

BUSINESS BRIEFING

High-end Television Drama
Investment: An Update

April 2021


BRITISH
SCREEN
FORUM

FRAME THE DEBATE



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ABOUT BRITISH SCREEN FORUM

British Screen Forum is where the best informed and most influential people in the UK screen sectors convene to interrogate issues of importance and influence policy and the thinking around policy.

The Forum provides a unique and trusted space for key players from the screen sectors to come together to debate the implications of the evolving landscape and the policy and regulatory environment, and to gain unrivalled insight into emerging themes and innovative technologies.

British Screen Forum has authority and impact – not only as a result of the influence, status and credibility of its members, the unrivalled quality of its insight and the high level access it provides to decision-makers, but also because it values and includes individuals, organisations and bodies who seek to frame the debate for the future of the UK screen sectors.

This analysis is published as part of our Business Briefing series, and is based on a presentation made to Members by the author, Ben Keen, at an Insight Event on 14 January 2021.

HIGH-END TELEVISION DRAMA INVESTMENT

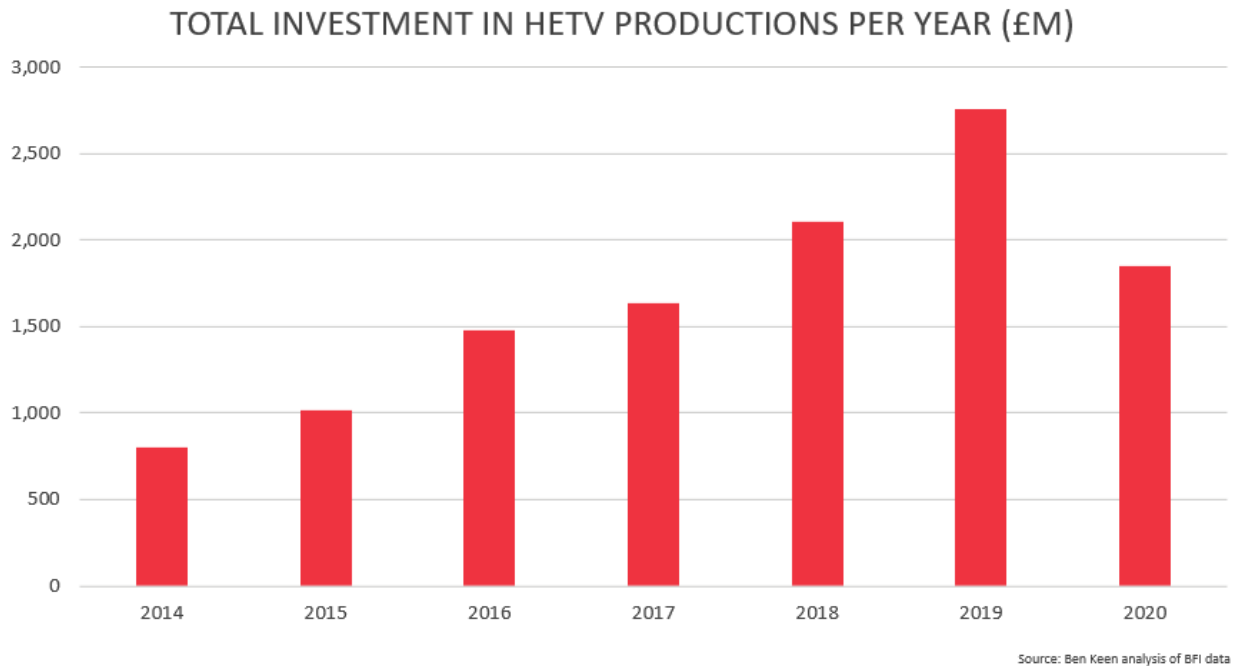
This is an update to research carried out in 2019 to investigate what we termed 'the Kosminsky Thesis.' Writer and producer Peter Kosminsky had argued that the British TV drama sector faces an 'existential threat' due to a 'perfect storm' of negative industry dynamics. He was particularly concerned about the combination of drama production cost inflation and static public service broadcaster (PSB) tariffs leaving an unsustainable financing 'gap' that would make it increasingly difficult to get domestic British stories made into high-end TV shows.

Reliance upon international streaming platforms like Netflix and Amazon to step in as co-production partners and provide a significant proportion of the production finance was argued by Kosminsky to be, at best, a temporary solution. The contention was that the SVoD (subscription video-on-demand) players are in the process of withdrawing from co-financing with PSBs because of a strategic ambition to control rights exclusively on a global basis without sharing UK rights with PSBs in the form of a 'secondary window.'

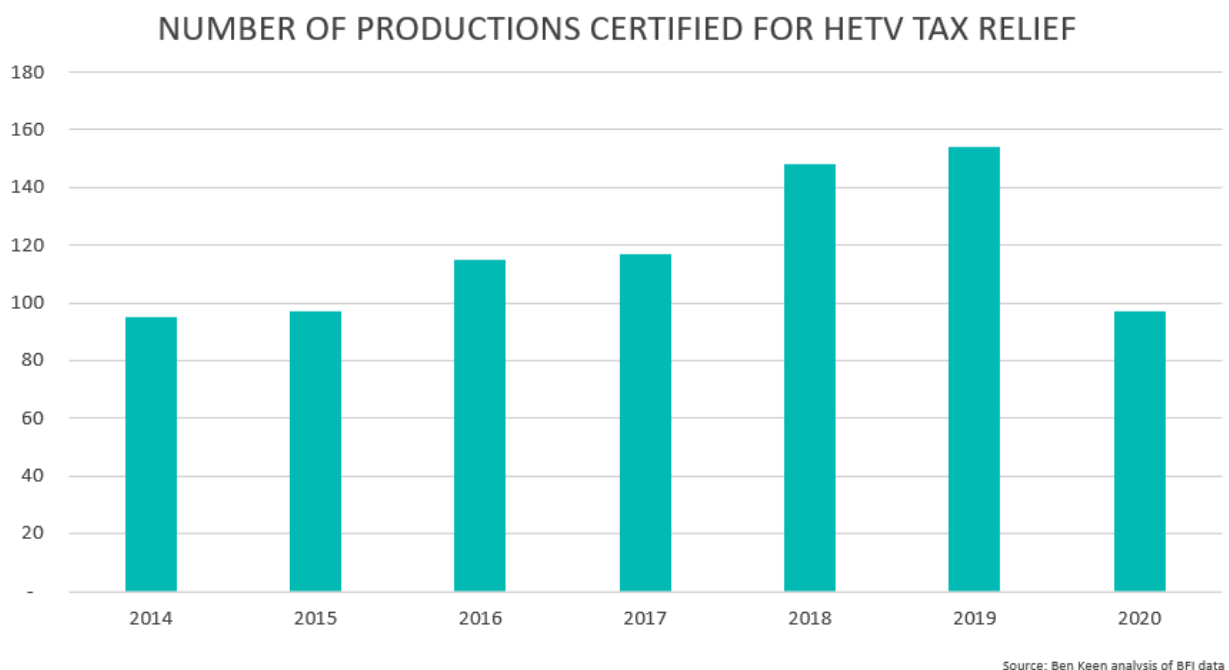
Our previous research did indeed find strong evidence of significant TV drama budget inflation, which undoubtedly made it harder and harder to raise the necessary financing for HETV projects. However, there was a consensus from those interviewed for the project that, if a project is 'good enough,' it will get financed. Indeed, there appeared to be little evidence of projects not being made due to any form of funding gap. In addition, our research did not uncover any significant trend for international streamers to withdraw from co-financing with PSBs. Moreover, both Netflix and Amazon indicated that they remained committed to co-financing with PSBs on a 'case-by-case' basis.

