

June 2008

The value generated by Five's investment in children's programming

Final report

PERSPECTIVE

Part of the Ingenious Consulting Network

Overview of key findings

This report has been commissioned to explore the impact of Five's investment in children's programming. It builds on elements of the analysis contained in Ofcom's *The Future of Children's Programming* research report, but examines in more detail the younger children's production environment sustained by Five and other broadcasters. The report also examines the plurality of commissioning in younger children's television, and how this works toward achieving the goals Ofcom has set for Public Service Broadcasting (PSB).

This document was written from a combination of desk research, using data from Ofcom reports and industry publications, and interviews with figures in industry representing small and large independent producers, as well as interviews with broadcasters including the BBC and Five. A number of estimations have been made to derive detailed splits for broadcaster spending, and as such these figures should be treated as indicative.

Specifically this report reaches the following conclusions:

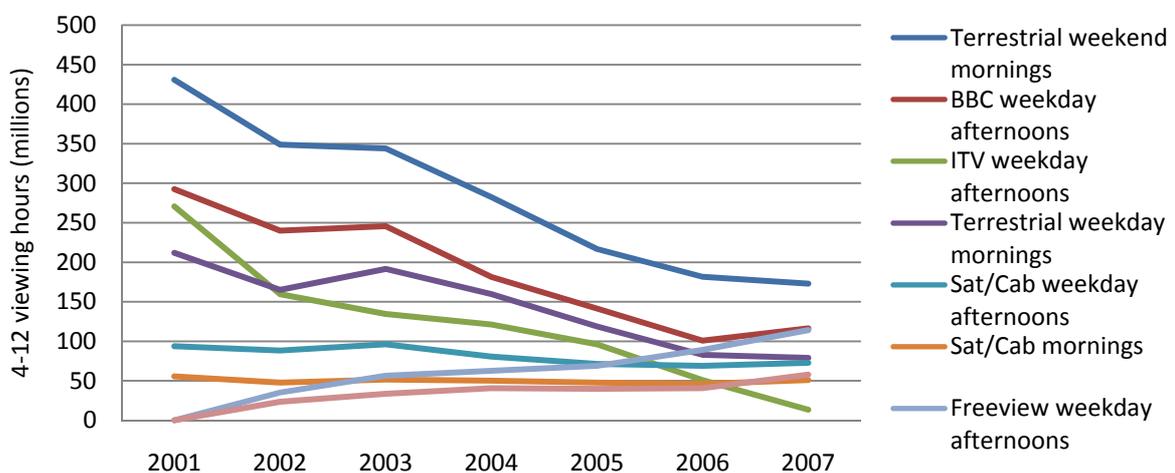
- Although the BBC is pre-eminent in children's television, in terms of investment in new programming and overall audience share, Five's *Milkshake!* brand is a strong competitor, originating more hours of pre-school children's production than CBeebies and achieving similarly very high levels of parental and child satisfaction
- The BBC and Five have very different approaches to commissioning content. The BBC's system is centralised and formal whereas Five has a more collaborative and informal approach. These two styles encourage very different sets of producers, with the BBC's system favouring larger independent producers whereas many smaller independents express a real gratitude towards Five and the support that it has provided.
- The benefits created through Five's involvement can be summarised into four broad areas:
 1. The distinctive voice that Five's younger children's television provides and the value that parents and children place on this PSB programming;
 2. The creative challenge that Five's output provides to the BBC. Both broadcasters express an admiration for each others' content and strive to win children. Interestingly this has not led to both adopting the same type of programming but instead attempting to build on their respective strengths;
 3. The plurality within the production sector which Five is critical in supporting. Five has supported the establishment and growth of numerous small firms, who would not have been able to successfully pitch to the BBC. Many of these firms are now pitching for work with other broadcasters and Five has enabled them to do so; and
 4. The income within the UK production sector which depends upon Five's commissioning spend. This could be above £15m, (of Five's £6m total spend on children's television, over £4m a year goes to the UK production sector in direct revenues, supporting £11m in secondary revenues).
- A simple focus on the financial benefits to producers derived through Five's commissioning is misleading. Much of the vibrancy of the younger children's TV production market noted by Ofcom can be attributed to Five's active involvement in this arena. As the head of a large children's independent producer noted in an interview conducted for this report: "Five is an unsung hero, it has been responsible for energising the younger children's market".

