarised into the genres used on the chart. Where possible, this has been checked for accuracy of completion.
- The value of total production reported by external producers in each region and nation is included for reference.

Genre mix of in-house production across the nations and regions

- Information on the region and nation of commission for particular genres of programming is not requested from broadcasters. As such, information covering the genres produced for both network and non-network in-house has been taken from production data volunteered by the BBC and the Channel 3 production companies. The information is production, not broadcast, based and as such not subject to Ofcom definitions or checks.
- The value of total production reported by the BBC and Channel 3 production companies in each region and nation is included for reference.

Expenditure on non-network programming has declined since the peak reached in 2002

- Information on commissions for broadcast in the nations and regions is collected from the BBC, Channel 3 licensees and S4C and refers to expenditure on programming to a non-network broadcast to a designated nation or region. The figures exclude the cost of regional and national news, but include all other internal and external commissions.
- Figures for the English regions include any expenditure on non-news programming by the BBC and ITV for the London area.
- Figures for Wales split out expenditure by the BBC and ITV ('Wales-Other') and S4C. Expenditure for programming broadcast on S4C but produced by the BBC under the terms of the Charter is accounted for in the figures for S4C.

The mix of in-house and external commissions has remained relatively constant

- The figures for commissions for non-network broadcast in the nations and regions is here split between internal and external commissions across all of the UK nations and regions.
- In-house commissions are those produced by the BBC or Channel 3 licensees. Expenditure for programming broadcast on S4C but produced by the BBC under the terms of the Charter is also included here as an in-house commission.