



British Screen Advisory Council

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BSAC Business Briefing: UK TV Drama Outlook: Threat or Opportunity?

September 2019

*This paper was commissioned by BSAC
and presented at a BSAC Council Meeting on 1 May 2019,
accompanied by a complementary presentation and discussion,
by Ben Keen.*

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About BSAC

The British Screen Advisory Council (BSAC) is an independent, industry-funded body that works to advance the prosperity and enhance the prestige, effectiveness and reputation of the audiovisual and interactive industries of the United Kingdom. As a membership organisation, comprising senior executives from the broadest possible range of interests in the screen sectors, it provides an informed lead on emerging business trends and advice on policy.

Members are senior figures drawn from a wide range of businesses and organisations operating in the film, TV, video game, online and/or mobile sectors. We aim to cover the whole value chain as well as the full range of means of distribution, so include Members who can speak for writers, technicians, independent producers, directors, studio operators, distributors, exhibitors, broadcasters, games publishers, games developers, pay TV platforms and online platforms. This is a unique cross-sectoral mix, with a balance of creative, policy and business specialists.

This analysis is published as part of our Business Briefing series, and is based on a presentation made to BSAC Members by the author at a British Screen Advisory Council Meeting on 1 May 2019.

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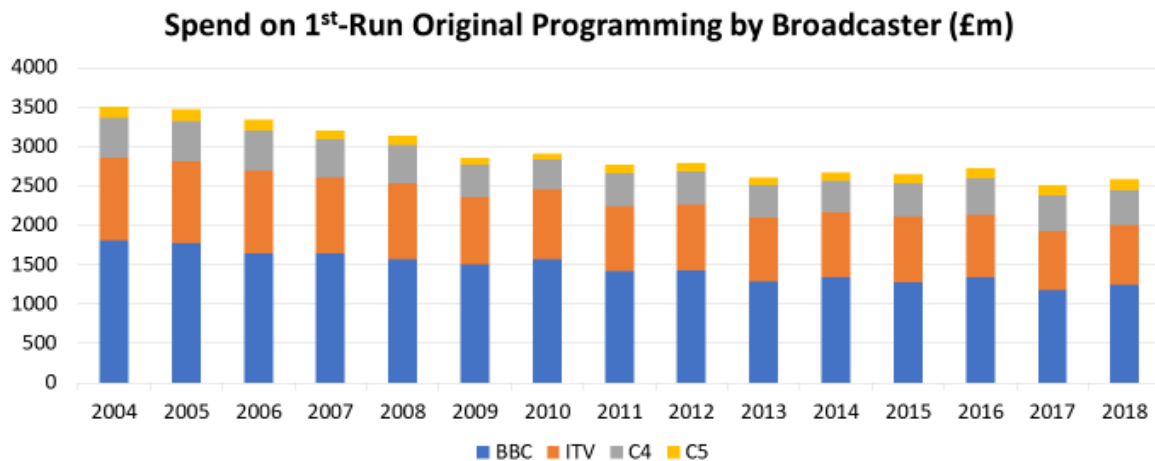
Introduction: ‘The Kosminsky Thesis’

The origins of this research stem from a set of concerns raised by the writer and producer Peter Kosminsky. He argued that the British TV drama sector faces an ‘existential threat’ due to a ‘perfect storm’ of negative industry dynamics. In summary, Kosminsky suggested that:

- Typical drama production costs have spiralled from £1.2m per hour 4-5 years ago to over £2m per hour now. He postulated that this was primarily due to a combination of two factors. Firstly, the Government introduction of tax relief for High-End Television (HETV), as it encouraged budgets to be pushed up to the minimum £1m per hour threshold required to qualify for this break. And, secondly, the increased competition for talent that has pushed up salary costs, both in front and behind the camera.
- While production costs have risen, the budget contributions paid by Public Service Broadcasters (PSBs) have remained static for many years. Consequently, an increasing ‘gap’ has been opening up, whereby more than half of the budget has to be found outside of the tariffs paid by the commissioning broadcaster.
- In the past, sales companies might be called upon to top up budgets in return for distribution rights. However, the financing gap required is often now too large for sales companies alone to justify on the basis of predicted distribution revenues. As a result, PSBs have increasingly relied upon international streaming platforms, such as Netflix and Amazon, to step in as co-production partners and provide a significant proportion of the production finance.
- However, relying on the international platforms is, at best, a temporary solution, as it is argued the SVoD (subscription video-on-demand) players are in the process of withdrawing from co-production with PSBs. The strategic ambition of the streamers to control rights exclusively on a global basis means they are increasingly unwilling to share UK rights with PSBs in the form of a ‘secondary window’.
- The result of these multiple factors will be a squeeze on the financing of UK TV drama, something that will likely have a disproportionately severe impact on projects based on domestic British stories, because they are arguably less likely to be considered to have international commercial appeal. This will probably result in a growing number of such projects not being made due to shortfalls in finance.

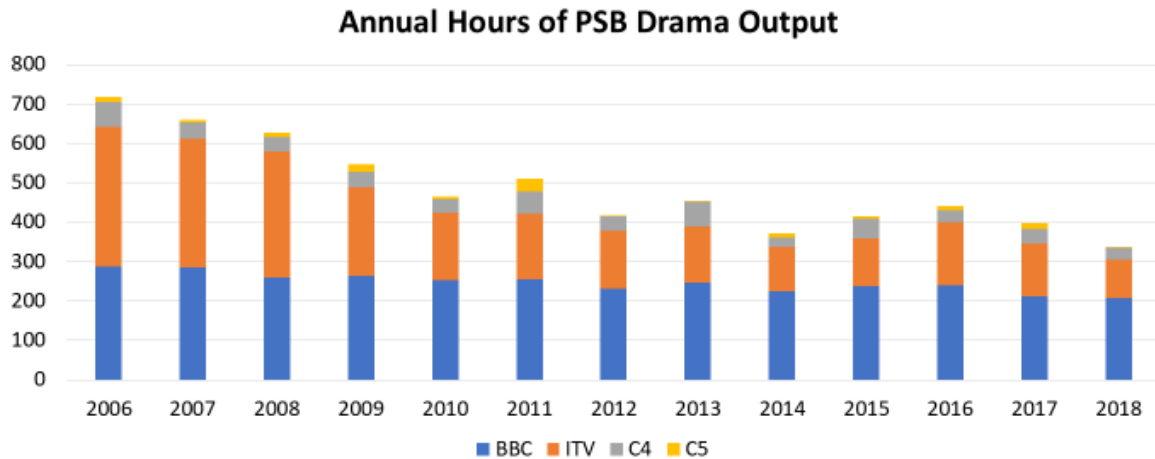
To investigate this thesis, the author conducted a number of interviews with key industry players, including broadcasters, significant HETV producers, financiers, and streaming platforms. This was complemented with a survey of secondary empirical sources on drama spending trends and an original analysis of the patterns of co-production/commissioning for every high-end TV production submitted for the tax break since 2014.