The empirical research for the 2019 paper included title-by-title analysis of the commissioning/financing structure of every production submitted for high-end TV (HETV) tax relief through to the end of 2018. This update analysis draws upon similar raw data for calendar year 2019 HETV productions, again kindly provided by the BFI. It also features top-line statistics for 2020 production activity and investment, the results of which

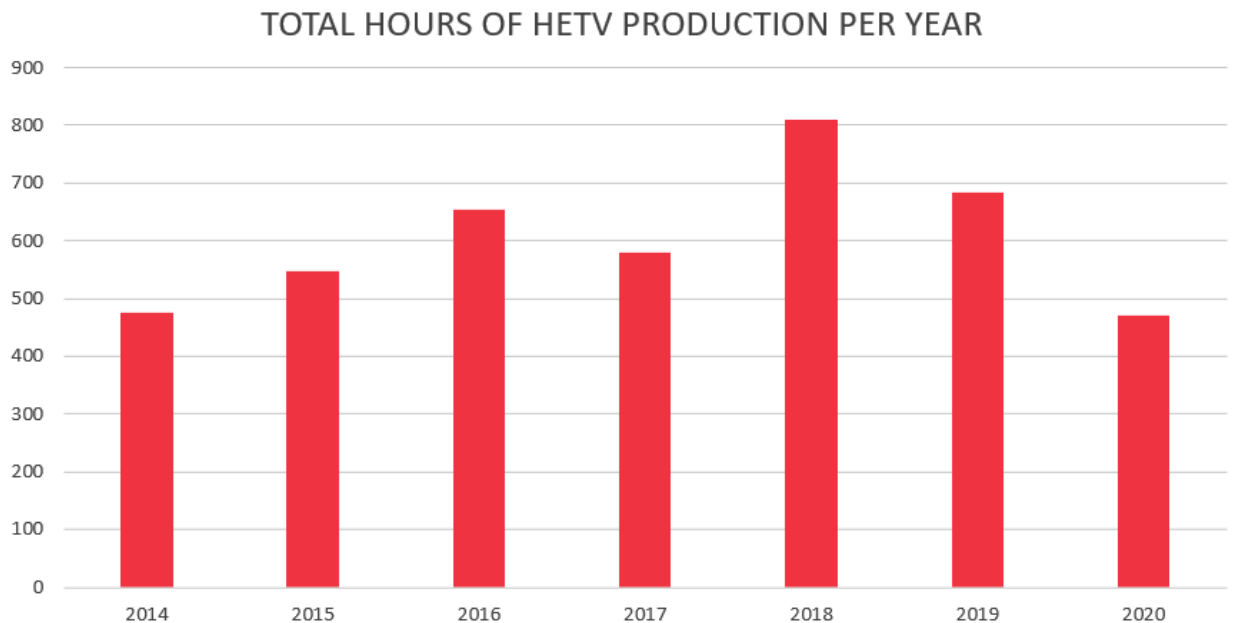
have inevitably been substantially impacted by the pandemic's disruption to production.



Investment in high end television productions that met the criteria for the tax break (over £1 million an hour budget, at least 10% of core spend in the UK, and meeting a cultural test) hit a record £2.8 billion in 2019. That was up almost a third on the previous year and means that the tax relief policy has helped grow annual HETV investment well over threefold since the scheme was introduced in 2014. Sadly, the impact of COVID on production reversed this trend in 2020, resulting in a 33% fall in investment to £1.9 billion. But this total was still well above that registered in 2017.



The total number of productions submitted for HETV tax relief hit a record high of 154 in 2019 before falling 37% last year to 97 – back to the same level recorded in 2015. Interestingly, since peaking in 2018, there appears to have been a significant reduction in the length of each series going into production. The average was close to six hours per title in 2018 but fell to under five hours per series over the last two years.



Source: Ben Keen analysis of BFI data

This suggests that the number of episodes in a typical drama series has been reducing. The corollary of this is that the spend per hour has been rising, jumping an extraordinary 55% in 2019 to just over £4 million per hour – a level that was almost maintained in 2020 despite the constraints imposed by COVID protocols.

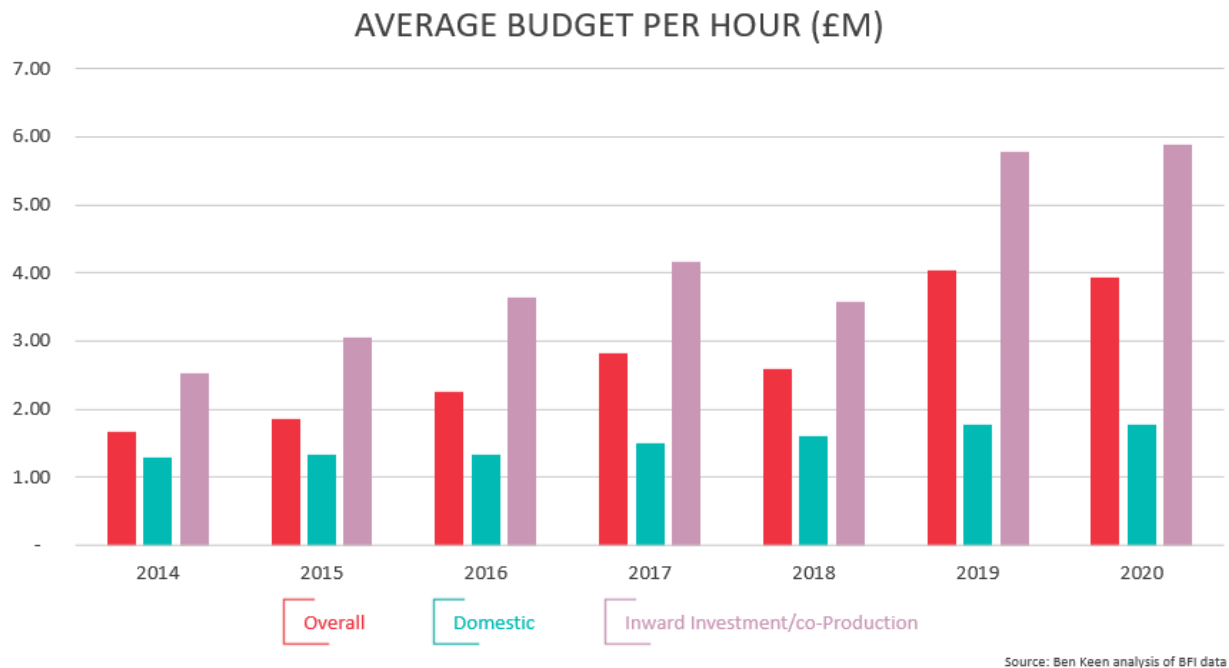
AVERAGE HETV BUDGET PER HOUR (£M)



