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Understanding the UK's TV Production Sector

O&O

About the authors

O&O is a leading independent advisor to the media, entertainment and sport sectors, with complementary practice areas across policy, strategy, investment and commercial advisory. We have an in-depth understanding of the competitive dynamics of the UK's TV and film, radio and audio, news and online sectors.

O&O has been a specialist advisor on the production sector for over two decades, working on buy and sell side transactions, competition assessments, market sizing and value chain analysis, production and commissioning strategies, and public policy around fiscal incentives, territoriality of rights, and local content regulation. In doing so, O&O has worked for major commissioners, producers, investors, trade associations, Ofcom, DCMS and the European Commission. O&O maintains its own in-house *Producer Database* and carries out an annual Census of the UK production sector on behalf of Pact.

Contents

Introduction and key findings

This report explores the trends seen in the UK TV production market since 2011. It analyses how the sector has evolved in terms of structure and makeup, and financial performance. It also highlights the challenges and opportunities faced by the sector over the past decade and presents an outlook for the future.

Key Findings:

- Over the past decade, producer revenues have grown at an average annual rate of 2.9% from 2011 to 2021, reaching £6.8 billion in 2021. Approximately half of these revenues were from domestic UK commissions and since 2015, the fastest growth area has been SVOD commissions.
- Balancing the challenges and opportunities faced by the production sector, we expect continued growth, with revenues forecast to reach £8 billion by 2030. This represents an annual growth rate of 1.7% from 2021, which is robust, albeit somewhat slower than the 2.9% growth from 2011 to 2021.
- Commissioning activity benefits both larger producers and the long tail of smaller producers in the market. In 2021, the 19 largest production companies accounted for 54% of commissions, while the remaining commissioning activity was shared between smaller companies.
- Given the greater number and diversity of commissioners competing today and the rising costs of production, many alternative sources of finance have emerged including funding from co-producers, distributors, third-party financing, and public subsidies and fiscal incentives. Often producers must bring together a patchwork of funding sources to get a project off the ground.
- According to our research, every type of production resource has become more expensive over the last five years, and the industry faces significant skills shortages. The latter is most acute for highly skilled roles, including directors, other on-set technical roles (such as camera operators and hair and makeup), and post-production.

The production sector represents a major success story for the UK

Over the last twenty years, the UK has established itself as a global powerhouse in TV production. The sector consists of a large number of companies of all sizes, offering a diversity of ideas, while supporting UK creative talent. Domestic success has led to internationalisation and export growth, as global demand for UK produced content and production sector expertise has grown. This growth has been underpinned by the Communications Act 2003, which paved the way for the introduction of the Terms of Trade in 2004 to address the market power of the public service broadcasters (PSBs) in commissioning in the UK.

Beyond the production sector, the wider global and UK audiovisual (AV) sectors have changed significantly too. Digitalisation has seen the emergence of VOD services – both national such as BBC iPlayer and ITVX, and global such as Netflix and Disney+ – which have changed the way that consumers access content, as well as shifting expectations around the breadth of choice and quality of content that should be available. The COVID-19 pandemic undoubtedly harmed the AV sector and the production sector within it, halting filming and increasing costs, but we have since seen a bounce back with digital transformation continuing at pace. We are now entering a new phase, as intense competition between content services sees consolidation and aggregation, with new opportunities and challenges for the UK AV sector and for producers.

The scope of this report

This report was commissioned from O&O by Ofcom. As the media regulator, Ofcom routinely conducts research and analysis on a wide range of sectors. Being abreast of key developments allows Ofcom to remain well placed to protect the sustainability and growth of the sector, as its approach to regulating the media sector in the UK continues to evolve.

The production sector is at the heart of the UK's creative industries – its role in providing high quality content for both broadcasters and platforms ensures that there continues to be a wide variety of programming for all audiences. This report considers the trends and dynamics of the UK TV production sector, along with the opportunities and challenges it faces.

This study focuses on the UK market, covering all production companies with a UK presence that have been commissioned to produce TV content between 2011 and 2021.[1] This includes four main types of production company, as follows:

1. **In-house studios:** vertically integrated studios such as BBC Studios and ITV Studios, owned and operated by domestic broadcasters – these studios may produce content both for their associated broadcaster and for third parties.
2. **Super-indies:** this is the term given to large production groups, such as All3Media and Banijay, which are typically made up of multiple labels. They began as independent of any broadcaster, though can be (part) owned by broadcaster groups.
3. **Smaller independents:** these companies make up the majority of the UK production market in terms of numbers; indies with revenues under £10 million/year account for around 85% of the market and indies with revenues between £10 million and £70 million/year account for around 12% of the market.
4. **UK subsidiaries of global studios**: this includes companies based in the UK and producing content in the UK, but whose group is not UK owned, such as Disney and Warner Bros Discovery's UK labels.

The structure of this report and our approach

This report has five parts, which together tell the story of the production sector's growth since 2011. We look at commissioning trends and finance models, with a focus on the largest commissioners in the market – supplemented with commentary on subscription VOD (SVOD) services as new entrant commissioners since 2015. Having set out the key details of the sector, which will shape its continued evolution, we consider the challenges and opportunities facing the sector and the role of policy in further supporting growth.

We have drawn on a range of approaches to ensure that we make the most of all available data, as well as benefitting from stakeholder insights to add colour to what the numbers show us. The main approaches were data analysis, desk research, an online survey of 104 producers, and stakeholder interviews to validate findings and add detail to survey responses. We have complemented this with our broader knowledge and understanding of the sector from previous projects. Research and fieldwork were conducted between March and May 2023.

This report is accompanied by a longer slide deck, which explores the trends in more detail, providing additional analysis and information. The slide deck can be found on Ofcom's website here.

[1] 2021 was the latest year for which full data was available at the time of our fieldwork. While some sources are released earlier than others, we have chosen to use 2021 as a consistent end point throughout our work – a full data set for 2022 is unlikely to be available until the end of 2023

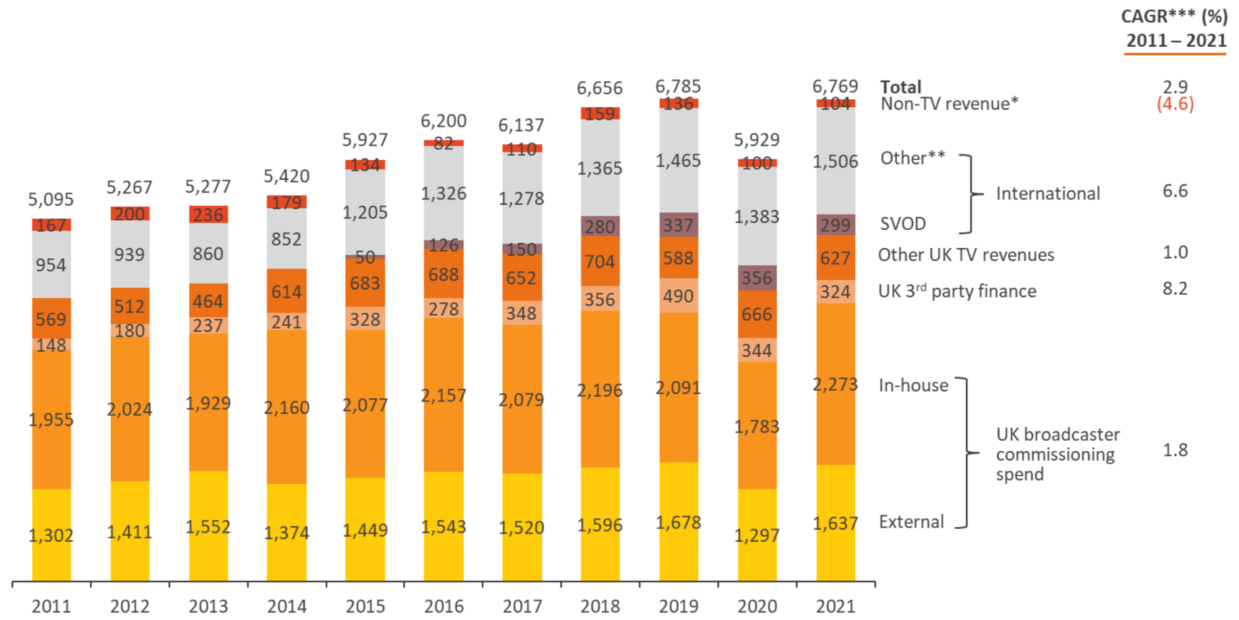
1 The UK's production sector is dynamic and has grown significantly over the last decade

In this part of the report, we look at revenue trends over the past decade, the make-up of the production sector across the different types of producers, and why the current balance is important in fostering a dynamic sector, supporting creative renewal and idea generation.

1.1 Producer revenues have grown over the last ten years

As illustrated in **Figure 1**, the UK's TV sector has seen strong growth over the past decade. Total revenues increased at an annual rate of 2.9% from 2011 to 2021, reaching £6.8 billion in 2021. Approximately 60% of these revenues related to commissioning spend from UK broadcasters, which remain the cornerstone of content investment in the UK – within that, 58% of domestic commissions revenue related to in-house producers, with the remainder commissioned from external producers.