PSB Spending on Original Content



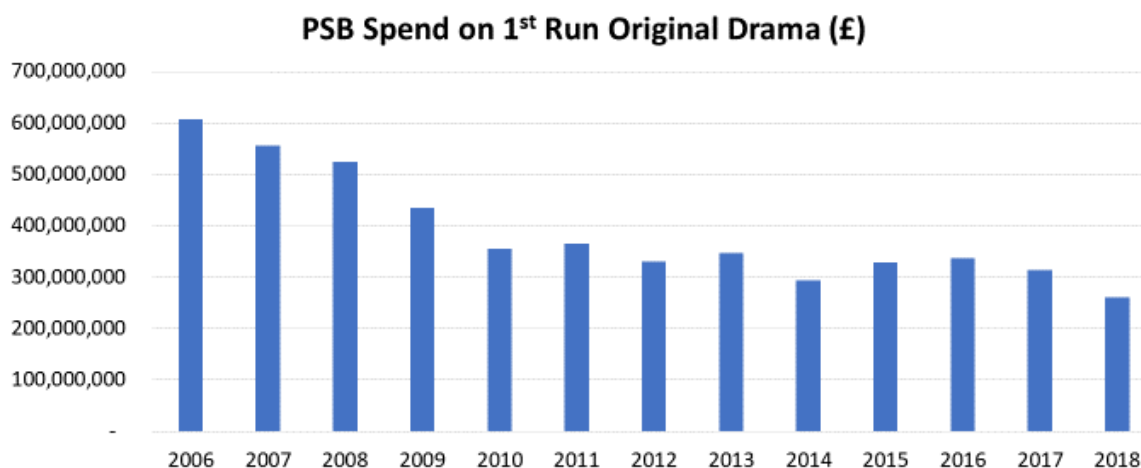
Source: Ofcom

According to Ofcom data, total PSB expenditure on new first-run programming has fallen by around £1 billion since peaking at £3.5 billion in 2004. Ofcom is at pains to point out that PSB spending has remained 'relatively stable' over the last decade, but, by any estimation, £1 billion is a very significant sum to lose from the British TV production ecosystem over the longer 14-year timespan. The biggest reductions in spending over that period were the BBC (31%) and ITV (28%), with Channel 4 investment falling by 13%.



Source: Ofcom

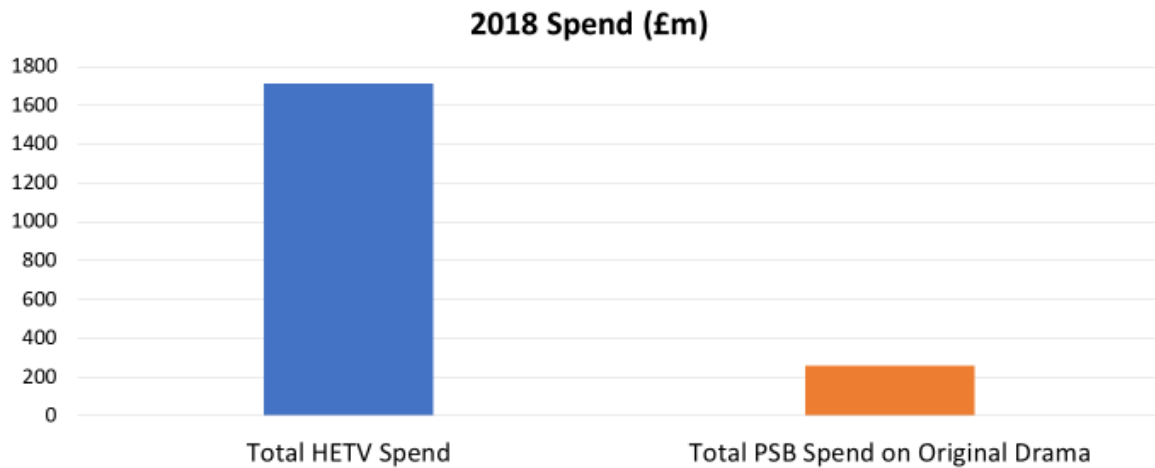
When it comes to drama specifically, the number of hours of first-run original drama broadcast by UK PSBs has fallen by over 50% since 2006 to just 338 hours in 2018 across all relevant channels. ITV has reduced its reliance on drama the most starkly, cutting the number of hours of original drama transmitted by over 70%, from 356 hours per year in 2006 to just 98 hours during 2018. Whilst the volume of drama shown by all BBC channels has held up better, it is still down 28% over the period. Channel 4 drama output has been more variable, but last year's total was still just half that in 2013.



Source: Ofcom

In line with network output, total PSB investment in first-run drama productions has also fallen sharply – by nearly 60% since 2006, from £607m to £261m last year. Contrary to some perceptions, this Ofcom data suggests the broadcasters have been trying to squeeze more from their investments by spending less per hour than they did in the past. In fact, average PSB spending on new drama productions has steadily declined – from £847k per hour in 2006 to £771k in 2018.

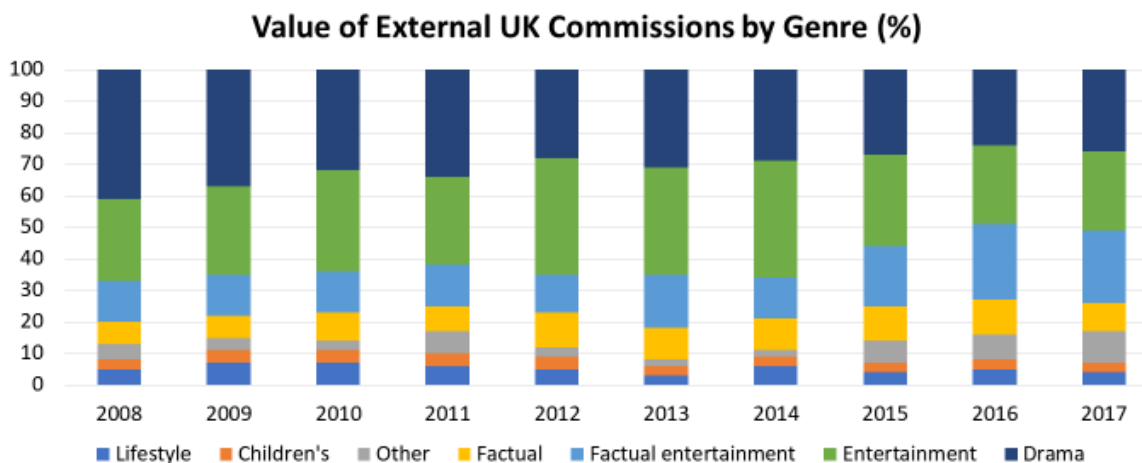
BFI data on projects submitted for HETV tax relief suggests a total of £1.7 billion was spent making such productions last year, although not all of this spend was exclusively in the UK. Nevertheless, it is noteworthy that PSBs accounted for just 15% of this overall HETV production investment.