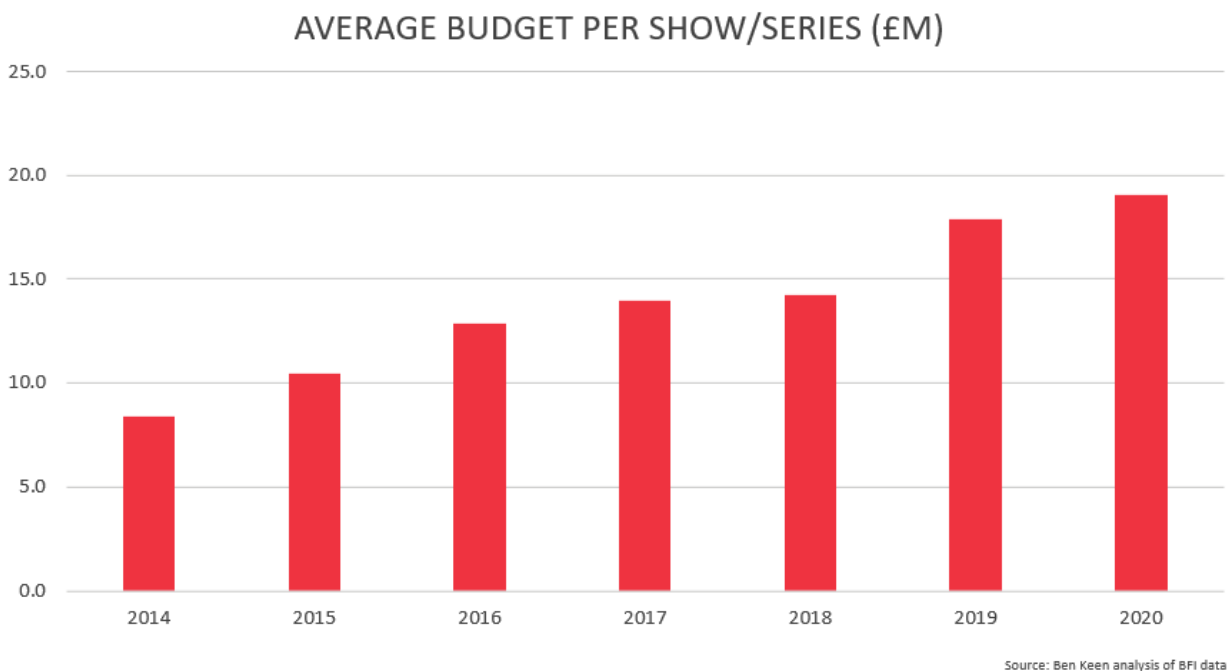
Source: Ben Keen analysis of BFI data

The BFI divides HETV tax break submissions into two categories: 'domestic' and 'inward investment and co-production.' Neither of these groupings tend to relate neatly to the realities of 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 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.

In addition, 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 each of the years 2018 and 2019, 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.



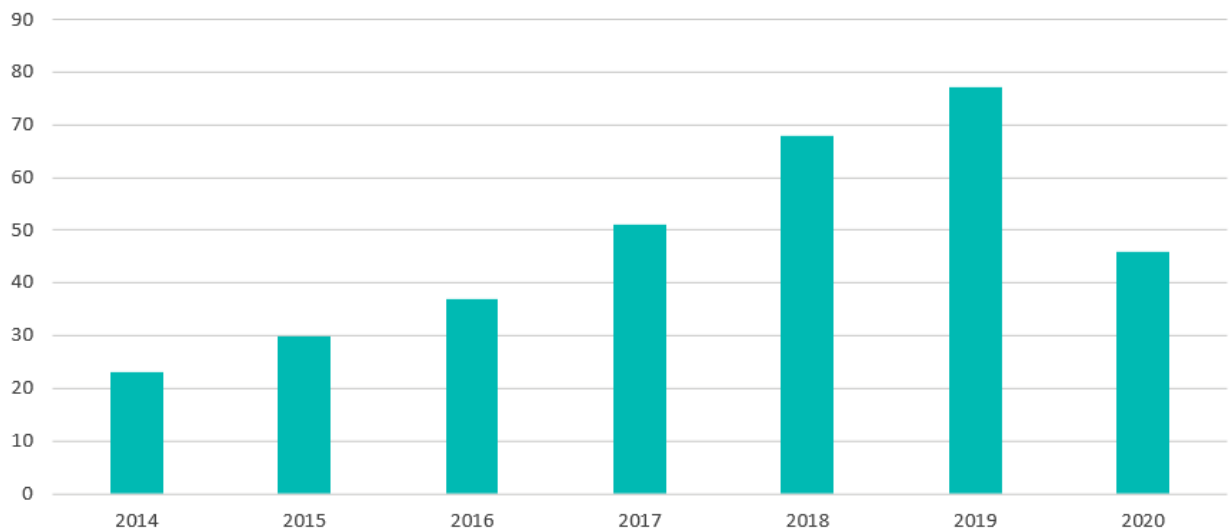
Regardless of the potential deficiencies of these BFI classifications, the top-line trends emerging from them are revealing. Whilst the average spend per hour on purely domestic productions has remained fairly static and well under £2 million per hour, the budget for shows with international investment has skyrocketed to almost £6 million per hour in each of the last two years. This disparity, already more than a threefold difference, looks set to become wider and wider as domestic players get out-spent by better resourced international groups.



The overall average spend on making each HETV series jumped 26% in 2019 to £17.9 million and increased again last year to over £19 million.

Exactly half of all certified productions in 2019 had a series budget of at least £10 million and close to this threshold in 2020. By comparison, the average UK spend on feature film production was just over £7 million in 2019 according to BFI data – 2.5 times less than the average HETV series in the same year.