Introduction and context

Children's TV is a core element of public service broadcasting, and is one which has seen significant change in recent years. By the 1970s a tradition had developed of set weekday afternoon slots, in which BBC1 and ITV would compete for the child audience. The 1980s saw the launch of weekend morning children's television and the launch of Channel 4, which was active in programming content for children from the late 1980s until the early 2000s. In 1997 Five launched with children's television at the heart of its PSB commitment. However, ITV decided to cease commissioning new children's content in 2006 and end children's programming on weekday afternoons the next year.

Although ITV only stopped commissioning children's content in 2006, the roots of this decision can be traced back to changes in the competitive landscape of broadcasting since the mid-1990s. Prior to this, the scarcity of broadcast capacity in the UK had allowed the commercial holders of this capacity, ITV and later Channel 4, to fund an extensive portfolio of public service broadcasting. However, since the mid-1990s conditions have changed. The introduction of digital broadcast technology, firstly on satellite and cable platforms and later on terrestrial television, has greatly increased the number and range of television channels available. Television advertising revenue as a whole has also come under pressure.

In few areas have these changes been as pronounced as in children's broadcasting. A number of dedicated children's channels have launched on cable and satellite platforms¹ and these have been highly effective in gaining child audiences at the expense of the traditional slots on the PSBs. The child audience is amongst the most fragmented, as a large majority of children² live in multi-channel households where these channels are available. The chart below demonstrates the change in viewing during traditional children's airtime over the last 7 years.



Source: BARB

It was against this background that Ofcom published its discussion paper *The Future of Children's Television Programming*. In its conclusions in this document, Ofcom expressed concern that there are "few commercial incentives on broadcasters to commission UK-originated children's programming" with material able to be acquired much more cheaply from the international market.

¹ See <http://packages.sky.com/see/KidsMix.aspx>

² See www.bbc.co.uk/commissioning/marketresearch/audiencegroup1.shtml

Ofcom also examined the trends in PSB children's output by age group. Young teenagers (12-15 year-olds) and older children (9-12 year-olds) were found to be particularly poorly served, with significant cause for concern over the lack of output for these age groups. Parents and children concurred with this view. Ofcom found that younger children were much better served with output, and parents and children were consequently much more satisfied with provision. In particular, Ofcom noted that "parents of pre-school and younger children across all platforms felt well served by BBC One and Two, CBeebies, CBBC, and *Milkshake!* on Five".

Whereas *The Future of Children's Television Programming* comprehensively assessed the state of children's television, it is phase 1 of the PSB Review that discusses potential policy responses. In the first part of section 10, the longer term potential approaches to children's television are discussed; these are all viewed through the four broader policy options which relate to the whole of PSB:

1. Evolution – either new funds are found to maintain the current commercial PSB system or the obligations on commercial PSBs are adapted as the value of PSB status declines
2. BBC only – the commercial PSBs lose their PSB obligations and plurality is provided only to the extent that is determined by the market
3. BBC/C4 plus limited competitive funding – Channel 4's role as a PSB is extended and contractual arrangements are used to fill any gaps in plurality
4. Broad competitive funding – the role of the BBC would be reduced to provide only those elements of PSB that could not be met by a market tendering process

These four options focus in great detail on the respective roles of the BBC and Channel 4 in the future of PSB, and none of the options, apart from option 1 foresee a role for any other broadcaster playing a role in the delivery of PSB content. It is questionable whether these are wholly appropriate to apply to children's television, since Channel 4 does not broadcast any children's programming and the BBC and Five broadcast the majority.