Source: Ben Keen analysis of BFI & Ofcom data

While in the past, PSBs were the primary funders of British TV drama, this is clearly far from the case now. And indeed, this is in line with the central theme of this paper: namely, the key role of collaboration and co-funding or co-commissioning in today's TV drama, and particularly PSB drama. This is confirmed by a new datapoint from Ofcom, which reveals that third-party financing contributions to PSB drama shows – including from streamers – actually exceeded the sum spent by the broadcasters themselves. The £311m invested by these third-parties pushed up total PSB drama spending to £571m – the highest total since 2006, when PSBs alone invested £607m in original scripted programmes.

Independent Drama Production

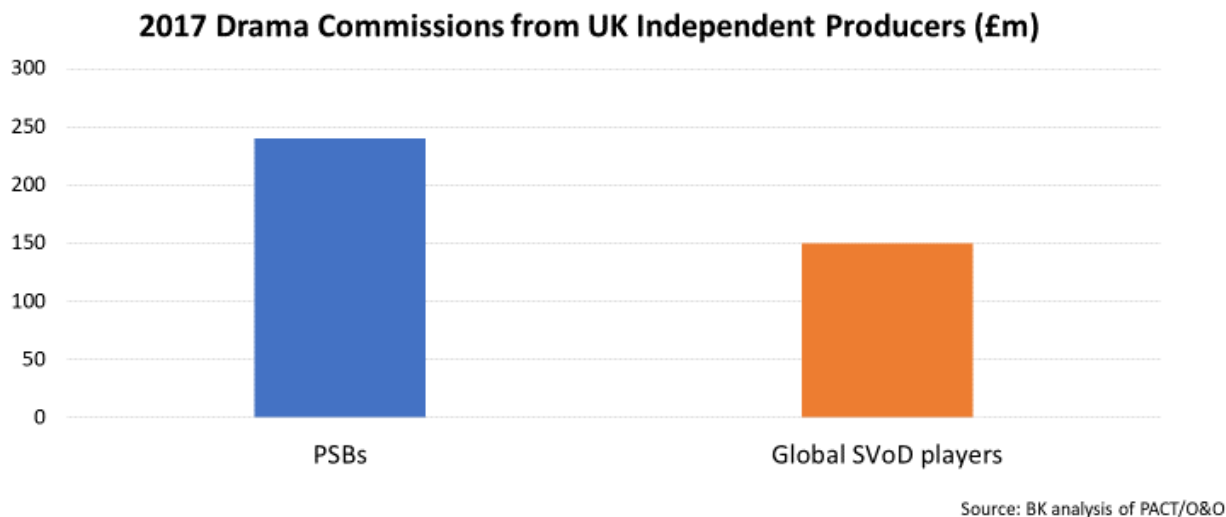


Source: Ben Keen analysis of PACT/O&O

PSBs increasingly rely on independent producers to make their first-run drama shows. According to Ofcom, PSB channels allocated 78% of their 2018 first-run drama spend to external producers, compared to 72% in 2016. However, despite this increased proportion, because the overall PSB drama investment went down, independent drama producers received only £203m in 2018 versus £243m in 2016.

Each PSB depends upon independent producers to varying extents, with Channel 4 and Channel 5 producing nothing in-house. Interestingly, even the BBC, with its historically strong production capabilities, only made five HETV programmes internally last year. It relied on independent companies for the other 37 shows submitted for HETV tax relief.

While PACT's annual survey of UK independent producers shows that drama still accounts for the largest commissioning category, it is now closely matched by the proportion of total budgets allocated to 'entertainment' and 'factual entertainment' programming. Over the last decade, the overall trend is for the proportion of broadcaster commission spending going on drama to be squeezed, falling from 41% in 2008 to 26% in 2017.



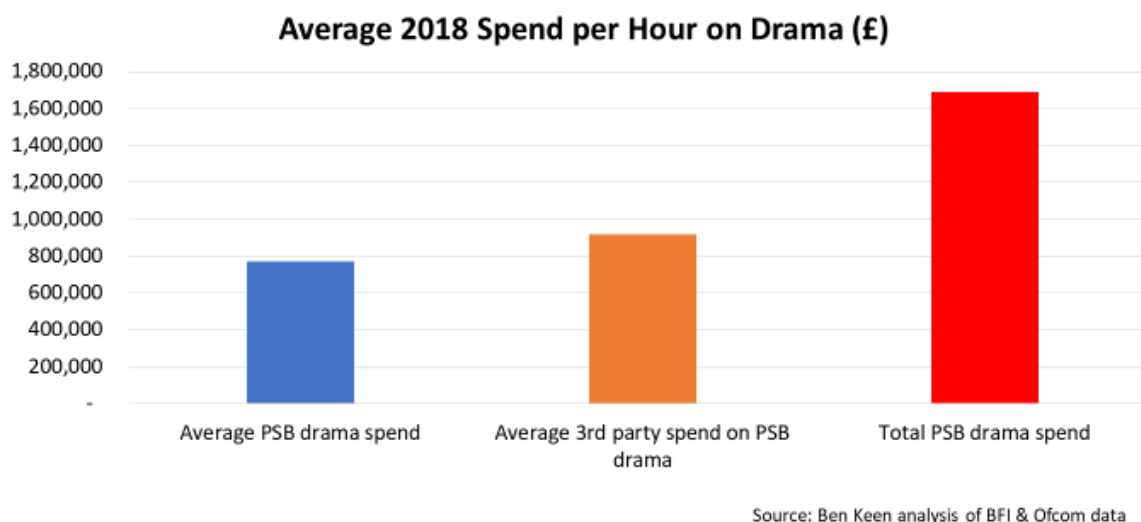
According to the PACT 2018 Production Census, streaming platforms invested another £150m in commissioning shows directly from UK independent companies in 2017, up from £126m in 2016. Assuming this was almost entirely drama commissions, the total is already getting rather close to the £203m spent by PSBs on commissioning drama from independents in 2018 – and may reach close to parity when the next PACT survey data reveals the 2018 data.