Figure 1: Producer revenues, by type, 2011 to 2021, £m



Note: **Non-TV revenue includes corporate production, new media and other non-TV activities such as online publishing, talent management, promotions, public relations and feature films. **International Other includes co-production and commissioning spend from international channels. ***CAGR = Compound Annual Growth Rate, the average growth rate per year over a time period*

Source: Ofcom, Pact Export report, Pact UK Television Production Census 2022, COBA content report, Oliver & Ohlbaum analysis

The market segment experiencing the most rapid growth in recent years has been commissions from SVOD services, helping to drive growth in total revenues from international companies operating in the UK at a rate of 6.6% since 2011. By the end of this period, SVOD commissions had increased to approximately £300 million, underlining the growing demand for, and investment in, UK content by global streaming services seeking to compete in the market. The growth in spend is largely driven by a high average spend per commission on a relatively small number of programmes.

Commissions and co-productions from broadcasters in international markets and global exports represent another significant revenue source for the UK TV production sector. Total revenues from international markets (excluding SVOD) surpassed £1.5 billion in 2021, underscoring the importance of global sales and distribution in driving revenue growth for UK producers. It is important to note that many production companies extend their activities beyond television production, such as in social media, video games, and feature films. These non-TV revenue streams totalled £104 million in 2021, indicating the strategic diversification efforts of production companies to broaden their operational scope and revenue sources.

1.2 The UK has become a leading exporter of TV content

The UK has established itself as a major global production hub, and one of the leading exporters of TV content worldwide. This success coincides with the introduction of Terms of Trade following the Communications Act 2003, which triggered competition and growth.

Terms of Trade

The Terms of Trade are a set of regulations unique to UK broadcasting. The framework for the Terms of Trade was introduced under the Communications Act 2003; these provisions mandated formal Codes of Practice to be developed by each of the UK's PSBs setting out the principles that they will apply when agreeing terms for the commissioning of independent productions for their licensed PSB channels.

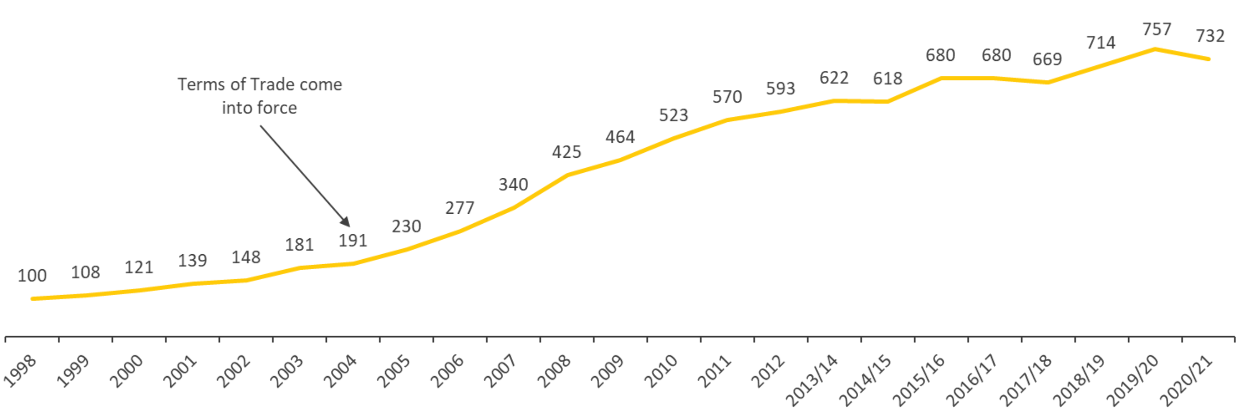
This framework was considered necessary because of a significant imbalance in bargaining power between UK PSBs and independent producers. This derived from the fact that the PSBs accounted for most commissioning investment in the UK, meaning that independent producers were highly dependent on commissioning revenue from the PSBs.

From the first Terms of Trade negotiations in 2004, in accordance with their licence terms and under Ofcom's oversight, each of the PSBs had a clear regulatory environment within which to operate. The Terms of Trade clearly separated out primary, secondary, and ancillary rights. While a PSB typically acquires a licence for primary exploitation from the producer when it commissions an independent production, the independent producer could choose to retain the secondary and ancillary rights and exploit these itself.

This landmark policy initiative provided the foundation upon which the UK independent production sector has subsequently thrived, enabling producers to capitalise on growing demand for high quality UK content.

Global sales of programmes have become increasingly important for UK producers, with exports growing rapidly as shown in **Figure 2**, providing UK independent producers with the opportunity to secure stable income, and laying the foundation for building successful international businesses of scale.

Figure 2: Growth in UK TV programme rights & production exports income, 1998 - 2020, £m, indexed to 1998



Note: The reported periods in the source data changed from calendar to financial years after 2012 – the growth rate between 2012 and 2013-14 is therefore based on the restated 2012-13 equivalent. A change in methodology in 2016-17 used by Pact led to anomalous data.
Source: BTDA, Pact, Oliver & Ohlbaum analysis

This new source of growth has driven competition, efficiency, and innovation, while enabling producers to offer UK broadcasters greater value on screen – since the producer can take on the risk of recovering part of the programme costs through international income along with the opportunity to drive a profit. We look at finance models in more detail in Part 2.

1.3 Commissioning activity is spread across producers of different sizes

In 2021, we estimate that the UK production sector consisted of 488 production companies, with the number of companies having risen steadily from around 420 in 2012. Companies in the UK production sector can be defined by their ownership status, with Qualifying Indies (QIs) – those not tied to a UK broadcaster[2] – making up 98% of the sector, while Non-Qualifying Indies (NQIs) – those more than 25% owned by a UK broadcaster, and broadcasters' in-house studios – accounting for the remaining 2%.

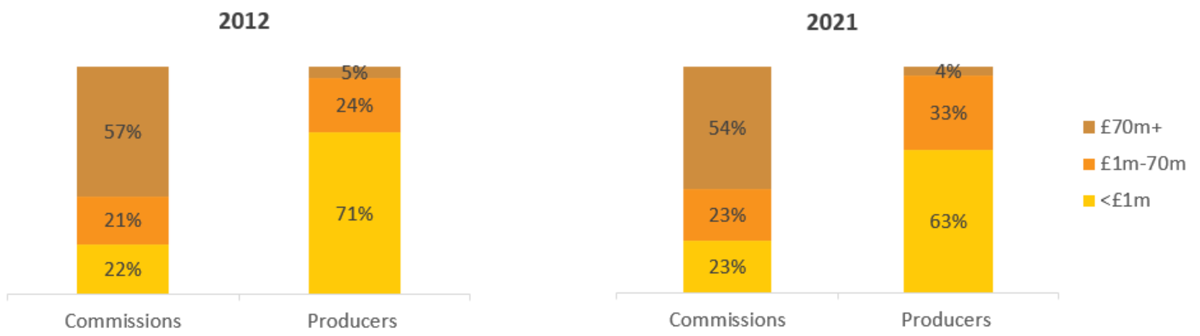
Ownership status and production company size are not always related; there are some examples of larger independents and super-indies that are QIs, and smaller independents that are NQIs. The table below shows a few examples of different production companies, their size and ownership status.

Type of production company	Estimated average revenue band per year	Ownership status	Examples
Broadcaster-owned studios	> £70 million	NQI	BBC Studios ITV Studios
UK subsidiaries of global studios	> £70 million	NQI	Sony subsidiaries Universal subsidiaries
Superindies	> £70 million	NQI	All3Media
	> £70 million	QI	Banijay Fremantle
Smaller independents	< £70 million	NQI	Wall to Wall Renegade
	< £70 million	QI	Zinc Media Hat Trick Merman TV

As shown in **Figure 3**, the sector is characterised by a small cluster of large broadcaster studios and super-indies with revenues over £70 million per year, with a long tail of smaller businesses providing competition and diversity. The overall makeup of the sector changed slightly over the past decade; the cohort of producers with revenues of less than £1 million per year accounted for a smaller proportion of the sector in 2021 than in 2012. This change can in part be attributed to the sustained success of certain smaller producers which have grown their annual revenues over the period and moved up into the bracket of medium-sized producers, alongside some consolidation in the sector, with larger producers and groups acquiring smaller production companies.