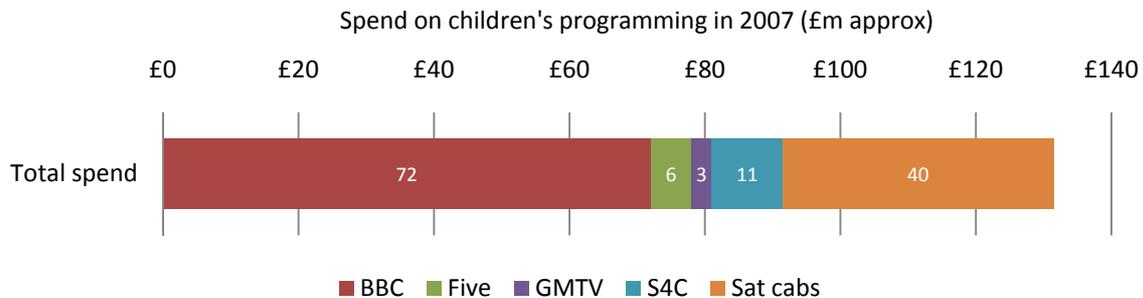
This report examines in more detail the delivery of PSB programming to younger children and the impact of Five's investment in this area. It touches upon some of larger questions surrounding the future of PSB but its focus is on the broadcast and commissioning of younger children's television in the UK and as such it concentrates on the BBC and Five, and the production environment they have helped create.

Specifically, the report is split into three sections:

1. Section 1: Investment in children's television, which looks at the bigger picture of investment in children's programming in the UK and the destination of that investment
2. Section 2: Plurality and younger children's television, which examines the effects of plurality in this particular segment of the children's market
3. Section 3: A world without Five, which builds on the previous two sections and attempts to construct plausible outcomes were Five to withdraw from the younger children's market

Section 1: Investment in children's television

At present in the UK a number of broadcasters are active in commissioning new content for children, The BBC, Five, and S4C have established commitments to new production in the UK and some of the dedicated children's channels invest in UK originated output. The chart below gives a breakdown of spending on children's TV by the main commissioners of children's content in the UK³.



Source: Ofcom, broadcaster annual reports

The BBC is responsible for the largest share of expenditure on children's programming in the UK; its investment is larger than the rest of the market combined. This content is broadcast on both its main channels, BBC1 and BBC2, as well as on its digital children's channels CBBC and CBeebies.

S4C is a significant investor in children's TV, spending around £10m-£11m a year, primarily on commissioning new Welsh-language content⁴. The source of S4C's funding is a combination of commercial revenues earned from advertising and a fixed annual grant from the DCMS. Since its inception in 1982, S4C has developed a strong reputation in children's programming, particularly animation, such as *SuperTed* and *Sam Tân* (which became *Fireman Sam* in the English version). Its focus on younger children is driven largely by the desire to reach very young viewers with Welsh-language programming.

Five has been broadcasting children's content since its inception in 1997 and this is an area in which it has chosen to focus in order to deliver its PSB remit. In recent years Five has been concentrating on developing a strong portfolio of commissioned and co-produced material and reducing its dependence on acquired material. In 2007 Five refocused its children's programming towards younger children, whilst keeping the volume of its output broadly unchanged. This is delivered through its *Milkshake!* strand which is broadcast on weekday and weekend mornings.

GMTV broadcast children's programming every weekend from 6 am to 9:25 am. This consists largely of acquired and repeated Disney cartoons⁵ with little originated content apart from the link segments between the cartoons.