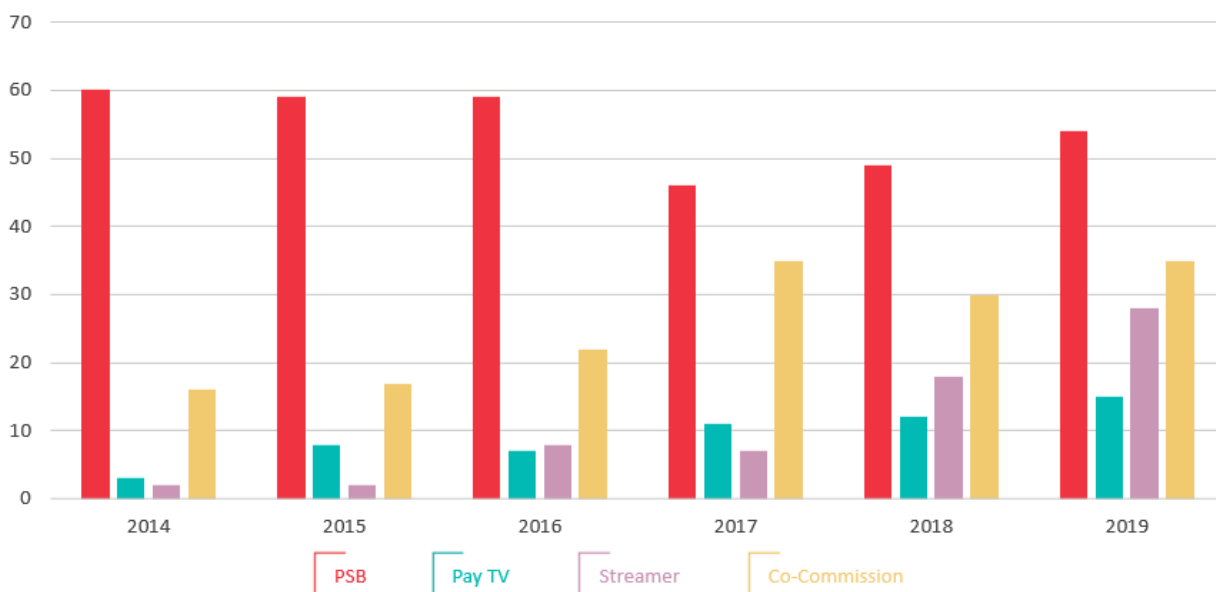
NUMBER OF HETV PRODUCTIONS PER YEAR WITH TOTAL BUDGET OVER £10M



Source: Ben Keen analysis of BFI data

There has been a steady rise in the number of HETV shows that have required multiple parties to finance at the commissioning stage (35 in 2019). However, the single largest category in 2019 was still those programmes commissioned only by a public service broadcaster, the number of which has held up pretty well. Nevertheless, the most significant trend was arguably the 56% jump in productions commissioned solely by a streamer, which was one of those developments that concerned Peter Kosminsky.

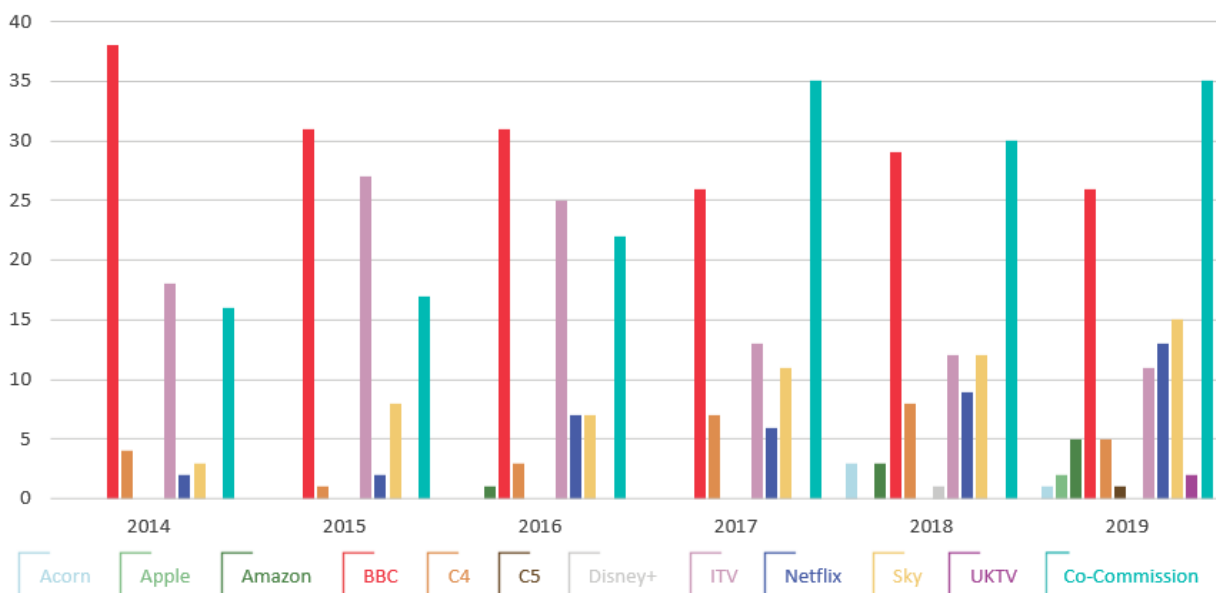
SINGLE V CO-COMMISSIONS PER YEAR OF PRODUCTION



Source: Ben Keen analysis of BFI data

The number of drama HETV productions made in 2019 with multiple commissioning partners was significantly more than that greenlit by any single broadcaster or platform. Despite the rise of the streamers, the BBC has maintained its role as by far the most important single company commissioning high-end dramas. It was solely responsible for 26 shows in 2019, but this is down on the 30-plus per year it commissioned up to 2016.

SINGLE V CO-COMMISSIONS BY BROADCASTER/PLATFORM

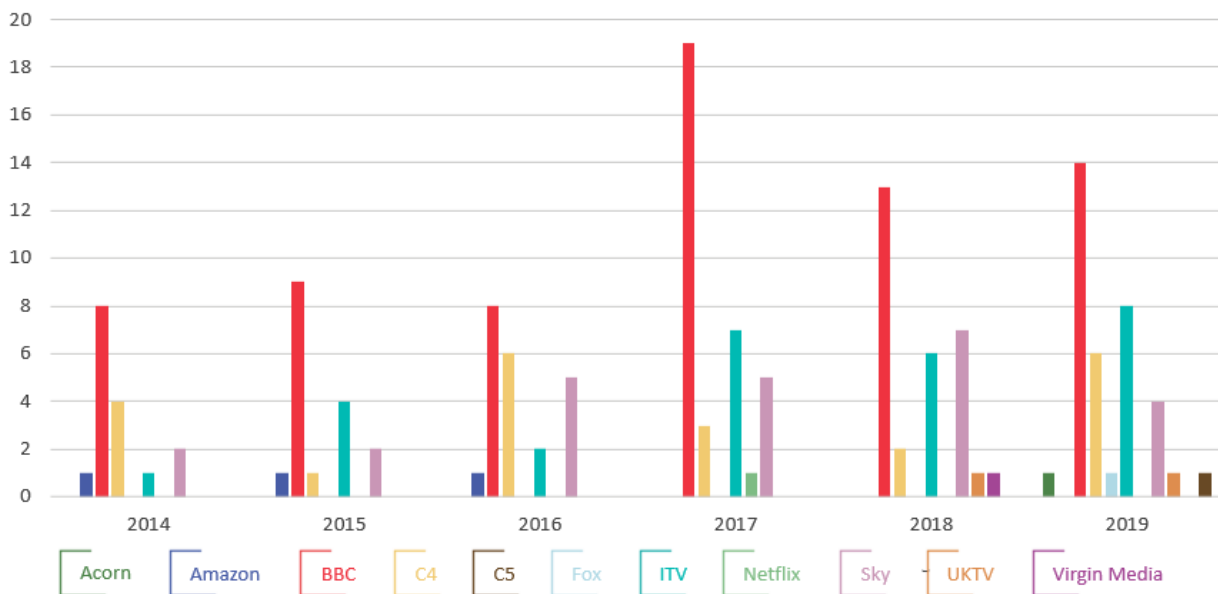


Source: Ben Keen analysis of BFI data

Other PSBs have also had to reduce the number of dramas they can singlehandedly commission. From a high of 27 commissions in 2015, ITV had only 11 dramas in 2019 that it was solely responsible for getting into production. The comparable numbers for Channel 4 have also been

shrinking. With growing financial firepower, both Sky and Netflix have now overtaken ITV in their capability to independently commission high-end dramas without involving partners.

