



Response from Screen Digest to Ofcom's consultation on children's television

19th December 2007

Ofcom's discussion paper, *The Future of Children's Television Programming*, invited informal responses from stakeholders to its report on the provision of children's television programming in the UK.

About Screen Digest

Screen Digest is widely regarded as Europe's leading media focused research consultancy. The company tracks the growth and development of global media markets and assesses the influence of new technologies on the media and telecommunications industries. The company is based in central London and was founded in 1971.

Our competence in the area of children's television and animation extends to several published reports and consultancies overseen by Tim Westcott, senior analyst, Television. *The Business of Children's Television* (3rd edition) published in July 2007 is our most recent report. Screen Digest was consulted by Ofcom in the course of its enquiry on aspects of the provision and regulation of children's television in the international market.

Summary of Screen Digest's response

Our response focuses on the policy approaches suggested by stakeholders as laid out on page 32 of the Discussion Paper.

Ofcom's questions for discussion

1. Of the policy approaches suggested by stakeholders, which, if any, do you consider the most appropriate to address the conclusions made in this report?
2. If they are appropriate, should any of the policy approaches be tailored to different age groups (for example, to pre-school, younger children, older children and young teenagers), or to different types of children's programming (like drama, factual, entertainment and animation)?

Summary of Screen Digest's response

Of the five proposals, we believe the status quo would fail to address the concerns raised in the report on the shortage of UK-originated programming for older age groups.

It is clear that imposing children's programming commitments on the analogue channels of commercial PSBs imposes a double burden; the cost of the programmes and the "opportunity cost" of serving a smaller and less advertising-friendly non-adult audience. However, Channel 4 has suggested a willingness for its remit to be extended and this should be explored.

We also believe the proposal for a new PSB children's channel is unworkable given the likely high cost of securing distribution and programming. Unless, that is, a solution can be found by pooling the capacity currently used by PSBs and by drawing on the considerable ITV library.

Our view is that a combination of measures is needed to remedy the impact of a decline in spending by commercial PSBs (ITV, Channel 4 and Five), the possibility of budget cuts by BBC children's, and the limited investment in UK origination by commercial non-PSBs (cable and satellite broadcasters):

- **Production incentives**

In our view, the lack of any specific measures to support origination of UK children's programming is an anomaly given the high level of UK origination and independent commissioning imposed on broadcasters across the schedule as a whole. Television programme production is bypassed by lottery funding and tax credit schemes, which is inconsistent with the approach of many other countries including France, Canada, Germany and Spain. UK producers are therefore at a disadvantage compared to many of the companies they compete with in the international market. There is a real threat to the considerable skill base that the UK has built up in highly exportable genres like animation.

PACT's proposal for a short-term tax credit scheme would support the development and production of UK children's programming, though it would be small by comparison with provision in some other countries. Longer term, consideration should be given to diverting more support to producers of UK-originated children's programming.

- **Broadcaster-based interventions**

Such production support will not be as effective unless it is accompanied by commitments (if possible voluntary) on the part of commercial PSBs, and non-commercial PSBs which specialise in the children's audience, to invest part of their turnover and dedicate an agreed minimum of their airtime to UK-originated programming.

We do not believe such commitments would necessarily be detrimental to these channels, which generate considerable profits from the UK market (Nickelodeon UK reported a net profit of £11m in 2005¹) but have made relatively small investments in local production. A production support scheme could, in any case, reduce the level of investment required by the broadcaster.

1. Is there a crisis in UK children's television?

There is divided opinion even within the UK children's TV business about whether there is a "crisis"². The BBC and Five remain committed to the genre: the BBC's contribution is exceptionally high by global standards and Five is maintaining a focus on the preschool segment. Screen Digest believes that the UK market is the largest in Europe and the third largest in the world after the USA and Japan³. Over the last five years, the reduction in funding of children's broadcasters is a worldwide trend; however, the revenues of producers and other rights owners focusing on the children's segment has increased⁴. The four largest UK children's companies BBC Worldwide, HIT Entertainment, Chorion, Entertainment Rights reported combined revenues of £297m in 2006⁵ and their market now extends far beyond national boundaries. Smaller, less vertically-integrated companies like Collingwood O'Hare and Astley Baker Davis are able to do business directly with overseas commissioners, and children's content – particularly animation – is a genre with a global audience. As English speakers, UK producers enjoy a natural advantage over producers from other countries. Further, some of the most successful UK children's properties have flourished with very little support from UK commissioners: a case in point is Thomas the Tank Engine and Friends, which Britt Allcroft produced in the 1980s with minimal financial support from ITV. At a time when 87 per cent of UK homes have access to multichannel television, the PSB commitment to devote airtime to children's on analogue, general entertainment channels, also appears to be outdated.