Since the 1990s the number of dedicated children's channels available in the UK has increased significantly. The Children's Channel was the first such channel launching in 1984 and was followed

³ These figures are based on the data from Ofcom's The Future of Children's Television research report, broadcaster annual reports and *Perspective* estimates of trends

⁴ Approximately 2% of children in the UK are Welsh speakers

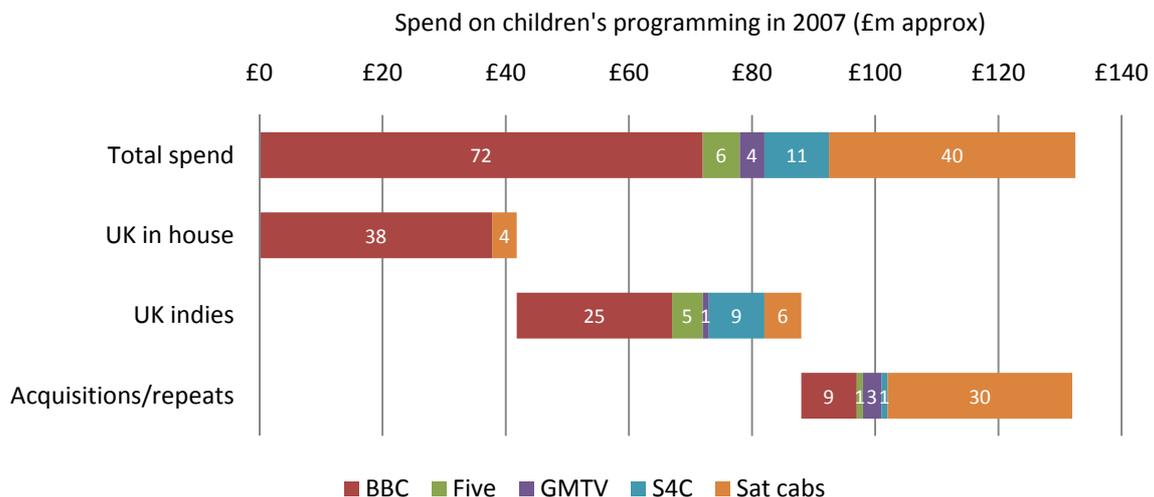
⁵ The Walt Disney Company partly owns GMTV

in 1993 by Nickelodeon and The Cartoon Channel, and in 1995 by the Disney Channel. The number of dedicated children's channels grew from six in 1998 to at least 25 in 2008. Programming has been largely US-originated and most of the expenditure represented in the chart above is acquired material.

One absence from the chart above is ITV. At the beginning of 2007 ITV drastically reduced the volume of children's programming it showed on the main channel, and had essentially frozen investment in new programming since the middle of 2006. This is a trend that has also continued on CITV, ITV's digital children's channel. Although ITV announced in late 2007 that some new funds for commissioning would be released⁶ it is unclear whether any significant funds were spent on children's programming in 2007 and when and whether the £4m of new funding is likely to be used. As such ITV has been excluded from the chart above.

The destination of broadcasters' spending

The chart below is a further breakdown which shows not only the spend of each of the broadcasters on children's programming but the composition of that spending.



Source: Ofcom, broadcaster annual reports and Perspective analysis

The majority of programming spend by broadcasters, over £85m in 2007, is on originated UK output, with the remainder, around £45m, being spent on acquired programming and on repeat fees. Of the spending on original content, just over half is spent by broadcasters in house and the remainder is spent on commissioning from the independent production sector.

The picture varies greatly by broadcaster. Spending on in-house commissioning is dominated by the BBC, which spends over half of its commissioning budget internally⁷. In terms of production within the UK Independent sector, the BBC is again the largest single commissioner of content. However, due to its considerable spending on in-house production, other broadcasters are relatively more important to the independent sector. S4C and Five are the two biggest spenders after the BBC. The

⁶ See

http://www.broadcastnow.co.uk/commissioning/interview/2007/12/citv_to_end_kids_spending_freeze.html

⁷ The BBC is committed to spending at least 50% in-house and at least 25% with the independent sector, with the rest being contestable between BBC in-house and the independents.

dedicated children's channels have increasingly commissioned material from UK producers and we estimate that they spent around £6m in 2007. However, it should be noted that this is the total spend from over 25 channels – most of whom spend nothing at all.