PSB Tariffs and Production Budget Trends

As Peter Kosminsky pointed out, the standard ‘tariffs’ paid by PSBs to external producers for drama commissions have generally not risen.

- The published BBC tariff shows a range of £650k to £1m per hour for ‘premium drama’, while a lower range of £500k-£800k per hour is quoted for ‘mid-range drama’ that has ‘high production values and known talent’.
- ITV cites a range of £300k-£800k per hour for scripted comedy and drama.
- The range for Channel 4 drama tariffs is even broader, extending from £300k to £1m.

These published tariffs are in line with the actual average per hour PSB expenditure - £771k in 2018 – calculated from Ofcom data and referred to above. It compares to the average of £920k per hour that was contributed by third-party companies to PSB dramas in 2018 in the form of co-financing arrangements.



Overall, this Ofcom data implies the average total per hour spend on PSB scripted programmes last year was £1.7m. If the tax break contribution is added back into this figure, the total investment per hour comes to £2.1m – very close to the £2m per hour cited by Kosminsky.

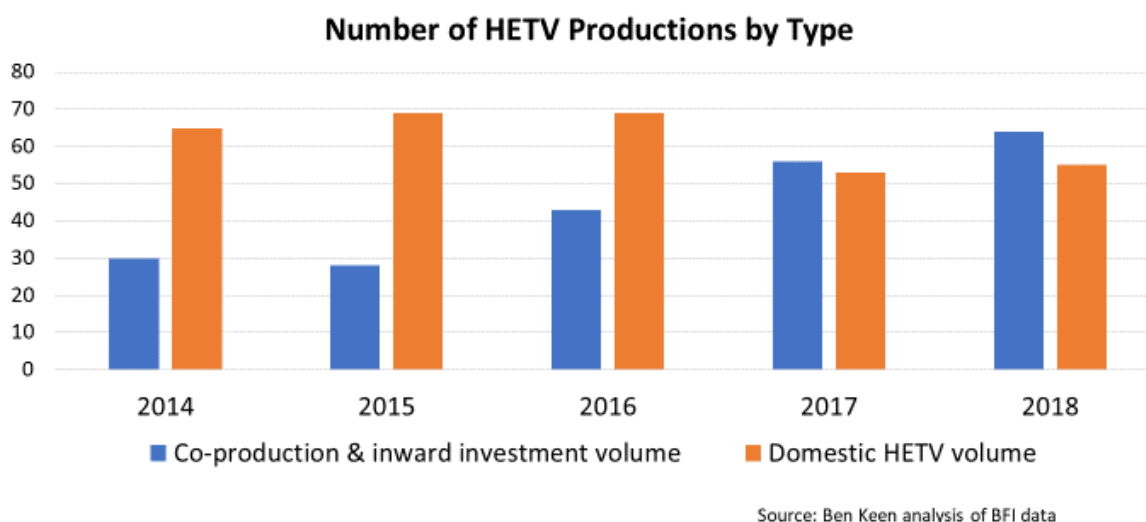
As part of its role in certifying that productions meet the criteria necessary to be awarded the HETV tax break, the BFI collects data on all the budgets of submitted projects. This shows that the overall average spend per hour has risen 36% since 2014 to £2.3m in 2018, but also that it actually fell last year from £2.7m in 2017.

The BFI further divides submissions into two categories: ‘domestic’ and ‘inward investment and co-production’. Neither of these groupings relate neatly to the commissioning process. A ‘domestic’ HETV programme is defined as one made by a UK production company that is produced wholly or partly in the UK, whereas an ‘inward investment’ HETV programme is considered to be one that is substantially financed and controlled from outside the UK. These latter productions have been attracted to the UK because of script requirements, the UK’s infrastructure or UK tax reliefs. Many (but not all) inward productions have passed the cultural test administered by the BFI. It should be noted that ‘domestic’ HETV programmes may still have received a form of inward investment from non-UK players, such as the SVoD platforms or international TV channel groups, if they act as co-commissioners of the show.

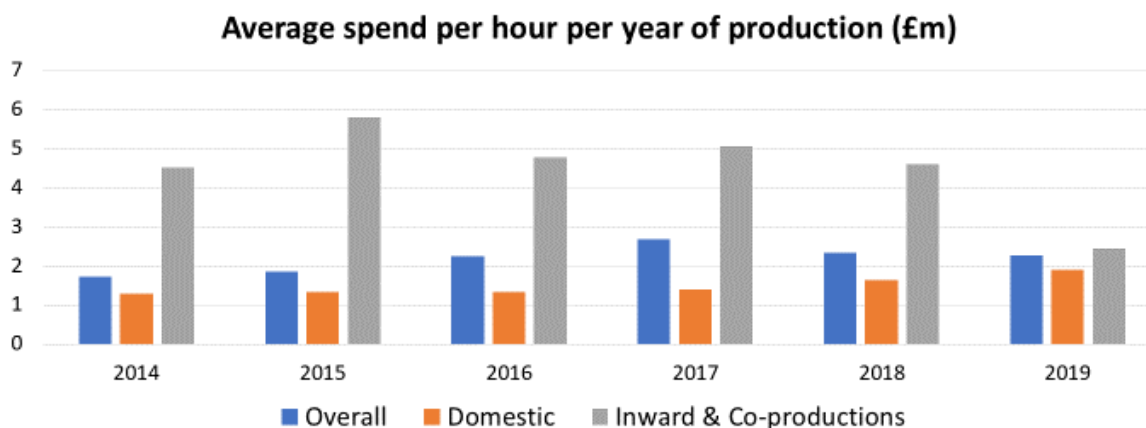
The BFI has a tight definition of ‘co-production’, which refers only to something made under the terms of an official bilateral co-production agreement or the European Convention on Cinematographic Co-production. In practice, the number of these

formal HETV co-productions is very small (only two in 2018, for example). This notion of co-production is therefore very different to the far more common practice of multiple broadcasters or platforms sharing editorial and financial responsibility for the commissioning process. To try to avoid potential confusion, this paper uses the term ‘co-commissioning’ instead.