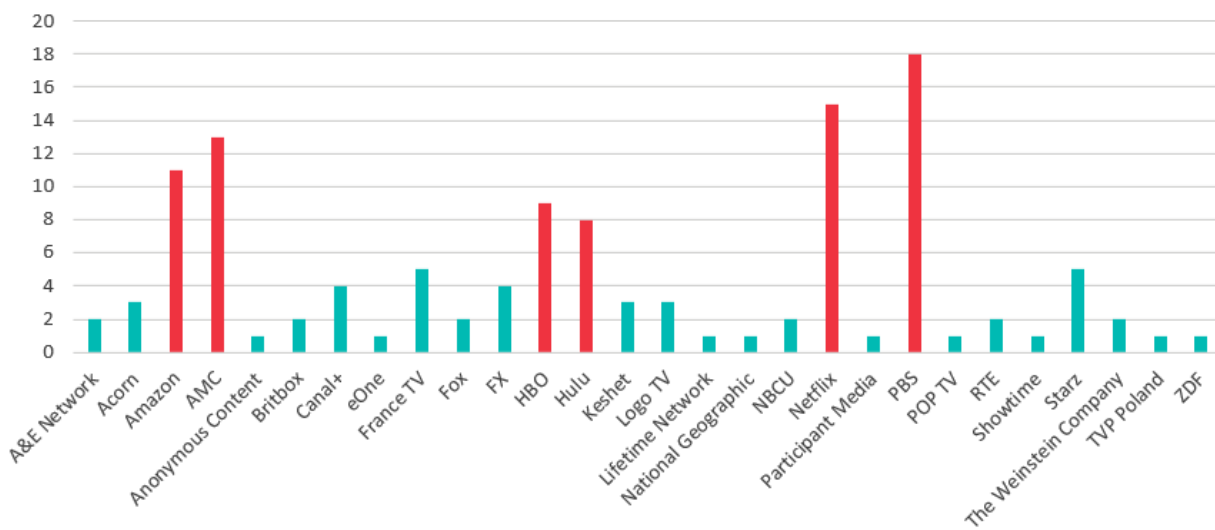
MOST ACTIVE CO-COMMISSIONERS BY 1ST WINDOW



Source: Ben Keen analysis of BFI data

The BBC is still the most active co-commissioner of high-end dramas, but this level of partnership activity has fallen from a peak of 19 shows in 2017 to 14 in 2019. At the same time, ITV and Channel 4 have been increasing their efforts to partner in order to get sufficient financing together for the escalating budgets necessary to make these shows happen. Sky has also emerged as a consistently important ‘first window’ co-commissioner.