[2] Not tied to a broadcaster through significant common ownership, in which no single UK broadcaster has a shareholding greater than 25% or any two or more UK broadcasters have an aggregate shareholding greater than 50%

Figure 3: Share of number of commissions and producers by turnover band, 2012 and 2021, %



Note: Commissions include returning series
Source: Broadcast Indie Survey, O&O Programme Database, Pact, Oliver & Ohlbaum analysis

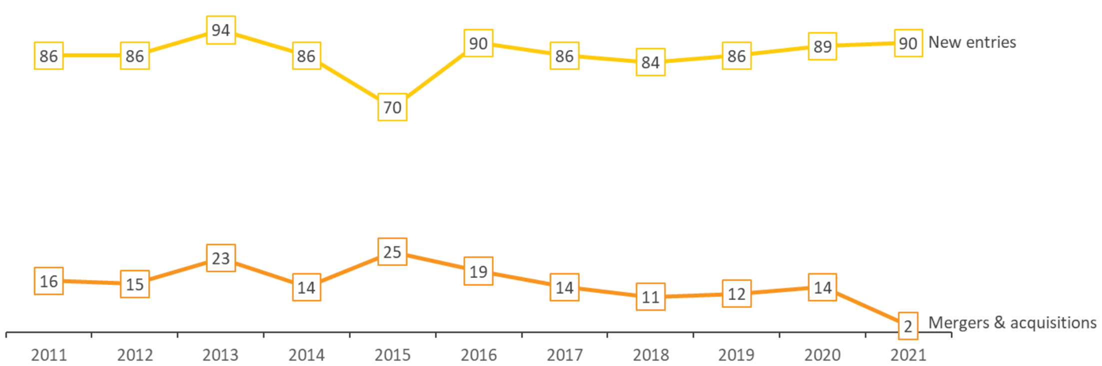
Among the 488 production companies in 2021, those with a turnover of £70 million or more had 54% of commissions. At the other end of the spectrum, there were 309 producers with a turnover of £1 million or less, accounting for 63% of the sector's companies and 23% of commissions. This distribution of activity broadly flows from the levels of resource and capacity at larger producers, as well as their different labels or genre specialisms. In particular, larger production groups typically include many labels often with different specialisms and these groups are set up for large scale production activity, which helps owners diversify against risk.

1.4 The market is highly dynamic with a lot of new entrants and acquisitions

The larger independent players have typically grown through acquisition, which provides an opportunity to gain access to new IP, expand their portfolio of content and clients, and enhance the potential for revenue generation – diversifying and reducing exposure to risk. Acquisitions also help support creativity and innovation by integrating new talent with fresh ideas. So, the inherent characteristics of the market have resulted in the super-indies and in-house studios acquiring independent producers.

Consolidation is a key characteristic of the competitive and innovative sector, containing many small and medium-sized enterprises (SMEs) and new start-ups. As shown in **Figure 4**, we estimate that between 70 and 94 new companies entered the sector each year between 2011 to 2021, contributing to its competitiveness and vitality. This continuing influx of start-ups, along with the presence of medium-sized and larger producers, creates a dynamic cycle of 'creative renewal' within the sector – with creative talent competing to build production businesses that might then be sold to larger players.

Figure 4: Number of new producers and M&A activity, 2011 to 2021



Note: New entries are defined as not previously active in our dataset. New entries for 2011 and 2012 are estimated based on the average for 2013-2021
Source: Ampere Analysis, Broadcast Indie Survey, O&O Programme Database, Pact, Oliver & Ohlbaum analysis

The level of consolidation in the sector has been broadly steady since 2011, with on average 14 mergers and acquisitions per year. This activity has involved companies of all sizes, but possibly the most notable deals impacting the sector have involved the super-indies, including: the 2013 acquisition of All3Media by Discovery and Liberty Global, the 2015 merger of Endemol and Shine, the 2016 merger of Banijay and Zodiak, and the 2020 acquisition of Endemol Shine Group by Banijay. Market uncertainty related to the COVID-19 pandemic is perhaps the main cause of activity slowing in 2021, as businesses refocused their priorities to remain sustainable.

Overall, the UK production sector has thrived due to its vibrant and dynamic nature, helped by the continuing entrance of new companies and balanced with consolidation, which together enable growth.

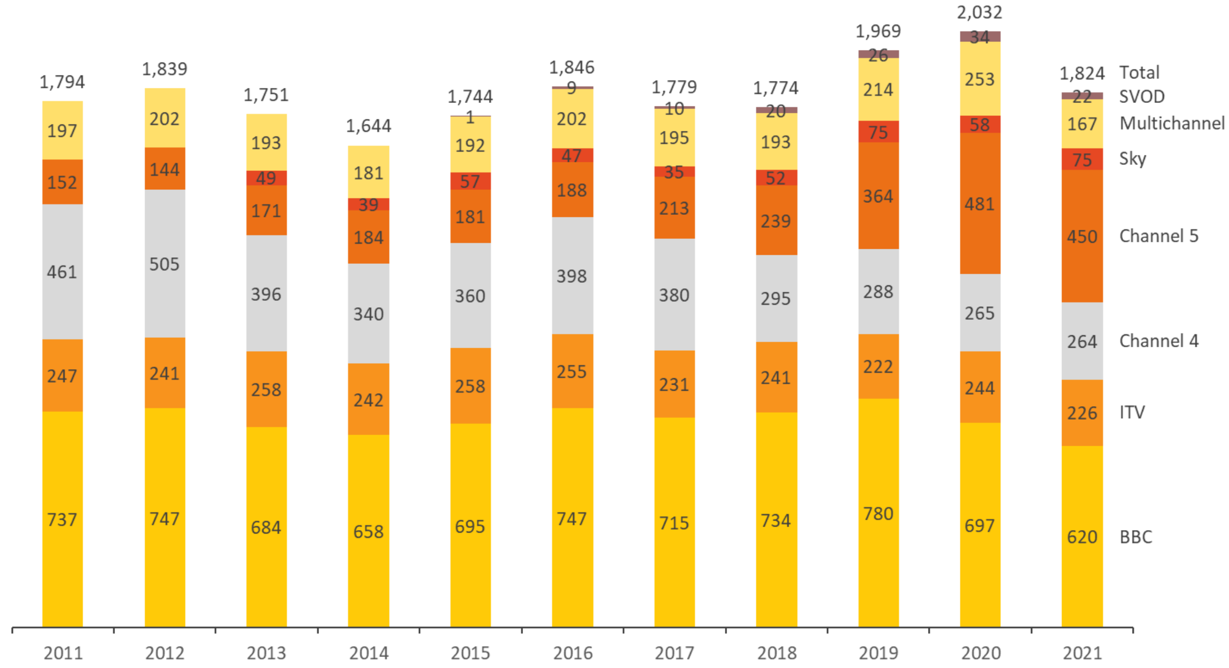
2 Commissioning approaches and finance models are evolving

In this part, we provide an overview of the UK's commissioners and commissioning trends from 2011 to 2021. We also delve into the various sources of production finance, such as commissioning fees, distributors, public subsidies and fiscal incentives, and finance from co-producers.

2.1 The total number of UK commissions has remained broadly stable, while the make-up of buyers has evolved

The UK's commissioning market was broadly stable between 2011 and 2021 in terms of the number of commissions, as shown in **Figure 5.** While annual fluctuations have been a long-term characteristic of the market, there was a notable decline in 2021, which is likely to reflect reduced filming activity in 2020 due to the COVID-19 pandemic. PSB commissions accounted for a significant majority throughout the period, contributing 86% of the commissioning market in 2021.

Figure 5: Number of UK commissions per year, by commissioner, 2011 to 2021



Note: Commissions include returning series. BBC includes commissions on BBC One and Two. Sky includes Sky One/Showcase. Multichannel includes PSB portfolios
Source: Ampere Analysis, O&O Programme Database, Oliver & Ohlbaum analysis

Following its acquisition by Viacom (now Paramount Global) in 2014, Channel 5 has steadily increased the number of originations it commissions each year. This has been driven in part by a shift in Channel 5's content strategy over the last few years, with the broadcaster placing greater emphasis on commissioning original local content. This trend contrasts with other PSBs, which have typically focused on doing fewer programmes better. Channel 4, for instance, narrowed its commissioning focus to fewer returning series with more episodes.

Since 2011, non-PSB UK broadcasters have maintained their position as the second most significant commissioners of UK producers after the PSBs; broadcasters such as Sky have steadily increased their investment in UK original content to become important commissioners, supporting the production sector.

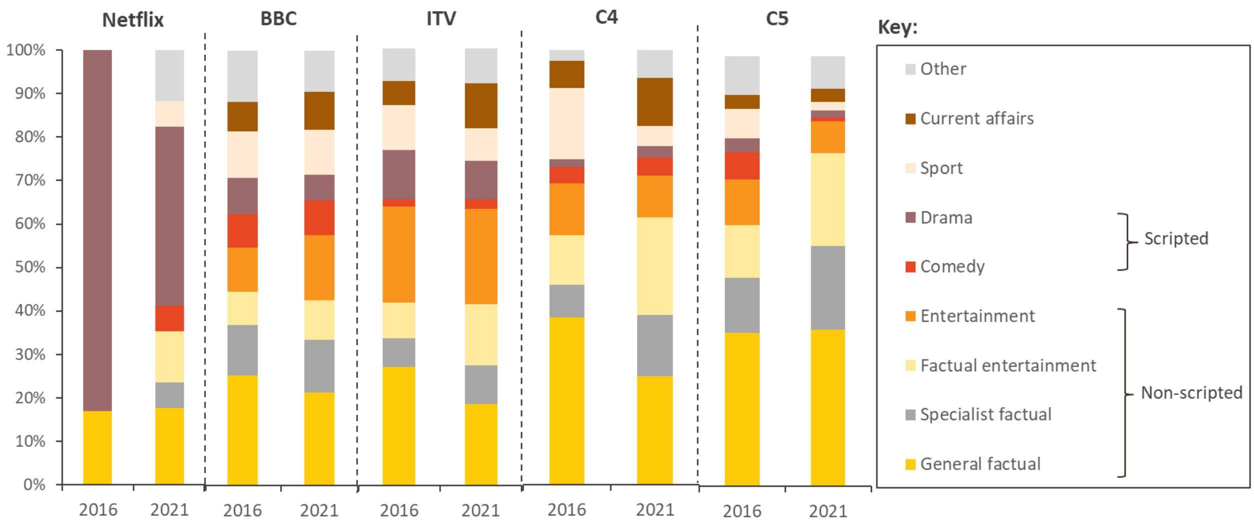
Since 2015, the number of commissions for UK producers from SVOD services has steadily increased, exceeding 30 commissions with UK producers in 2020 and over 20 in 2021. Netflix has been a significant driver of this growth, accounting for nearly 80% of SVOD commissions with UK producers between 2015 and 2021. Amazon Prime Video follows as the second most active SVOD, with multiple commissions since 2015. More recent entrants into UK commissioning include Apple TV+ and Disney+.