The volume of productions falling into the BFI’s ‘inward investment’ category has been growing to the extent that it overtook the number of ‘domestic’ productions in 2017. Last year, there were nine more programmes substantially financed and controlled from outside the UK than there were ‘domestic’ ones.



Unsurprisingly perhaps, the average budgets per hour for productions in the ‘inward investment and co-production’ category are significantly higher than ‘domestic’ programmes. The former peaked at £5.8m per hour in 2015, but dropped to an hourly average of £4.6m last year. By contrast, the average hourly budget for domestic productions has risen every year since the tax break was introduced and hit £1.6m last year – very similar to the £1.7m figure for PSB programmes that is implied by Ofcom data.



2019 = Q1 data only

Source: Ben Keen analysis of BFI data

HETV Production Budget Inflation & Competition for Talent

Since HETV productions became eligible for the tax break, the gap between purely domestic productions and those with international investment has been at least £3m per hour and widened to about £4.5m per hour in 2015. It thus seems pretty evident that the increased participation of foreign players has pushed up investment levels. Many of those interviewed saw this as an inevitable result of increased competition in the market, with heightened pressure to outbid rivals to secure rights to the most attractive projects.

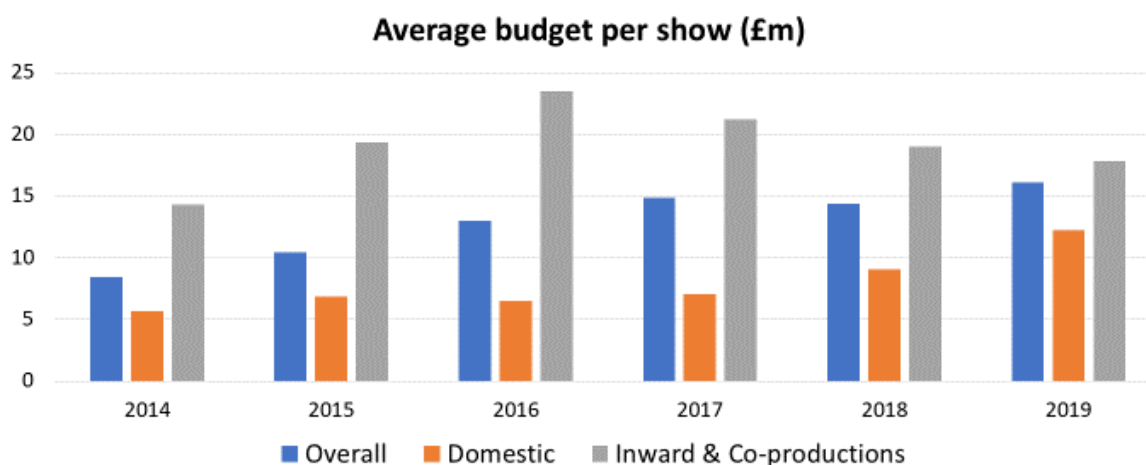
Interviewees also expressed concern that the boom in drama production has resulted in shortages of talent, which has itself resulted in inflationary impacts on budgets. Over the last three years, there has been a belief that crew bills have risen 25-40%, while overall talent costs – including writers and actors – are believed to be up by at least 80%.

These findings are generally consistent with a 2018 report from ScreenSkills¹, which concluded that ‘the recent surge in demand is exacerbating skills issues’ and ‘supply of crew has not grown in line with increased production, so the industry faces a significant crew shortage’.

¹ See ScreenSkills, ‘High-end television UK workforce in 2018 research report’ (March 2019), at <https://www.screenskills.com/media/2332/2019-03-14-hetv-research.pdf>

This report further warned that ‘hikes in crew rates are said be running to levels which are detrimental to the industry’. The ScreenSkills research also found evidence of ‘a clear hierarchy of shows within HETV [...] with the largest budgeted dramas more likely to be coveted by crew due to premium rates paid, the kudos of the ambition of these shows, a requirement for larger crews and the length of contracts on offer’.

ScreenSkills suggest there are three main tiers of HETV production budget: ‘lower’ at £1m-£2m per hour; ‘mid-level’, at £2m-£3m; and ‘higher’, at £3m+ per hour. This ‘higher’ category would encompass all those productions in the BFI’s ‘inward investment’ category, while the majority of ‘domestic’ and PSB-funded productions have been in the ‘lower’ or ‘mid-level’ tiers.

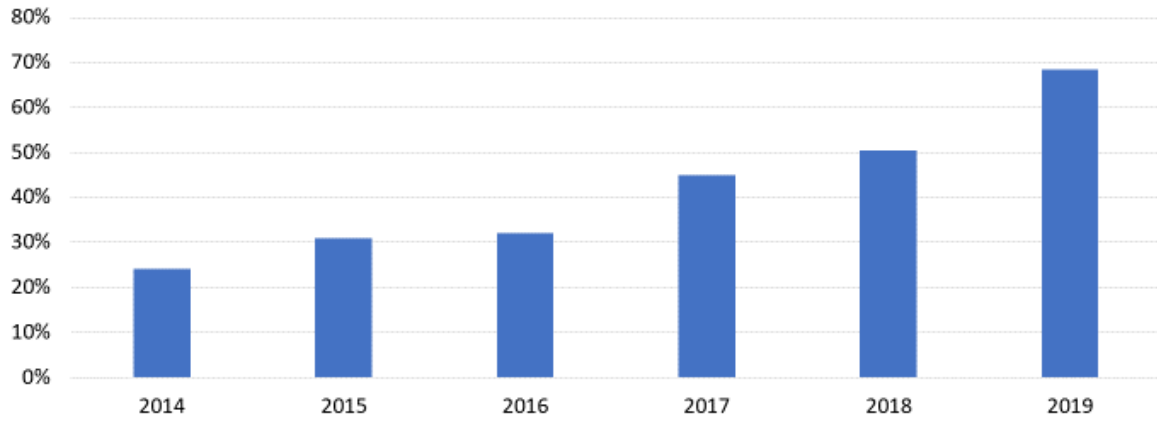


2019 = Q1 data only

Source: Ben Keen analysis of BFI data

Driven by international investment, BFI data shows that the average budget per show has nearly doubled since 2014 – to over £16m. Also that more and more HETV programmes have a budget of at least £10m. In Q1 2019, almost 70% of productions were in the £10m+ category. However, while longer-term trends certainly support the ‘inflationary’ thesis, as mentioned earlier, the overall average spend per hour actually fell last year – although it is certainly too soon to know whether this marks some kind of budgetary peak.