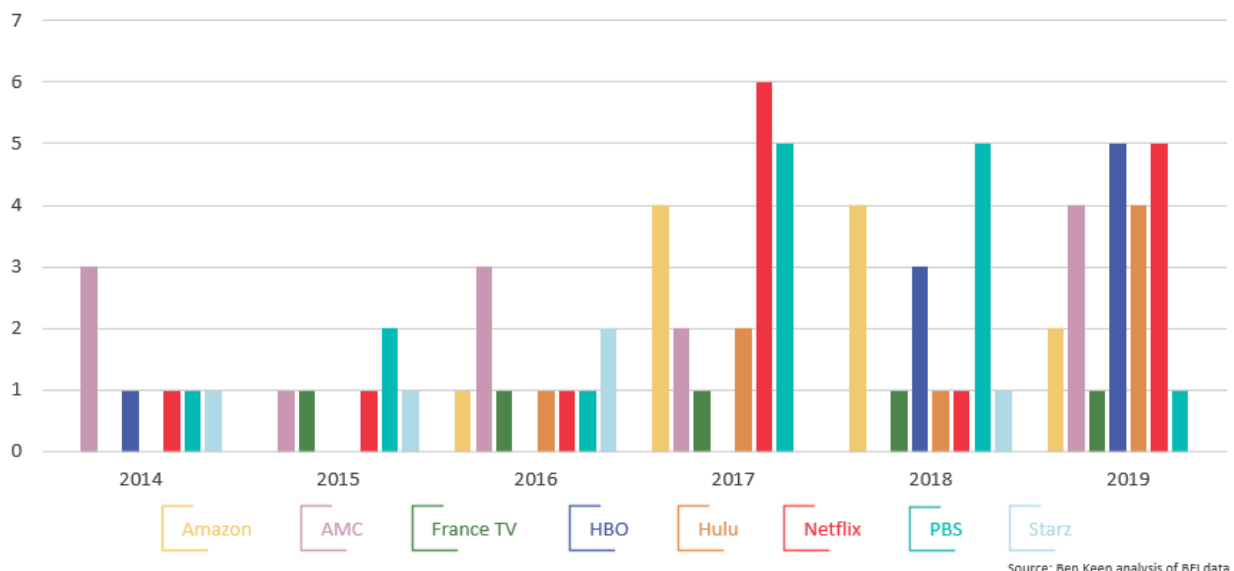
CO-COMMISSIONING PARTNERS FOR PSB DRAMA PRODUCTIONS 2014-19



Source: Ben Keen analysis of BFI data

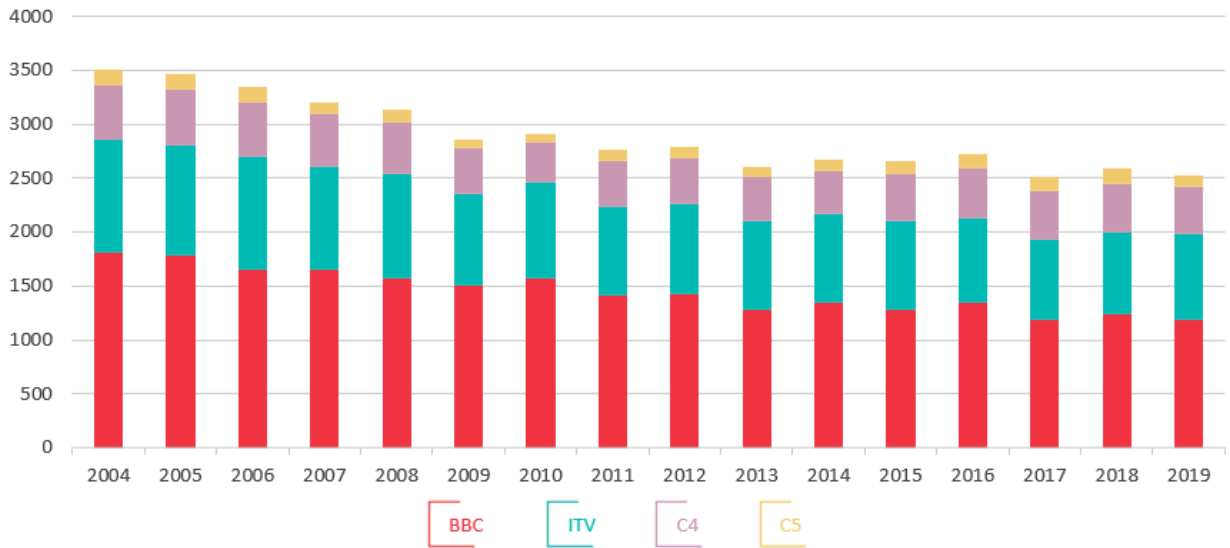
Since the start of the tax relief scheme in 2014 there have been 28 different co-commissioning partners for PSB-led dramas. All the six most active (highlighted in red) partners are US groups. With its famous and long-running 'Masterpiece' strand, the US public broadcaster PBS tops the list with involvement in 18 HETV productions over the six years. Fast catching up is Netflix, which has already accrued a total of 15 different productions with PSBs. AMC, which operates a number of channels and streaming services (Sundance TV, IFC, AMC, etc), has been the next most prolific co-investor in PSB dramas – just ahead of Amazon. Rounding out the top six is the US streamer Hulu, which is now controlled by Disney, and WarnerMedia's HBO (part of AT&T). Overall, there still appears little sign that the streamers are significantly pulling back from co-financing with PSBs – and indeed, most of them were more active in 2019 than ever before.

MAIN CO-COMMISSIONING PARTNERS FOR PSB HETV DRAMAS PER YEAR



The context for the rise in co-financing of PSB dramas is that the public service broadcasters themselves have continued to reduce their overall spend on original programming. According to data collected by Ofcom, PSBs have collectively reduced their investment on all forms of first-run original programming by 28% since the introduction of the HETV tax break in 2014. The biggest cut was made by the BBC, which has reduced its spending by over a third since 2014. Overall, £152 million of PSB production spending has been lost.

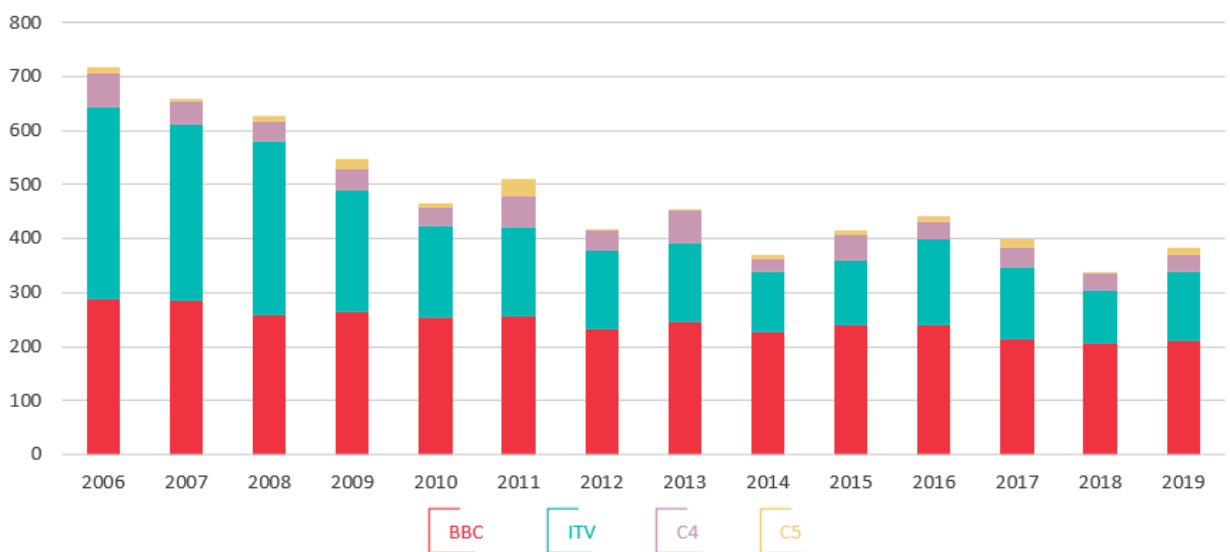
TOTAL SPEND PER YEAR ON 1ST RUN ORIGINAL PROGRAMMING BY PSB BROADCASTER (£M)



Source: Ben Keen analysis of Ofcom data

Despite the overall trend for reduced spending on original programming, PSBs have recently chosen to allocate more of that budget to drama. The volume of original dramas broadcast has noticeably stabilised since 2014. However, looking further back it is still remarkable to see that the number of hours of original drama transmitted by PSBs has fallen by nearly 50% since 2006. The biggest shift in programming output has been made by ITV, which broadcast almost three times as much first-run drama back in 2006 as it did in 2019.