Despite the growth in SVOD commissions with UK producers since 2015, the number remains substantially lower than that of traditional broadcasters, with 22 commissions in 2021 compared to 1,802 from traditional broadcasters. This means that SVODs represented just under 2% of all UK commissions in 2021; while this is a positive diversification of the commissioning landscape, commissioning by traditional broadcasters – particularly PSBs – has enduring significance for the health of the UK production sector.

2.2 PSBs and SVODs generally commission different genres and serve different audiences

All the PSBs commission more non-scripted programmes than scripted programmes, and this focus on non-scripted commissions generally increased between 2016 and 2021.[3] This transition has coincided with changing audience expectations, resulting from a strong scripted content offer from SVOD services. PSB scripted commissions are now typically higher quality and larger-scale, and often focus on delivering UK stories that include UK talent and reflect audiences' daily lives and concerns on screen. Therefore, while they are fewer in number, the cost per hour is typically higher than for non-scripted genres.

Figure 6: UK commissioning activity, by genre, Netflix and PSBs, 2016 and 2021, % share UK commissions



Note: Commissions include returning series. BBC includes commissions on BBC One and Two
Source: Ampere Analysis, O&O Programme Database, Oliver & Ohlbaum analysis

[3] It is important to note that a substantial portion of scripted content hours from PSBs are dedicated to soaps, which offer a considerable volume of programming per individual commission – so the mix of hours will involve a greater share of scripted than the mix of commissions

Many PSB non-scripted commissions are important in enabling the PSBs to deliver public value. Prominent examples include *Seven Worlds, One Planet*, a 2019 BBC nature documentary[4] and *For Sama*, a 2019 Channel 4 documentary about a young woman's experiences in Syria[5], whilst entertainment formats such as BBC's *Strictly Come Dancing* and ITV's *I'm a Celebrity*[6] are amongst their best performing programmes whilst being idiosyncratically British in style.

Out of the PSBs, the BBC has the most even split of genres, contributing a large number of commissions across all genres. ITV is notable for the relatively high proportion of entertainment and drama commissions, whilst Channel 4 and Channel 5 commission a higher proportion of factual content. Channel 5 has also undergone the most significant shift in genre focus since 2016, likely driven by its change in ownership in 2014, with a large increase in factual entertainment commissions.

As mentioned, SVOD commissions constitute 2% of the market in terms of the number of commissions, which represents 7% in terms of investment. This underscores the substantial average expenditure per programme by SVOD commissioners compared to the rest of the market. This reflects the prevailing SVOD strategy of investing heavily in premium scripted content, which can compete for domestic audiences as well as performing well in other markets. This trend is demonstrated above in **Figure 6** where Netflix's focus on drama is apparent, though it has broadened its UK commissioning strategy since entering the market in 2015, resulting in a more diverse genre mix across its 2021 portfolio including comedy, factual entertainment and specialist factual. This helps to provide a more varied offer, keeping subscribers engaged.

2.3 New production finance models have emerged in recent years

A range of factors influence negotiations between content buyers and producers – the core factors are finance and IP terms, but others include preferred methods of collaboration, the project's development stage, and prospects for future seasons or spin-offs. As demand for ideas and production resources has increased, this has supported greater flexibility and variety around the core financing and IP terms.

Although no longer the starting point for many commissions, the 'fully-financed' model is the simplest model, which involves the commissioner covering all production costs, plus a producer's fee, in return for exploitation rights. The producer does not have to take the risk on assembling financing for the project to go ahead. In the UK, when a PSB commissions a 'fully-financed' programme, it typically acquires a licence for the primary rights from the producer, as per Terms of Trade, while the secondary (including international) rights usually remain with the producer. The same is often true of non-PSB broadcaster commissions, since the ToT are often seen as a baseline for negotiations, also according to the parties' business models and priorities. As explained below, broadcaster fully-financed productions are likely to be in lower budget genres with limited secondary/international exploitation value. Where a commissioner, such as a global SVOD, wants to acquire global distribution rights up front because their business model is built on the ability to distribute the content across multiple territories, the terms they reach with producers take account of the value of the global rights.

As the sector has developed, the 'fully-financed' model has become rarer and many new models have emerged, supported by different sources of finance including: co-production, licensing deals, and utilising tax and expenditure credits – some examples of available sources of finance are set out in the box below. The selection of a financing method for any given project depends on several factors including: who the commissioner is, their budget, the

[4] A BBC Studios Natural History Unit production, co-produced with BBC America, Tencent Penguin Pictures, ZDF, France Télévisions and China Media Group CCTV9

[5] Channel 4 News/ITN Productions for Channel 4 and Frontline PBS

[6] BBC Studios and ITV Studios, respectively

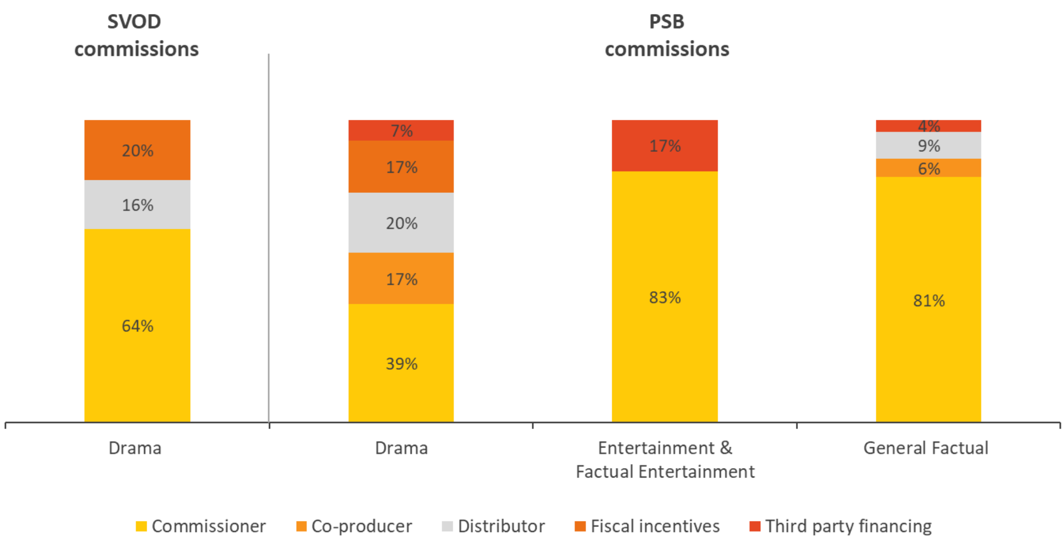
nature of the project, how much risk the producer and commissioner are willing to accept, the degree of competition amongst potential buyers, and the potential success of a commission's secondary rights.

Sources of production finance

- **Primary commissioner** – the payment from the main commissioner of the programme. The fee is typically spread across multiple payments, from a 'green-light' fee when the project is first agreed through to a final payment on delivery of the finished programme.
- **Co-producers** – international broadcasters (such as HBO) or SVOD services (such as Netflix) can partner with UK broadcasters to fund a programme in exchange for distribution rights in their territory or territories. UK broadcasters acquire a licence to the primary rights in the UK, typically for a period of time. This is a means of sharing the cost and risk of content.
- **Expenditure credits** – the UK government offers expenditure credits of up to 34% for high-end TV (HETV) productions, classified as having over £1 million spent on core production activities per broadcast hour, and 39% for children's live action and animation content. Until early 2023, the regime operated as a tax rebate model at 25% of qualifying expenditure for HETV, children's and animation, with the UK Government announcing the reforms in July 2023.
- **Distributors** – companies such as eOne and All3Media International, which are often required to fund the production deficit, i.e. the shortfall between the above funding sources and the production budget. Distributors will seek to recoup the deficit by licensing the finished programme to international content buyers. Large production groups often have their own distribution arms.
- **Other deficit financing** – where there is still a production deficit after other sources of finance, producers may need to turn to additional sources of funding such as loans from a bank, other third-parties, or self-funding within a larger group (if the producer is a label in a super-indie).