HETV: % of Shows with Budget over £10m per Year of Production

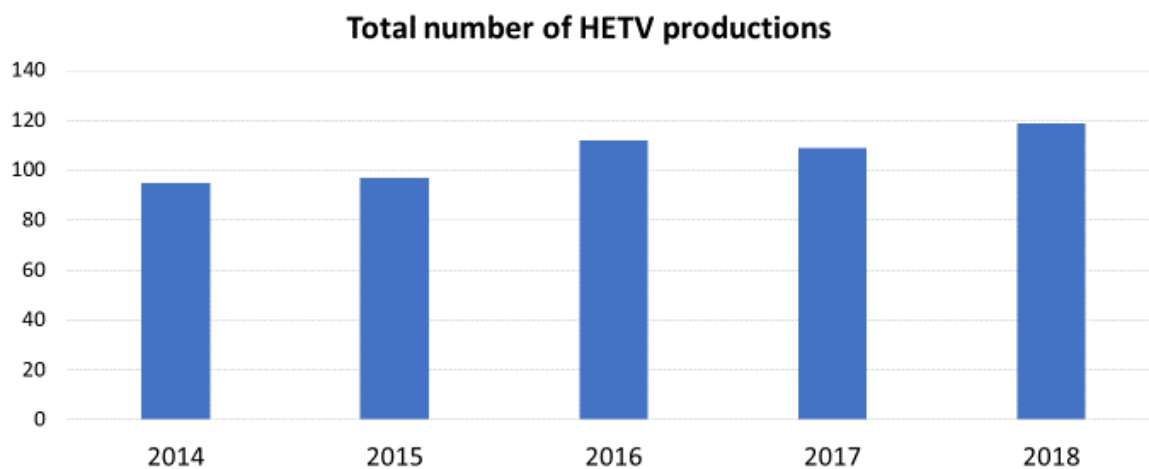


2019 = Q1 data only

Source: Ben Keen analysis of BFI data

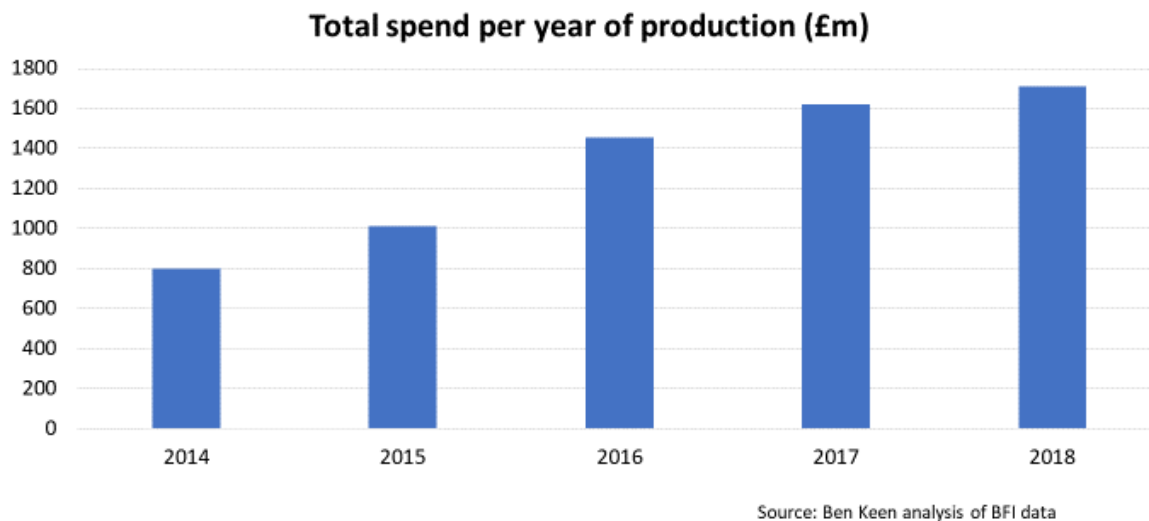
Impact of the HETV Tax Relief

The number of productions submitted for tax credit has increased every year since 2014, the first full year of application. Last year, there were 119 HETV projects, 25% more than the 95 recorded in 2014.



Source: Ben Keen analysis of BFI data

There is little doubt that this fiscal measure has helped attract more investment into the sector. Total investment in HETV production has more than doubled to £1.7 billion since 2014. However, the proportion of this expenditure spent in the UK has been falling, from 83% in 2014 to 72% last year.



Has the HETV tax relief been a contributing factor to budget inflation? Those interviewed for this research generally believe it has, and there appear to be few drama shows now made below the minimum £1m per hour level that is required to qualify for tax relief. However, there is some debate over whether there is, in any sense, a tendency to push up budgets artificially to meet the qualifying criteria.

Some are pushing for ambitious dramas be made at lower budget levels in the £650k-£750k per hour range, which is clearly under the tax break threshold. This model is particularly being championed by some distributors that remain comfortable with taking on the responsibility for meeting more modest finance ‘gaps’ with their sales activity.

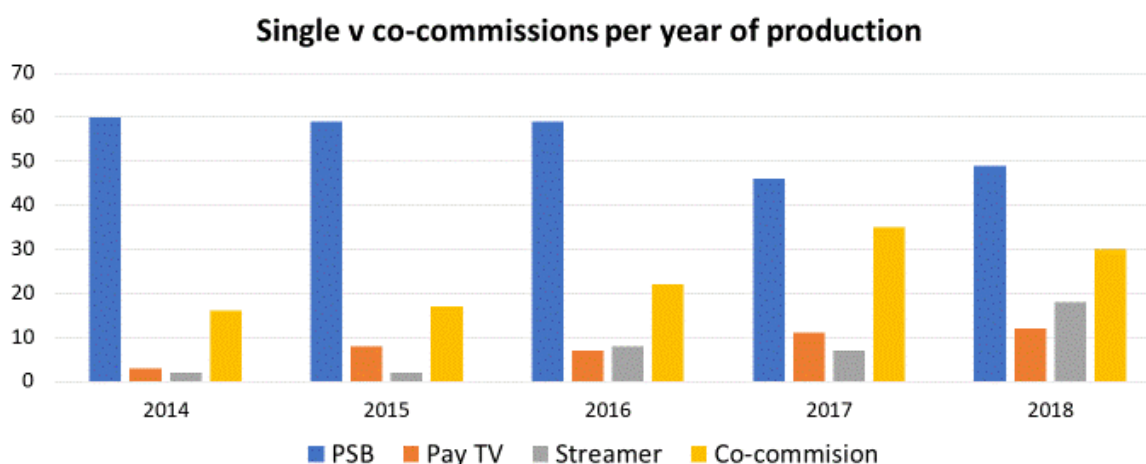
One example of this is the Irish thriller *Blood*, co-commissioned by Virgin Media TV (Ireland) and All3Media/Company Pictures, and made for a budget well below the UK tax break threshold. Instead, this benefited from the Irish tax break, which has a much lower minimum spend criteria (€250k). It also utilised a relatively complex release windowing strategy to accommodate the interests of multiple co-financing partners. The first transmission was on Virgin Media Ireland (linear TV), while the UK SVoD window went to cable operator Virgin Media, followed by a UK linear TV window on Channel 5. The US SVoD window went to specialist streamer Acorn TV, which has been a tactical investor in an increasing volume of drama.