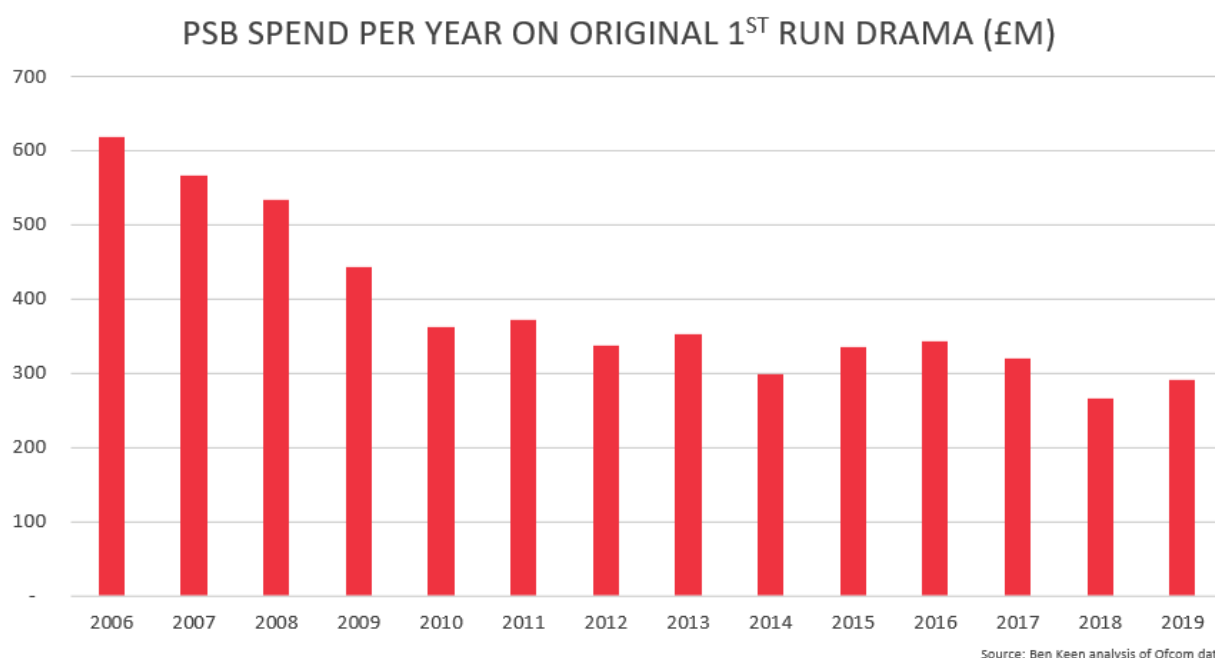
ORIGINAL DRAMA OUTPUT HOURS PER YEAR BY PSB BROADCASTER



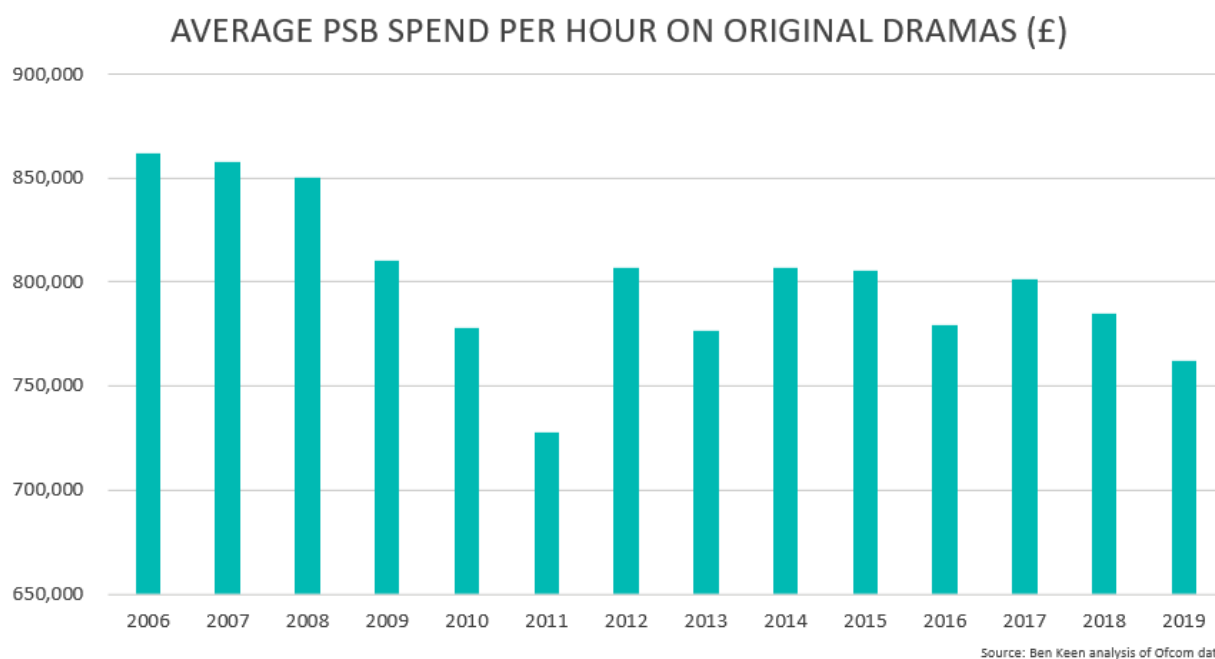
Source: Ben Keen analysis of Ofcom data

In line with the trend in broadcast output, PSB broadcaster spend on original first-run drama production has also stabilised since 2014. In 2019,

the sum of £291 million invested in drama by PSBs was a very similar total to that allocated in 2014. However, it is worth noting again that this drama budget total is less than half that spent in 2006.



Also, of concern is that PSBs have seemingly not been able to raise their level of investment in each drama production. Despite the budget inflation described in this paper, PSBs are spending about £45,000 per hour less on original dramas than in 2014 with an average spend per hour of £762,000. This, of course, is completely in line with Kosminsky's concerns about flat tariff levels.



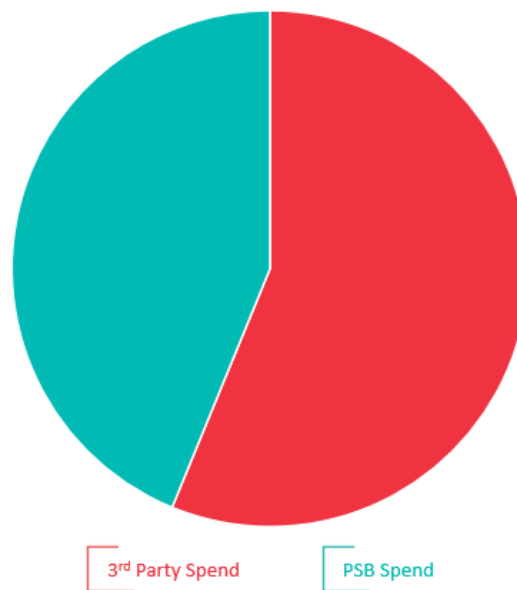
As this paper has already made clear, the result is that PSBs have become increasingly reliant on partners to get their original dramas made. According to data collected by Ofcom, third-party spending on PSB first-run original dramas overtook the investment by the broadcasters themselves in 2018. In 2019 the gap between PSB investment and third-party funding expanded to £82 million. Thus, although a record overall £664 million was invested in making PSB drama, more than half of that (56%) came from third parties like the global streamers.

PSB SPEND V 3RD PARTY SPEND ON ORIGINAL PSB DRAMA (£M)