We asked producers what they were observing in production finance and found there were significant differences between scripted and non-scripted content, with variation also found between different types of commissioner. **Figure 7** shows indicative contributions towards the production budget for recent projects across a range of genres for both PSB and SVOD commissioners.

Figure 7: Indicative contribution of producer revenues from commissions, selected genres, PSB vs SVOD, % of revenues



Source: Fly Research, (Drama PSB, n=8, SVOD, n=5, Ent/Fact Ent, n=7, General Factual, n=8), Oliver & Ohlbaum analysis

For scripted content, in particular high value dramas, our research suggests that PSB commissions typically use a mix of sources of production finance, including co-producer funding and third-party financing, with PSB commissioners contributing an average of 39% of the production budget across the producers specialising in drama that completed the survey.

'It's wise to seek expertise to help demystify the variety of co-production financing models out there in order to maximise global opportunities.'

Nia Thomas, Boom

The role of mixed finance has grown in prominence as the ambition, appeal, and associated budgets for scripted content have increased – driven by competition for audiences. On the other hand, broadcaster revenues have not significantly increased. As well as new commissioners entering, investment in content has been supported by producers' ingenuity in raising financing from multiple sources and, in doing so, often taking on more risk in return for potential rewards through future exploitation of the rights they retain, including licensing to international buyers.

As previously discussed, in some cases a commissioner may use the 'fully-financed' model, which reduces risk for producers by providing a guaranteed profit, generally in exchange for global distribution rights. The different funding models for scripted content are complementary, with many producers striving to balance the risk and rewards by building a portfolio of commissions with different funding and rights models.

When it comes to lower budget scripted and non-scripted content, such as entertainment and factual genres, the situation is quite different due to the more limited potential for secondary revenues and international success. With the exception of programmes with 'format' potential – e.g. game shows and factual entertainment formats which could be reproduced internationally – PSB commissioners usually fund the majority of the production budget, while SVODs have been less involved in these genres to date. Whilst PSB commissioners provided the majority of financing for the producers specialising in non-scripted content who responded to our survey, on average a small amount of third-party financing was also required.

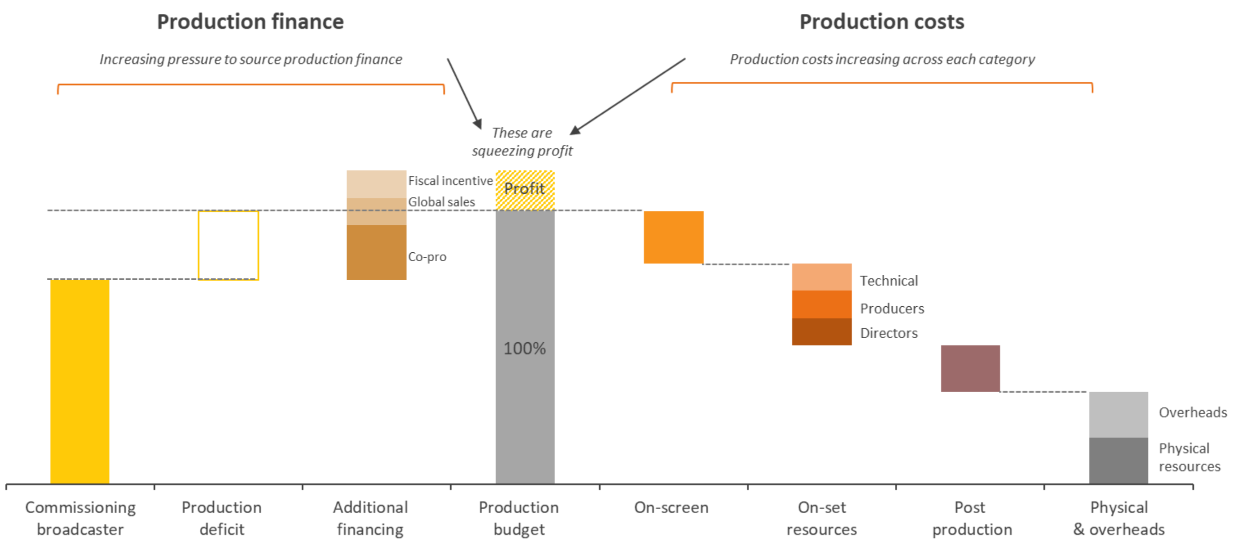
3 Pressure on both production finance and production costs is challenging the sector

While the UK's TV production sector has experienced strong growth and established itself as one of the world's leading production hubs, it is also facing new challenges and others that have intensified in recent years. The producers we surveyed and interviewed identified production finance and costs as the biggest issues.

3.1 Budgets are being squeezed on both sides: finance and costs

As illustrated in **Figure 8**, production finance and production costs are the opposite sides of the same coin. Consequently, when pressure is exerted on both fronts, commissioning budgets and producers' profit margins can be put under pressure, meaning the parties need to try to find ways to deliver the editorial ambition with less money while facing increases in the cost of many production resources.

Figure 8: Production finance and cost illustrative schematic diagram



Source: Oliver & Ohlbaum analysis

On the production finance side, the last few years have seen pressure on broadcaster commissioning budgets resulting from several sources, including: the gradual decline in linear TV advertising spending, not yet fully offset by the increase in advertising revenue from VOD services; the impact of the COVID-19 pandemic, followed by continued economic uncertainty impacting the ad market and consumer discretionary spend on subscriptions; and public funding pressures on the BBC. This has resulted in a slowdown in growth in content spending – and, as programme budgets and ambition continue to rise as competition for viewers has intensified, commissioners and producers are motivated to find additional sources of funding. On the production cost side, there have been issues caused by external factors as well as challenges unique to the sector. The major external factors include: the UK's departure from the EU, which stakeholders said requires them to adapt to new rules such as for talent acquisition and overseas filming; the COVID-19 pandemic, which has driven up costs; and inflation, which has put further pressure on production budgets. Internally, the sector is facing significant skills shortages and an increased level of demand from new content buyers without a sufficient supply of new talent and crew to meet this demand – this is further contributing to the more general inflation experienced by the sector.

3.2 Some producers have concerns about financing their productions in the future

Among the producers we interviewed and surveyed, there is a shared belief that broadcaster commissioning budgets will tighten in the future. 96% of surveyed producers anticipate that PSBs will focus on 'doing more with less' and many producers foresee that financing for scripted content could be particularly exposed to this squeeze.

> 'Whilst fully funded production will continue for core programming, there will be an increase in the demand for more complex funding models to gap-fund in the future. The notion that a broadcaster will be able to sustain a fully funded slate is becoming less realistic due to growing economic pressures.'
>
> *Paul Thomas, Wildflame Productions*

These concerns come from producer fears that PSB revenues will be under pressure in the coming years. As discussed in Section 2.1, PSBs commissioned 86% of originations in 2021 and, despite growth from other content buyers, still represent the vast majority of the commissioning market. The BBC faces funding challenges, having had its licence fee set flat in nominal terms in 2022, representing a real terms funding cut, and there is uncertainty over its future funding model, which will be examined as part of the 2027 Charter review.[7]

The other PSBs – ITV, Channel 4, and Channel 5 – are all primarily advertiser funded, and whilst the TV advertising market has historically shown great resilience, it faces both short- and long-term pressures: short-term from the current economic turbulence, and longer term from changes in audience behaviour present across all demographics, but primarily driven by younger consumers, resulting in shifting viewing and potentially encouraging associated ad spend towards online. Some producers were also concerned that if Channel 4 was permitted to build in-house production capability, this could reduce opportunities for the independent sector, exacerbating any challenges producers expect to have regarding commissioning opportunities from PSBs.

It is important to note that the PSBs commission a high number of relatively low value projects across a variety of genres and from producers of different sizes and locations. Whilst opportunities with SVOD services could potentially help offset declining broadcaster spend at the headline level, there could still be consequences for the smaller producers that rely on PSB commissions, including as a way to enter the industry, build a reputation and grow. In contrast, an increase in SVOD commissions is likely to benefit producers that already have the proven expertise and resources available to produce premium content attractive to SVODs, and potentially in a more limited range of genres. That said, many producers felt that there would be more opportunities to work with SVODs in the future and this is discussed further in Part 4.

3.3 All production resources have become more expensive, and producers are worried this trend will continue

The production of a television programme requires a range of resources, with emphasis varying by genre. Examples of these resources are set out in the box below; they illustrate the major costs incurred by productions.