Co-commissioning and Release Windows

While some international investors in British TV drama production may not require any UK rights, an increasing number of players will want to have some form of release window here. This particularly applies to the global streaming platforms, which generally consider the UK market to be a critical element to their exploitation plan. To accommodate this, it has become increasingly common for programmes to have a second UK release window after the initial transmission.

In the case of a PSB original commission with co-financing from a global platform, the PSB has typically had the first window on its linear channel, with the partner SVOD service securing a second window a few months later. An illustrative example is the massively successful hit drama *Bodyguard*. Made for the BBC by the ITV Studios subsidiary World Productions, it was co-financed by Netflix. The initial transmission was on BBC1, with so-called 'in-season stacking' available on the BBC iPlayer, enabling viewers to 'binge-watch' the show on the broadcaster's VoD platform if they desired. *Bodyguard* then became available to stream on Netflix three months later.

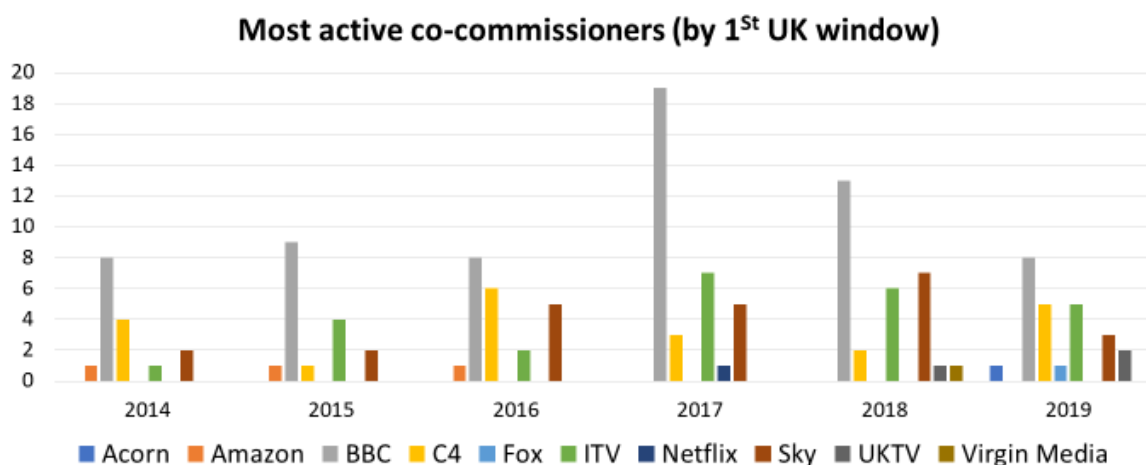
To be economically viable, there is little doubt that it has become increasingly vital to share the ballooning costs of drama production. And this is particularly the case for PSBs. Analysis of drama shows submitted for HETV tax breaks shows that the number of solo commissions from PSBs has generally declined, from 60 in 2014 to 49 last year. At the same time, the number of co-commissions has almost doubled from 16 in 2014 to 30 in 2018.



Source: Ben Keen analysis of BFI data

Concurrent with their role as co-funding partners, the streaming platforms have commissioned progressively more UK dramas on an exclusive basis. The number of solo commissions made by SVoD services reached 18 last year, up from just two in 2014. While still far fewer than the 49 commissioned by PSBs, the number from streamers has already exceeded the output initiated by Sky, which has also been growing (and is set to keep rising through fresh capital injection from new owner Comcast).

The BBC has been by far the most active co-commissioner, responsible for 65 jointly financed productions since 2014. This is more than double the number undertaken by ITV (25), which is the second most active after Sky (24) and Channel 4 (21).

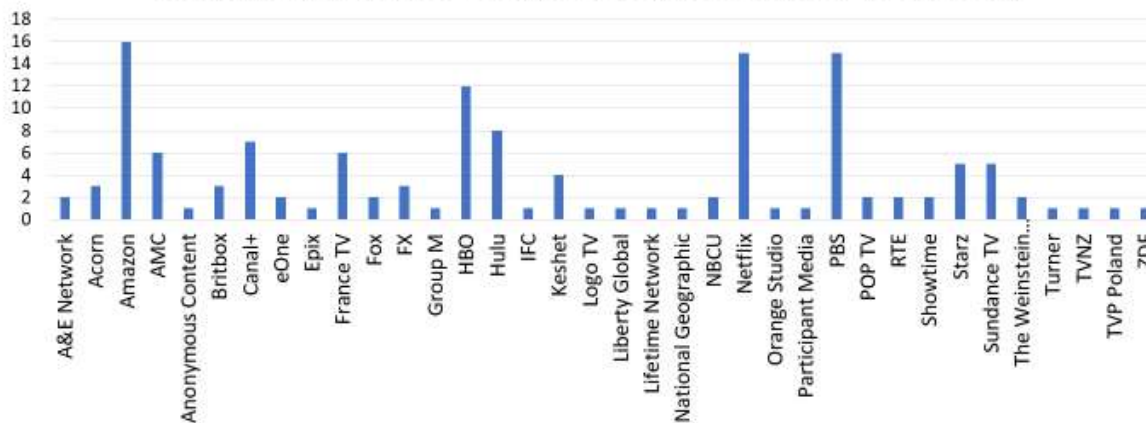


2019 = Q1 data + announced future productions

Source: Ben Keen analysis of BFI data

Since 2014, UK high-end TV production has had no fewer than 36 different co-commissioning partners for the primary commissioner. Interestingly, Amazon has been the overall most active co-commissioning partner for British HETV, with involvement in 16 commissions. It is closely followed by PBS, the US incarnation of public service broadcasting with its famous ‘Masterpiece Theater’ strand, which has partnered on 15 different productions – the same number as Netflix. HBO, Hulu and AMC have also been strong partners, participating in 6-12 productions each.