However, the withdrawal of ITV (and Channel 4) from original commissioning has left a “hole” estimated at between £20-35m a year in the UK market. This has major implications for producers which rely on UK broadcasters for development support as well as for commissioning funds. This effectively leaves producers with a heavily-oversubscribed BBC and other much smaller commissioners as their only route to funding in the UK. It is likely that the full impact of the PSBs’ move may turn out to be even more serious for UK producers as past ITV commissions are still working their way through the sales cycle.

By international standards, the UK has a number of regulations and other measures which support the domestic production of television programmes. PSBs commit to very high levels of origination and the independent production quota of 25 per cent of output compares with a Europe-wide minimum of 10 per cent. The result is that the UK is a highly successful exporter of programming and formats and its independent production industry is one of the most creative in the world. The 2003 Communications Act has strengthened the ability of producers to retain and exploit the rights to the programmes they produce.

The corresponding lack of support measures for children’s programming and animation appears, with this in mind, to be inconsistent. Especially given the concerns expressed by Ofcom in its report⁶ about the shortage of UK-originated drama and factual programming for the 9-12 age group and the inadequate provision for 13-15 year olds.

The UK feature film industry benefits from direct funding from the National Lottery and from long-running tax incentive schemes. However, very little funding support is applicable to television programmes (none in the case of tax credits); if this is because of the assumption that broadcast commitments are adequate, then it certainly seems time that this assumption was reviewed. In many other countries – including France, Germany, Spain, the Netherlands and the Nordic Region – TV production is eligible for support as well as feature films.

Animation – an important genre of children’s programming – is very expensive to produce. Stop-frame animation, in which UK studios like Aardman and Cosgrove Hall Films have unrivalled expertise, is particularly costly. In other countries, animation industries benefit from considerable government support: France and Canada, together with Asian countries like China, India and South Korea, have all recognised the value of a strong animation skill base. The

computer games development industry in the UK has been strongly supported by the UK government.

On balance, we feel there is a case for government intervention to support the production of UK-originated programming for children. Ofcom's own research demonstrates that there is widespread support among parents and a risk that this area of expertise in the independent production sector may be lost unless action is taken.

2. The status quo?

Ofcom's consultation paper suggested that leaving things as they are is one of five possible options. Here, we summarise the role of the main organisations in the market and assess their current and future contribution to the children's genre.

The BBC

As mentioned before, the BBC has a strong commitment to the children's genre; its annual spend of £105 million in 2006 compared to £31m by ARD in Germany, £37m by France Televisions, and £18m by Italy's Rai⁷. However, Ofcom's report notes that the BBC children's department is facing a demand for cuts of five per cent a year for the next five years. It seems certain that this high level of origination would be further undermined without a strong and sustained challenge from the private sector.

Commercial PSBs

There does not seem to be much prospect of persuading ITV to review its decision to reduce children's programming on ITV1 to one hour a week in 2008. The broadcaster, is fighting to stem the decline in its overall audience, and has identified its PSB commitments (including regional news and children's) as a necessary target for cost savings.

Channel 4, though it has expressed a willingness to resume some form of children's commissioning, faces similar issues: it does not seem reasonable in a multichannel environment to impose children's output quotas on "analogue" channels.

Five's continuing commitment should also be seen in context: while its overall programme spend has increased from £120m in 2000 to £190m in 2006, its children's budget has remained at around £7m. Both ITV and Five have started transmitting children's programming on digital terrestrial. CBBC and Cbeebies are also on digital terrestrial as well as pay cable and satellite platforms. As things stand, all of these channels close down after 6 or 7pm and there is no children's PSB on multichannel TV after this time, although children are still available to view.

Commercial non-PSB channels

The three US children's channel brands, Disney, Cartoon Network, Nickelodeon, and Jetix (75 % owned by Disney but traded on the Amsterdam stock market), are all present in the UK. They have all originated some UK programming, although Ofcom's figures suggest this is limited and was at the same level (£11m) in 2002 as in 2006. All of the US-owned companies have announced plans to increase their local production – Cartoon Network has set up a London-based development studio and Disney has commissioned its first animated series outside the US from a UK producer. However, by these companies' own admission, these efforts will fall far short of compensating for the decline of PSB activity.

The business model of these companies is global. They produce the vast majority of their programming in the US, and their international channels pay licence fees to support this production (in 2005, for example, Nickelodeon UK paid £3.4m to Viacom Group for "programming contacts")⁸. Local channels also provide access to revenue streams from advertising and subscription. A third function of the channels is to act as shop windows, supporting international programme sales and licensing and merchandising.

Screen Digest estimates that Cartoon Network, Disney and Nickelodeon invested a combined total of \$775m (£388m) in originating children's programming over 2002-2006⁹ and their international networks are a key mechanism for recovering part of this investment.

Independent producers

PACT has made a strong case in support of measures to support UK origination and we do not need to repeat their arguments here. As PACT notes, UK children's programming has a global market and another advantage UK producers have is the potential to raise funding on the financial markets in London. However, the experiences of children's companies have been mixed – both HIT Entertainment and Chorion plc have returned into private ownership¹⁰, while other children's companies to float have had a difficult time. Clearly a further reduction in support from the UK television market would make it harder for companies to make their case to investors.