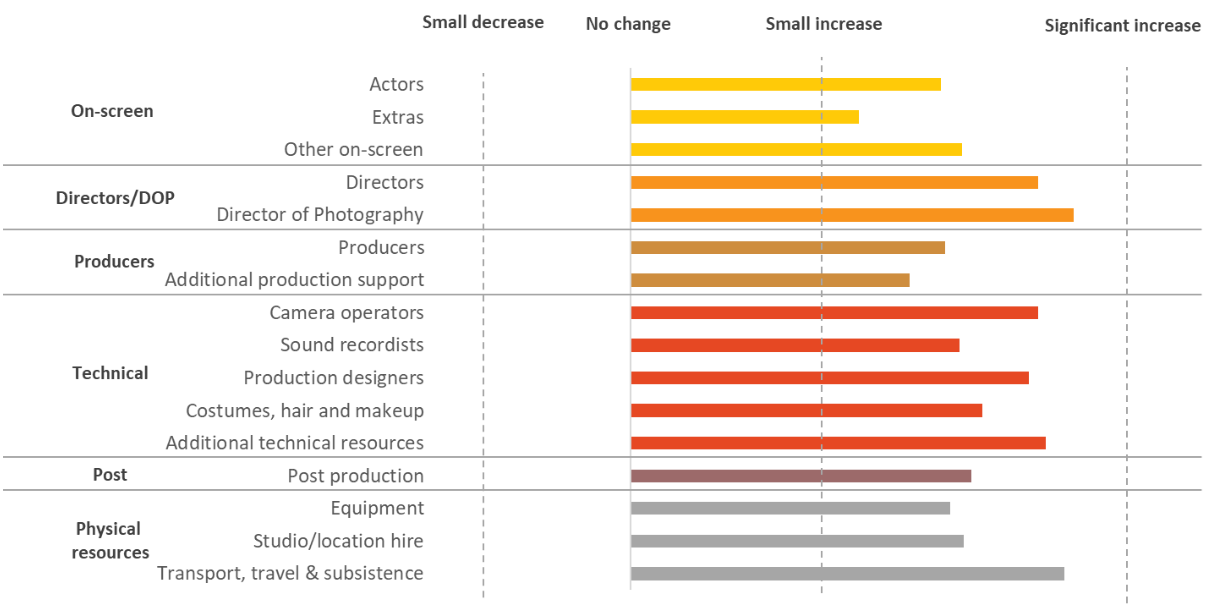
[7] The announcement made in 2022 confirmed that the licence fee would remain flat for two years from 2022 to 2024, after which it would rise in line with consumer price index inflation until the end of the current BBC Charter period in 2027

Types of production resource

- **On-Screen Talent:** individuals who appear on screen. In scripted content, this primarily consists of leading actors, supporting actors, and extras. For non-scripted content, it includes presenters and guests.
- **Directors:** directors, assistant directors, and directors of photography. They are responsible for overseeing the creative aspects of the production and guiding the cast and crew to fulfil the vision of the project.
- **Producers and Production Support:** non-technical production roles. It includes senior producers, executive producers, line producers, and more junior production support roles such as runners.
- **On-Screen Technical Resources:** highly skilled technical resources including camera operators, sound recordists, production designers, and those responsible for costumes, hair and makeup.
- **Post-Production:** technical resources working on the production after filming. Includes editors, music supervisors, composers, special effects artists, and colourists. They are responsible for refining the filmed content and adding finishing touches.
- **Physical Resources:** additional expenditure beyond salaries on locations, studios, equipment, travel, food and subsistence.

We asked producers how these costs have changed over the last five years. As illustrated in **Figure 9**, producers reported an average increase in the cost of every type of production resource and 80% of surveyed producers are worried about production cost inflation. They identified the most significant cost inflation in the roles of directors, on-set technical resources, and post-production. These roles are highly skilled and historically amongst the most expensive.

Figure 9: Cost inflation over last five years, by type of production resource



*Note: * Respondents' answers on the scale of 'significant decrease', 'small decrease', 'no change', 'small increase', and 'significant increase' were converted to a numerical scale from '-3' to '+3', respectively. This allowed responses to be averaged.*
Source: Fly Research (n=65), Oliver & Ohlbaum analysis

The producers attributed this cost inflation to four primary factors: macroeconomic inflation, the long-term impact of the COVID-19 pandemic, skills shortages and, relatedly, the increased demand for production resources from SVOD services. Macroeconomic inflation has led to higher salary demands to offset the increased cost of living and inflated prices for physical resources, such as transportation and food.

The COVID-19 pandemic had a profound impact on both content buyers and sellers. Initially, all production was halted, and upon resumption, substantial additional costs were incurred to ensure 'Covid-safe' productions[8]. We heard in our interviews that these measures, including social distancing and regular testing, increased production costs by an average of 35%. Additionally, we also heard that many individuals exited the sector during the pandemic, leading to a supply shortage and rapid promotions for new hires, driving up salary expectations.

Despite SVOD services accounting for a small percentage of the UK commissioning market, as discussed in Section 2.1, they have so far primarily focused on commissioning high-budget dramas with premium production values, such as Amazon Prime Video's *Anansi Boys* or Netflix's *The Crown*. SVODs have also commissioned US Studios to film on location in the UK, using UK-based crews but not UK-based production companies, as seen with Apple TV+'s *Ted Lasso* and Disney+'s *Andor*. These large-scale projects have increased demand for crew and talent, leading to a supply-demand imbalance. While this has been beneficial for many sector workers due to the abundance of work, it has posed challenges for production companies struggling with resource shortages.

3.4 The Apprenticeship Levy is not effective in addressing skill shortages, which are contributing to cost inflation

As we have seen, skills shortages have been exacerbated by COVID-19 and increased demand since the entry of new commissioners. Whilst this is not the only contributor towards cost inflation, the producers we interviewed and surveyed generally agreed that the sector is now facing significant skills shortages. On average, producers felt that skills shortages have got worse for all types of production resource over the last five years, with the most acute shortages for the highly technical roles, including directors, other on-set technical resources and post-production. These more recent contributing factors add to the longer-term structural challenges around supporting the development of skills in the production sector.

[8] In October 2020, the UK Government launched the Film and TV Production Restart Scheme with the aim of enabling UK film and TV productions to restart following disruptions caused by COVID-19. The scheme provided direct compensation to production companies to meet costs incurred from cancellations or delays in productions.

Apprenticeship Levy

The UK Apprenticeship Levy is a tax on employers which started in April 2017; it is used to fund apprenticeship training. It is charged at 0.5% of an employer's annual wage bill, for employers whose total wage bill exceeds £3 million per year. Skills policy and apprenticeships are a devolved matter. Once the levy is paid, employers in England can access funding for long-term structured training programmes through a digital apprenticeship service account, which allows them to spend available funds on apprenticeship training to develop technical skills. The government also applies a 10% top-up to funds spent on apprenticeship training in England.[9] Scotland, Wales and Northern Ireland offer their own apprenticeship systems.

'Educational establishments are significant stakeholders in the implementation of apprenticeships, but in order for skills and training provision to be fit for purpose, there's a great need for more joined up thinking between academia and industry.'

Nia Thomas, Boom

We heard in the interviews that the UK's Apprenticeship Levy and apprenticeship standards, designed to support skills and training in technical industries, are not fit for purpose for the production sector. This is because TV production industry is predominantly made up of freelance workers and project-based work. The nature of this work, with individuals often moving between different projects and companies, makes it difficult to implement the structured, long-term training that apprenticeships typically involve.

Some producers expressed the opinion that there is room for improvement in coordinating the funding and efforts for skills training among universities, government, regulators and broadcasters. Some producers also noted that tensions can arise between skills development efforts and other regulatory initiatives aimed at promoting diversity in the production sector. For instance, the Made outside London (MoL) quota and wider policy attention on increasing opportunities outside South East England has been beneficial for UK production companies in the Nations and Regions, but it has also led to pressure from broadcasters to relocate long-running series outside of London. Some production companies said this can create challenges as, for example, moving one strand can affect economies of scale in delivering skills development and training across staff involved in different productions, and they would not receive additional funding.

[9] https://www.gov.uk/guidance/pay-apprenticeship-levy

4 There are many opportunities, and we expect continued growth through to 2030

Despite the challenges discussed in the previous section, the producers we interviewed and surveyed were optimistic about future innovation and growth. In this part, we consider the biggest short- and medium-term opportunities, which include the continued growth and maturity of digital services and the draft Media Bill. We conclude with a revenue forecast for the sector through to 2030.

4.1 The continued growth of SVOD services will provide new commissioning opportunities

The VOD landscape in the UK is not only expanding but also evolving, with continued growth in viewing and subscriptions and changing business models. SVOD services were used by 67% of UK households by Q2 2022, declining from a peak of 68% in Q1. These services have broadly retained their share of viewing after achieving a surge in take-up in 2020, accounting for 18% of total TV viewing in 2021.[10] BVOD services bucked the trend of post-pandemic declines in viewing time, with time spent watching services such as BBC iPlayer, ITV Hub and All 4 increasing by an average of three minutes per person per day to 15 minutes, partially offsetting the declines for other forms of broadcast TV viewing.[11] Growth in viewing to VOD services is accompanied by developing business models. For instance, Netflix introduced an ad-funded tier in 2022, and numerous SVOD services are now offered as part of pay TV packages. This growth and maturity in the VOD market in the UK is creating opportunities for the production sector.