HETV: Most active Co-Commissioning Partners for (2014-2019)



2019 = Q1 data + announced future productions

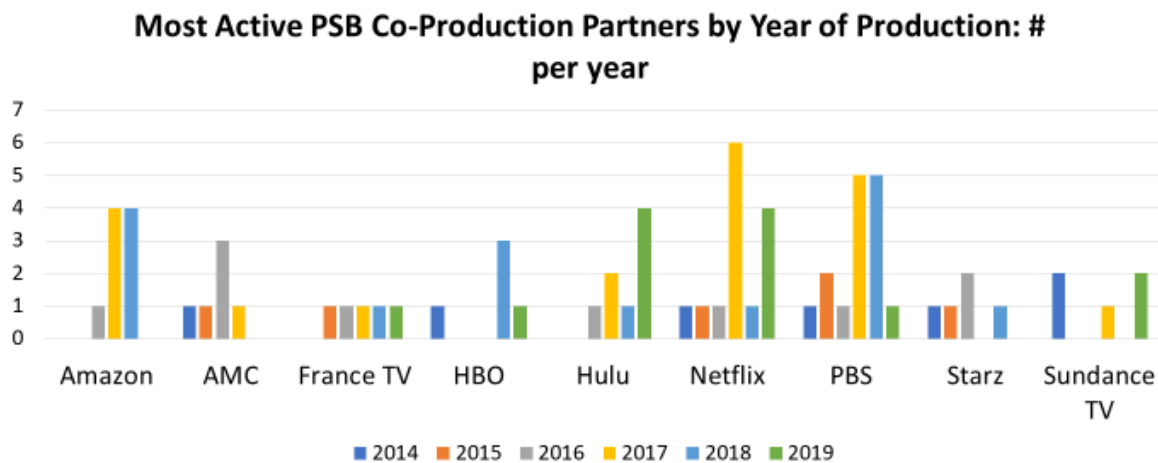
Source: Ben Keen analysis of BFI data

Will Global SVoD Players Continue to Co-commission with PSBs?

One of Kosminsky's primary contentions was that the SVoD players are in the process of withdrawing from co-production with PSBs. Speaking to the author, both Netflix and Amazon say they remain committed to co-financing with PSBs on a 'case-by-case' basis. And the data analysed for this paper does not show any clear sign that streamers are withdrawing their support yet.

In a written submission to the House of Lords Inquiry on PSB and VoD, Netflix stated that in 2018 it 'started production on 141 projects in Europe, consisting of 81 commissioned projects and 60 co-productions or co-licensed programmes [...] representing nearly \$1 billion investment in new European original content'. About a third of these Netflix projects were undertaken in the UK. This year the number of European Netflix projects has risen to 221, including 153 originals.

At least for the time being, the evidence suggests that Netflix is continuing to invest in co-commissions with PSB. Examples in production include *Dracula*, *The Serpent* and *Giri/Haji* with BBC, and *Mae and George* and a second series of *The End of The F***ing World* with Channel 4.



Source: Ben Keen analysis of BFI data

In verbal evidence to the House of Lords Inquiry, Georgia Brown of Amazon stated ‘we do not have a one-size fits-all model where we must have global rights. Of all the co-productions we worked on last year, I think only three were worldwide offerings; the rest might have been for just France or the US. [...] So I am more than happy for producers to keep those rights and monetise them [...] because I recognise and strongly advocate for the fact that producers need that line of income.’

Apple has yet to launch its video streaming service, but there is a widespread perception that it will be amongst the least flexible platforms when it comes to commercial terms with broadcasters and producers. To counter this view, Jay Hunt of Apple told the Inquiry ‘we are not averse to co-production at all. [...] I have spent the past 18 months talking to producers and broadcasters about co-production. The one thing I would say is that it can sometimes be very successful, and sometimes less so. Critically, it is not the only way we can make a contribution to the UK creative economy. A very striking example is that two of my very first commissions out of the UK have been to BBC Studios.’

One of the more controversial topics to arise in this research is the proposal by the BBC to systematically extend the window for the iPlayer from one month to a full 12 months. Whilst Ofcom has approved this move with certain conditions, at the time of writing the BBC had yet to agree commercial terms with independent producers through a formal agreement with PACT.

Interviewees for this research also expressed the concern that the BBC is effectively ‘shooting itself in the foot’ by lengthening the iPlayer window, which will delay any secondary UK window for that programme and therefore make that second window

less attractive to any potential co-commissioner. It seems less likely that international players that include the UK in their service footprint will be interested in co-commission deals with the BBC if they involve a UK 'hold-back' of at least 12 months. And this delay could be further extended – perhaps indefinitely – if the BBC opts to make the programme available to the new Britbox SVoD platform that it is to jointly operate with ITV. So, it is somewhat ironic that perhaps the most significant factor in deterring streaming platforms from future PSB co-commission deals is a self-inflicted move by the BBC rather than the self-interested strategy of the streamers posited by Kosminsky.

However, it is not out of the question that the global SVoD platforms will continue to partner the BBC despite the elongated second window. Indeed, Netflix UK Director of Public Policy told the House of Lords Inquiry 'it is difficult for us to say with categorical force that this model would make it impossible for us to partner with the BBC in the future. There could well be challenges, but they might be mitigated by other opportunities. Those are the sorts of things we would balance in making our assessment.'

Conclusion: 'Crisis? What Crisis?'

While some have concerns, no one interviewed for this research agreed entirely with the Peter Kosminsky thesis that there is an existential crisis looming for British TV drama. It is widely acknowledged that there is significant budget inflation, and this is making it harder and harder to raise the necessary financing for HETV projects. However, there was a consensus that, if a project is 'good enough', it will get financed. Indeed, it appears that, so far, there are few if any examples of projects not being made due to any form of funding gap.

To make sense of the evolving dynamics of the high-end TV drama business, it is critical to remember that different players have diverse agendas underlying their drama investment strategies. For instance, the BBC is looking to justify all its investments in terms of the public value delivered, whilst a commercial broadcaster like ITV has to consider the advertising return that can be generated by the audience attracted to that show. By contrast, a pay TV operator like Sky or SVoD platform such as Netflix is focused on the potential 'subscriber value' that will be generated by their programme investment decisions.

Above all, the consistent message that came through from interviewees is that the booming drama sector means that the opportunities for British talent have never been greater and as an industry we should be celebrating rather than fearing the future.

Ben Keen.

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