Source: Ben Keen analysis of Ofcom data

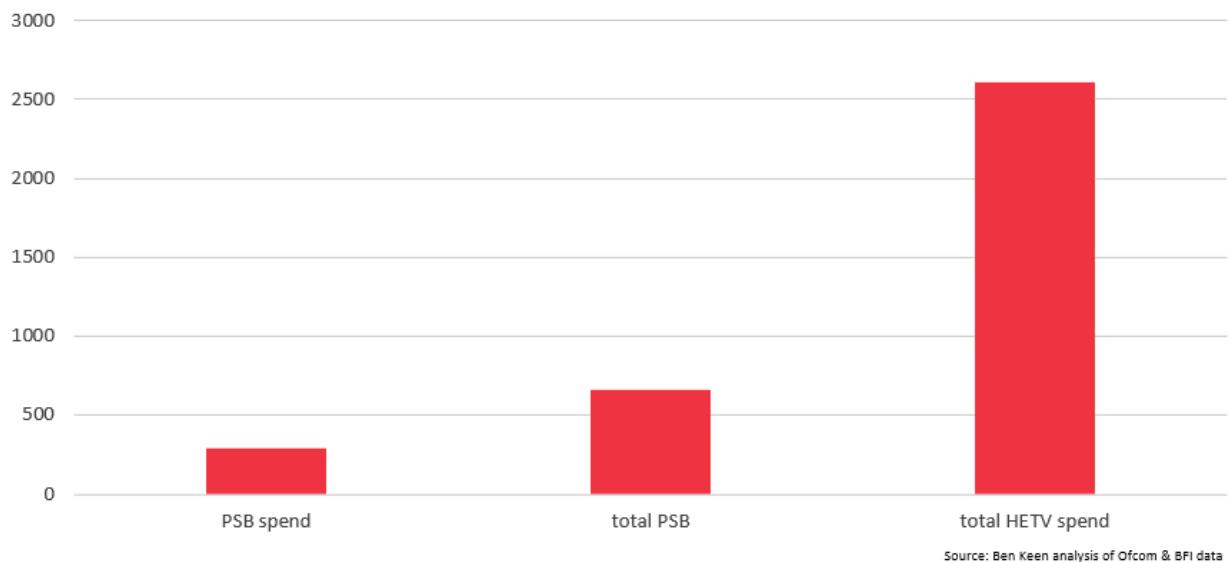
% OF 3RD PARTY SPENDING ON PSB ORIGINAL DRAMA IN 2019



Source: Ben Keen analysis of Ofcom data

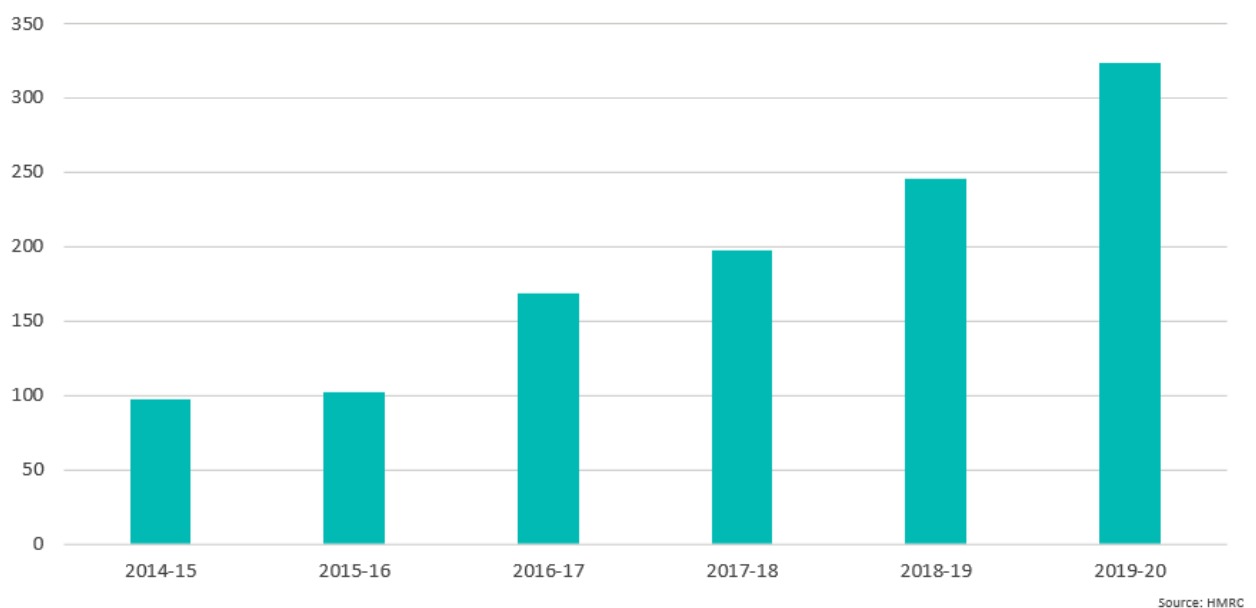
Even with this third-party contribution, total spend on PSB drama productions only accounted for about one quarter of all the investment on HETV productions submitted for the tax break. This therefore means that three-quarters of all the money flowing into HETV productions in the UK have been commissioned outside of the PSB ecosystem.

2019 SPENDING COMPARISON: PSB DRAMAS VERSUS TOTAL HETV INVESTMENT (£M)

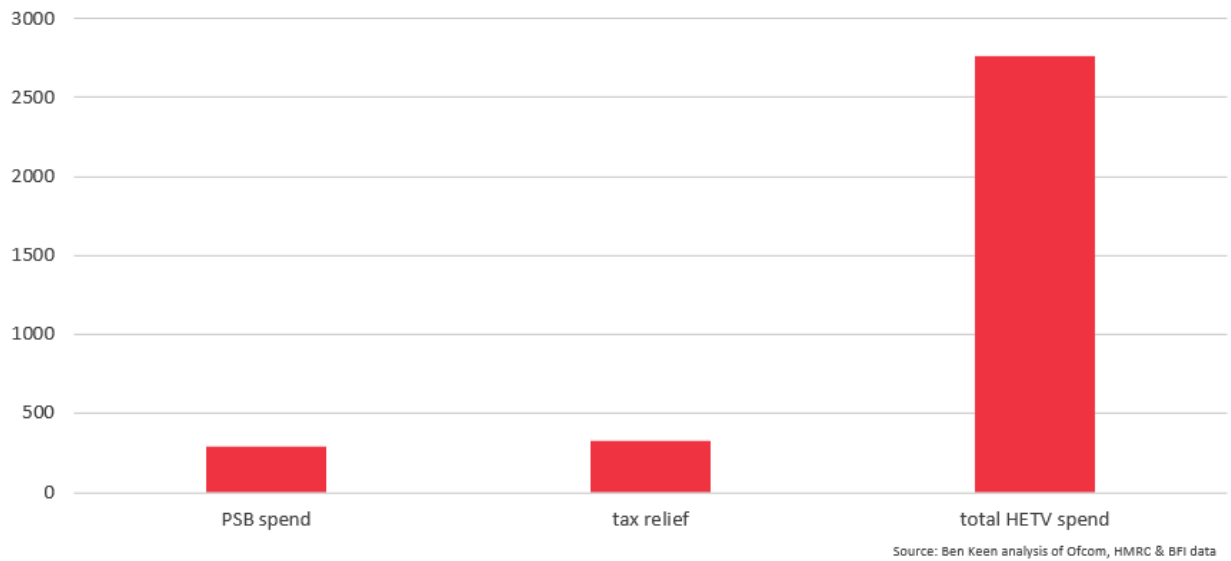


Tax relief contributions to HETV production hit a record high of £324 million in 2019/20. That represents a more than threefold increase on the government rebate paid out in 2014. It also means that HMRC contributions exceeded the investment by PSBs themselves.

TAX RELIEF PAID ON HETV PRODUCTIONS (£M)



2019 SPENDING COMPARISON: PSB DRAMAS VERSUS TOTAL TAX RELIEF PAYMENTS (£M)



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