It is clear that if no action is taken (the "status quo" option), then UK children's origination will come under further pressure. The continued commitment of ITV to the children's audience (via its CITV digital channel) is conditional on its performance in a declining advertising market. The priorities of non-PSB commercial companies are unlikely to involve a significant increase in UK origination, and certainly not enough to make up for the shortfall in

commercial PSB spending (which Ofcom's report shows fell by half from 2000 to 2006).

UK children's origination will continue to fall through the cracks despite considerable support for other genres of programming and for the production industry as a whole. This would be despite the often considerable international sales potential of children's programming.

3. The alternative options

Extending PSB remit to the children's audience

The problem with children's television for free to air/generalist broadcasters is not only the cost of producing programming but the "opportunity cost" of scheduling children's programmes in afternoon timeslots. It is not feasible to increase children's programming obligations on ITV and Five at a time when audience shares are declining.

At the Westminster Forum conference on 6th December, Janey Walker of Channel 4 said the broadcaster would be prepared to consider an extension of its remit to cover the children's age group. This should certainly be explored and may be a way of resolving the shortage of drama and factual programming for the 12-16 age group.

Some attention should also be given to digital services. There is no children's programming on Freeview after existing channels close down (Cartoon Network and Disney Channel are only available to Top Up TV subscribers). Following analogue switch-off, PSB children's channels will be available to 100% of TV households, provided they are also carried on pay cable and satellite platforms as well as Freeview and the planned Freesat.

Set up a new PSB children's channel

The odds against a new children's channel in a market already served by 17 specialist channels appear great.

Distribution on the main platforms, BSkyB and Freeview, will be difficult to achieve as both platforms are full. While it would not be impossible for a new channel to secure carriage on commercial terms, it is likely to be expensive and would impose high costs on the channel.

A large supply of library programming would also be a must for a children's channel: again, while programming is available this would also inflate costs.

It would be difficult to see a PSB channel having any impact as a broadband-only or on demand only service given the massive competition for online "eyeballs" from everything from You Tube to Messenger and social networking sites.

It appears to us that the only solutions to the distribution and programming conundrum would be either for the PSB channel to be "must carry" or for ITV (with its considerable library of UK children's programming), Channel 4 and Five to be involved as partners.

Production incentives

The UK has a proven track record in developing content for children, in literature (JK Rowling and Philip Pullman being two examples) as well as television. However, apart from funding from broadcasters – a resource which is declining - there is very little support for the production of TV programmes which exploit this rich vein of creativity.

The UK is in a minority in excluding TV from public funding schemes: in France and Canada, funds are available at national and regional level and are specifically directed to support animation. Regional funds in Germany and Spain support development and origination of children's TV programmes.

PACT's proposal for a short-term tax credit scheme is frugal by comparison with other countries (in France, the CNC provided €47.5m in funding to animation in 2006)¹¹. It would also require supported programmes to secure a pre-sale to a UK broadcaster and in order to recoup their investment, would require producers to create a programme with sales potential.

Broadcaster-based interventions

As mentioned above, consideration should be given to whether PSBs should make a commitment to showing children's programming on their digital channels, and also to investing in the origination of UK content.

The non-PSB children's channels have of course made a contribution to the UK television economy by helping to drive the development of the multichannel market. They also offer a UK producers a possible conduit to the US and world market (for example, The

Cramp Twins, created by a British author, produced in the UK and sold to Cartoon Network US after being produced by Cartoon Network Europe).

However, the non-PSB children's channels generate a considerable amount of revenue from the UK market (in the form of carriage fees and advertising). BSkyB also benefits via its 40 per cent stake in Nickelodeon UK. Channels have no obligation to reinvest in the UK market and, given their global business model, little incentive to support local production in what is one market among many.

Requirements to invest in local programming could take the form of an investment quota (in France, Disney Channel and Jetix have both committed to invest 16 per cent of annual turnover in French animation), or a voluntary commitment to support development and production of UK programming.

We do not believe that modest levels of investment in local programming would jeopardise the profitability of these services. There is a long list of UK programmes acquired by commercial non-PSB channels in recent years: (The Amazing Adrenalini Brothers Magic Roundabout, Shaun the Sheep, King Arthur's Disasters, My Parents are Aliens, Roobarb, The Worst Witch). If these programmes are good enough to justify a place on the non-PSB schedules, it would seem reasonable to expect them to take on part of the upfront risk of creating them.

¹ Nickelodeon UK Annual Report 2005

² The Future of Children's Television Programming, Ofcom, p.32

³ The Business of Children's Television, Screen Digest 2006

⁴ Screen Digest

⁵ Screen Digest

⁶ Ofcom, p.46

⁷ Screen Digest

⁸ Nickelodeon UK Annual Report 2005

⁹ Screen Digest

¹⁰ HIT Entertainment in May 2003 and Chorion in May 2005

¹¹ CNC Bilan Animation 2006