Producers anticipate more investment from SVOD services. While total content investment from many global SVOD services is beginning to slow, the outlook for the UK market remains robust. SVOD services invest to attract and retain subscribers in what is a very competitive market in the UK and are now also producing UK content across a range of genres to help drive subscriber growth and retention. In addition, UK content typically 'travels' well and SVOD providers have achieved global hits with UK content such as Prime Video's *The Grand Tour* and Apple TV's *Slow Horses*. Reflecting the optimism around SVOD investment, 87% of surveyed producers believe they are likely to collaborate more with SVODs in the future. Additionally, 39% anticipate that SVODs will increase their commissioning in non-scripted genres from UK production companies.

4.2 Short-form content provides producers with opportunities to innovate

The expansion of digital services is also paving the way for opportunities with new types of content, particularly with short-form content. Generally defined as videos under 10 minutes, short-form content finds a natural home on VOD services, in contrast to traditional broadcast channels where short-form does not typically fit within the scheduling framework. PSBs are increasingly recognising the potential of short-form content, commissioning it for their BVOD services and social media channels. A notable example is Channel 4's launch of 4.0 on YouTube in October 2022, a brand dedicated exclusively to short-form content.

Short-form provides production companies with fertile ground for experimentation, given its relatively cheap production costs and lower barriers to entry. This format opens avenues for more diverse creators and niche

[10] Ofcom, *Media Nations Report 2022*

[11] Ibid. ITV Hub is now ITV X and All 4 is now Channel 4

content, as exemplified by BBC's *How This Blind Girl...*, a three-episode comedy series, each episode lasting just four minutes, about a visually impaired young woman navigating the dating scene.

In response to this shift, many production companies are broadening their horizons to include short-form content in their repertoire, such as Little Dot Studios (part of All3Media), and ITV Studios. Additionally, new specialists in short form content, such as Little by Little Films, are making their mark in the sector. The growth of digital services, therefore, is not only reshaping the content landscape but also fostering innovation and diversity in content creation.

4.3 Considered policy interventions can further support this growth

The UK Government published the draft Media Bill in March 2023 as an update to the Communications Act 2003.

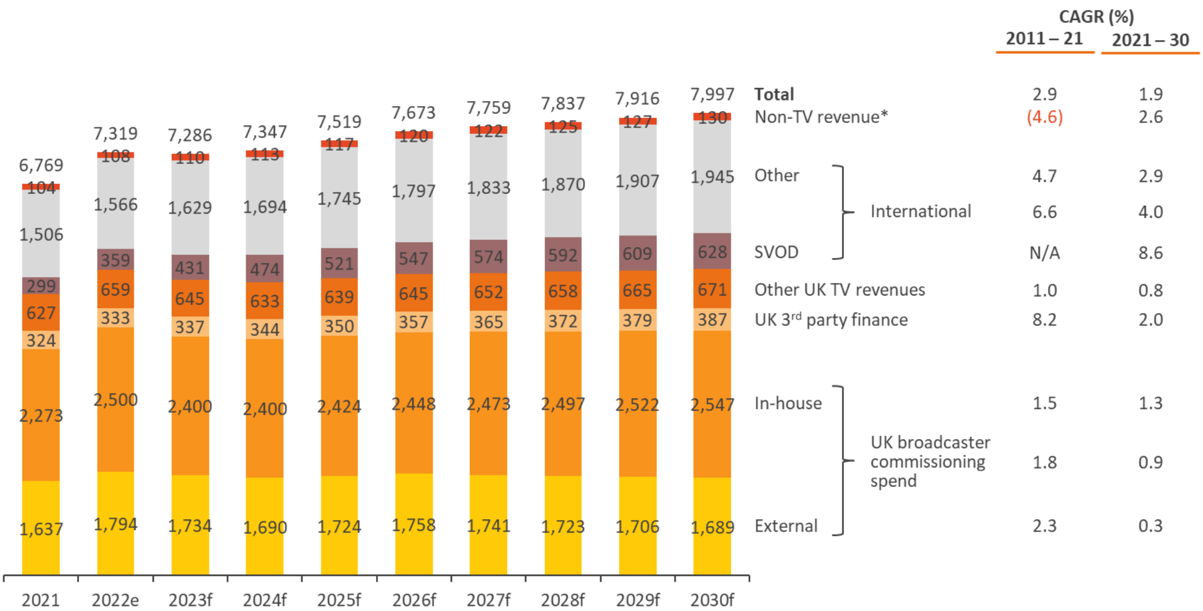
A significant proposal within the draft Media Bill is the extension of the QI quota (as defined in Section 1) and the Terms of Trade to encompass not only traditional PSB broadcast channels but also PSB BVOD services, to recognise that commissioning behaviour will increasingly skew towards digital first commissions.

Furthermore, the draft Media Bill proposes to extend prominence and inclusion to PSB BVOD services. This is expected to support the availability, reach and consumption of PSB on popular connected TV platforms. This should also support advertising revenue generation for the commercial PSBs, which affords them the opportunity to commission a depth and breadth of high-quality content from the UK production sector.

4.4 The sector could grow from £6.8 billion in 2021 to £8 billion by 2030

Balancing the sector's challenges and opportunities, the future of the UK's production sector is promising. As shown in **Figure 9**, we forecast total sector revenues will grow from £6.8 billion in 2021 to around £8.0 billion by 2030, representing a compound annual growth rate (CAGR) of 1.7% over this period. This growth is largely driven by estimated strong growth in 2022, followed by longer term growth with SVOD commissions, supplemented by other international revenue growth and growth from UK in-house commissions.

Figure 10: Total producer revenues, base case forecast, 2021 to 2030, £m



Note: *Non-TV revenue includes corporate production, new media and other non-TV activities such as online publishing, talent management, promotions, public relations and feature films. Excludes financing from third-party sources (i.e., non-commissioners). **SVOD CAGR shown from 2015-21
Source: Ofcom, Pact Export report, Pact UK Television Production Census 2022, COBA content report, Oliver & Ohlbaum analysis

As already discussed, the trajectory of the TV advertising market significantly influences UK production spend, given that three of the four major commissioners – ITV, Channel 4 and Channel 5 – primarily rely on advertising funding. At the same time, the BBC's public funding is under pressure due to its 2022 funding settlement. We've assumed these pressures will continue, and for the purposes of the forecast we assume that there will be a continuation of the current licence fee model in the 2027 Charter renewal. We've also assumed the persistence of current sector production quotas, including QI and Made outside London (MoL) quotas, and that the provisions set out in the draft Media Bill are adopted and implemented. Channel 4's publisher broadcaster status is assumed to be removed, allowing it to gradually develop in-house production capability, albeit not to the extent of ITV or the BBC.

The combined impact of these assumptions has led us to forecast a slight decline in overall PSB spending, mirroring producers' expectations of PSBs striving to 'do more with less' and a subtle shift from commissioning from the independent sector, towards in-house production (driven by Channel 4). However, we anticipate this to be a gradual effect, with the QI quota safeguarding the independent sector from further market erosion. We anticipate that SVOD commissions, the fastest-growing segment for UK production from 2015-2021, are likely to continue to grow through to 2030, but at a slower rate.

5 Creative clusters in the Nations and Regions

The expansion in the UK's production sector has seen the emergence of creative clusters in the Nations and Regions. This growth has been supported by policy interventions including the Made outside London (MoL) quota (described in the box below). This requires PSBs to commission a set proportion of programming from areas outside of London. This appendix provides a brief summary of performance against this quota. We conclude with case studies on three leading creative clusters: Glasgow, Bristol and Salford.

Made outside London (MoL) quota

Introduced in 2003, the MoL quota ensures a set proportion of programmes from PSBs are made outside London (outside the M25). Each PSB must meet the quota for regional productions specified in its licence; this ranges from 10% to 50% depending on the broadcaster's audience, budget, and remit.

Only first-run programmes that qualify as regional productions may count towards these quotas. To qualify as a regional production, at least two of the following three criteria must be met:

- (i) the production company must have a substantive business and production base in the UK outside the M25
- (ii) at least 70% of the production budget, excluding specific costs, must be spent in the UK outside the M25
- (iii) at least 50% of the production talent by cost must have their usual place of employment in the UK outside the M25

The MOL quota is measured in: (i) hours of qualifying first-run network programmes (excluding news) and (ii) expenditure on qualifying first-run network programmes exclude the cost of on-screen talent, archive material, sports rights, competition prize-money, copyright costs and any production fee; the broadcaster is required to deliver against both of these measurements.[12]

Ofcom recently review the regional production and regional programming guidance for broadcasters. In June 2019, they published updated guidance for the PSBs which came into effect for programmes broadcast from January 2021.

In the past decade, PSBs in the UK have consistently exceeded their Made outside London spend quotas, demonstrating the commitment of PSBs to supporting the growth of regional production and the development of sustainable production ecosystems outside of London.

[12] Ofcom: Made outside London programme titles register, 2020

5.1 Financial contributions to local economies have been significant

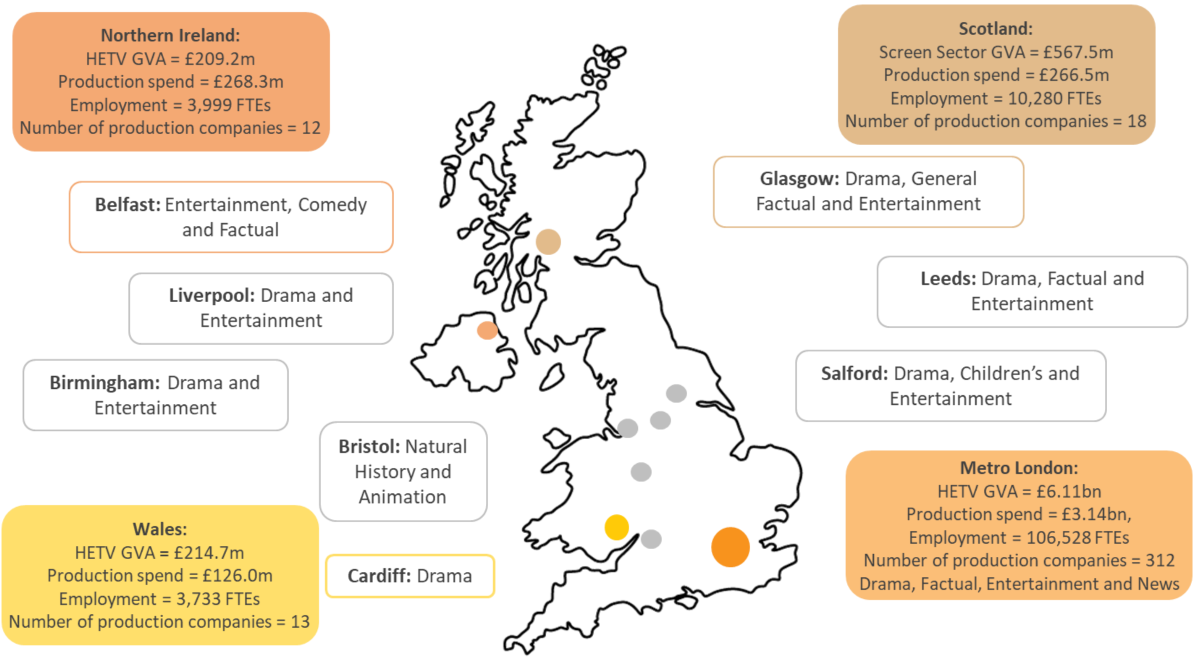
> 'Significant progress is being made to level up commissioning in the Nations and Regions. There is a growing sense that producers across the UK are now able to thrive and build their businesses as part of the mainstream conversation.'
>
> *Producer, regional indie*

As shown in **Figure 12**, total GVA[13] of the screen sector in Scotland reached a high of £567.5 million in 2019 and the development and production of screen content accounted for just over half of this at £315.1 million.[14] Within the other Nations and Regions outside of London, total GVA of High-End Television from 2017-2019 reached just above £200 million.

Figure 12 also demonstrates the impact of the screen sectors on employment. The MoL criterion, which mandates that at least 50% of production talent by cost should have their usual place of employment in the UK outside the M25, seeks to ensure that creative job opportunities across varying levels of seniority exist in the Nations and Regions. In Scotland, the screen sector generated an estimated 10,280 FTEs of employment in 2019; Northern Ireland and Wales each had close to 4,000 FTEs.

Additionally, the impact of the production value chain extends to external supply chains, including the provision of building materials, transportation, catering and accommodation. As a result, these creative clusters have made significant contributions to local economies by creating jobs across different industries.

Figure 11: Nations & Regions production hubs



Note: Screen sector GVA and FTE available for Scotland via Screen Scotland. For other Nations, Screen sector GVA and FTE unavailable, so BFI HETV data used
Source: Screen Scotland, BFI Screen Business 2017-2019, Oliver & Ohlbaum Analysis

[13] GVA or Gross Value Added is a metric used to measure the contribution to the economy of a business, industry or sector
[14] Screen Scotland, Saffery Champness, Nordicity, 'The Economic Value of the Screen Sector in Scotland in 2019', 2022

5.2 Production hubs are concentrated along the UK's West Coast

As Figure 12 emphasises, several key production hubs have emerged along the UK's West Coast, attracting talent and sustaining strong regional production centres. In this section we delve more deeply into Glasgow, Bristol and Salford.

'There is an East West split in the UK … the East coast has a much smaller industry.'

Alan Clements, Two Rivers Media

5.2.1 Glasgow

Glasgow has experienced growth in its TV production sector in recent years. According to Scotland's Screen Sector report published in 2021, the city accounted for 36.3% share of the total economic impact of the screen sector in Scotland in 2019.[15] This can be attributed to substantial investments in Glasgow's infrastructure and facilities. The city's media and tech hub, Pacific Quay, was established in 2007 and has since become the headquarters for both BBC Scotland and STV Group. Alongside a strong PSB presence, the city has attracted a number of independent production companies such as factual TV production company Finestripe Productions and factual and entertainment company Two Rivers Media.

The availability of studio space has expanded significantly; for example, Film City Glasgow – a dedicated screen production facility – was set up in 2015 after redevelopment of the Govan Town Hall, and in 2016 Glasgow was selected to be one of two new Creative Hubs for Channel 4, in Merchant City. More recently, in September 2022, BBC Studioworks launched its new purpose-built studio in Kelvin Hall. Co-funded by the Scottish Government through Screen Scotland and Glasgow City Council, the facility is a major boost to the city's production capabilities. The Scottish Government has further invested in talent; in 2017 the Scottish Government announced funding of £475,000 to support plans for a world leading National Film and Television School to open a hub in Glasgow.[16]

This investment in production infrastructure, facilities, and talent has positioned Glasgow as a central hub of creativity.

5.2.2 Bristol

Bristol has established itself as a prominent centre for TV production due to its rich media production history and presence of PSBs. BBC Bristol was established on Whiteladies Road in 1934 and has since been at the forefront of producing internationally acclaimed TV, film and radio content. Most notably, Bristol is home to BBC Studio's Natural History Unit (NHU), responsible for landmark productions such as *Frozen Planet*, *The Green Planet*, and *Planet Earth*. Dubbed the 'Green Hollywood', the city has witnessed the rise of independent wildlife production companies such as Plimsoll Productions (established in 2013) and True to Nature (established in 2016).[17]

Meanwhile, Academy Award winning entertainment studio Aardman Animations, established in 1972 and the creators of characters such as Wallace and Gromit, has earned a global reputation and been a mainstay of the city's animation industry.

Bristol is also home to the largest dedicated production space in the West of England. The Bottle Yard Studios opened in 2010 as a partnership initiative with Bristol City Council and have since accommodated more than 70 film and TV productions including ITV's *Broadchurch* and BBC One's *Showtrial*.[18] In November 2022, TBY2, its new facility

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[15] Screen Scotland, Saffery Champness, Nordicity, The Economic Value of the Screen Sector in Scotland in 2019, 2022

[16] Broadcast, $475k for NFTS Scotland, 2017

[17] University of the West of England, GO WEST! 2 Bristol's Film and Television Industries, 2022

[18] Televisual, Bottle Yard's studios expansion officially opens, 2022

expansion, opened after £13.5 million in investment from the West of England Combined Authority. As of 2022, the city is home to around 189 independent production companies with a total screen sector turnover (not including BBC Studios) of £197.5 million and FTE of 2,760;[19] the new TBY2 facility is set to deliver an additional 1,000 new jobs over the next 10 years.[20]

As such, Bristol's rich media production history, strong presence of the BBC, and thriving independent production companies have firmly positioned it as a leading centre for TV production.

5.2.3 Salford

In 2004 it was announced that part of the BBC would move out of London and in 2006 Salford Quays was chosen. In 2011, the BBC relocated five departments (BBC Sport, BBC Children's, BBC Radio 5 Live, BBC Learning and part of the Future Media & Technology (FM&T) division) and 1,800 jobs from London to the Salford base.[21] Following them in 2013, ITV Granada completed the first phase of its move of 700 staff to MediaCityUK.[22] A KMPG report published in 2021 found that since the BBC moved to Salford, employment in the creative sector in the city has grown by 142% and the number of creative businesses has grown by 70%.[23] Notable PSB productions from Salford Quays include *Match of the Day* and *Blue Peter* (BBC) and *Coronation Street* (ITV).

In addition to MediaCityUK, Salford has also benefited from the growth of independent production companies. For example, Nine Lives Media behind documentary series *Panorama* and Red Production Company behind shows such as *It's a Sin* have established a presence, producing high quality content across a range of genres.

Thus, the presence of PSBs and a range of independent production companies have helped to diversify Salford's TV production sector, creating a dynamic and innovative creative scene with a particular focus on drama, children's and entertainment.

[19] University of the West of England, GO WEST! 2 Bristol's Film and Television Industries, 2022
[20] Bristol City of Film, TBY2 – A Bottle Yard Facility – Opens for Business, 2022
[21] Richard Knowles and Andrew Binder, MediaCityUK at Salford Quays: A Sustainable, Transit Oriented Development, 2017
[22] MediaCity, MediaCity marks ten years since construction started, 2017
[23] KPMG, The role of the BBC in supporting economic growth, 2015

O&O