In terms of the narrower market for younger children's programming, the BBC spends £11m a year on pre-school originations with up to £5.5m being spent on independent productions and the rest used for in-house commissions. Five spends £5m on originations and £1m on acquisitions and repeats. In 2007 the BBC originated 120 hours of original pre-school output whereas *Milkshake!* generated approximately 130 hours.

The commercial security of younger children's programming

In *The Future of Children's Programming* Ofcom concluded that younger children's programming was on a firmer financial footing than the rest of children's television. This is based on two premises:

- Younger children's productions – especially animations – are more likely to garner co-production and merchandising income than other genres of children's programming. This reduces the cost of the programming faced by the broadcaster; and
- Pre-school audiences bring with them an adult audience, which can yield greater revenues than an unsupervised audience of older children.

Although they are of significance, these conditions by themselves do not guarantee the viability of younger children's programming on a commercial basis. This is because a commercial broadcaster may still face an opportunity cost⁸ from broadcasting younger programming.

Younger children's and pre-school programming is likely to have a lower opportunity cost for a broadcaster than older children's programming due to its lower costs and higher audiences. However, if an alternative use emerges for the slot in question which delivers higher profits through a more favourable combination of costs and revenues then a rational commercial broadcaster would drop the children's programming strand. A hypothetical example is given below.

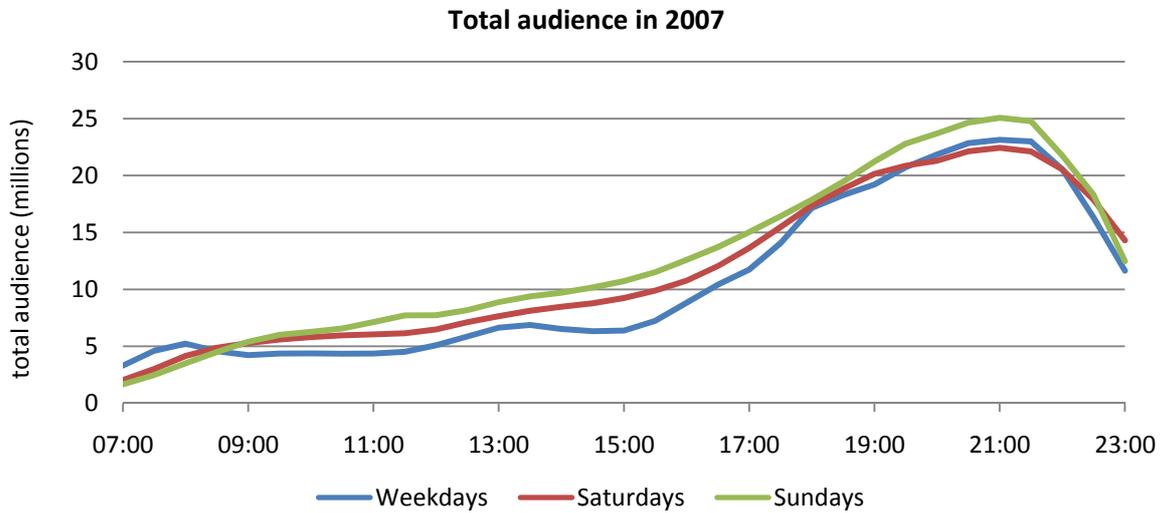
<p>Older children's Cost: £8m p/a Revenue: £7m p/a Net income: -£1m p/a</p>	<p>Younger children's Cost: £4m p/a Revenue: £9m p/a Net income: £5m p/a</p>	<p>Drama repeats Cost: £5m p/a Revenue: £11m p/a Net income: £6m p/a</p>
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In this fictional case, older children's programming turns a net loss of £1m per year, whereas younger children's programming comes in at half the price and generates more revenue leading to positive net income of £5m per year. However, this doesn't guarantee the safety of this strand. Here drama repeats cost more than younger children's but generate significantly more revenue, netting a positive income of £6m per year. There is an opportunity cost being incurred of £1m per year.

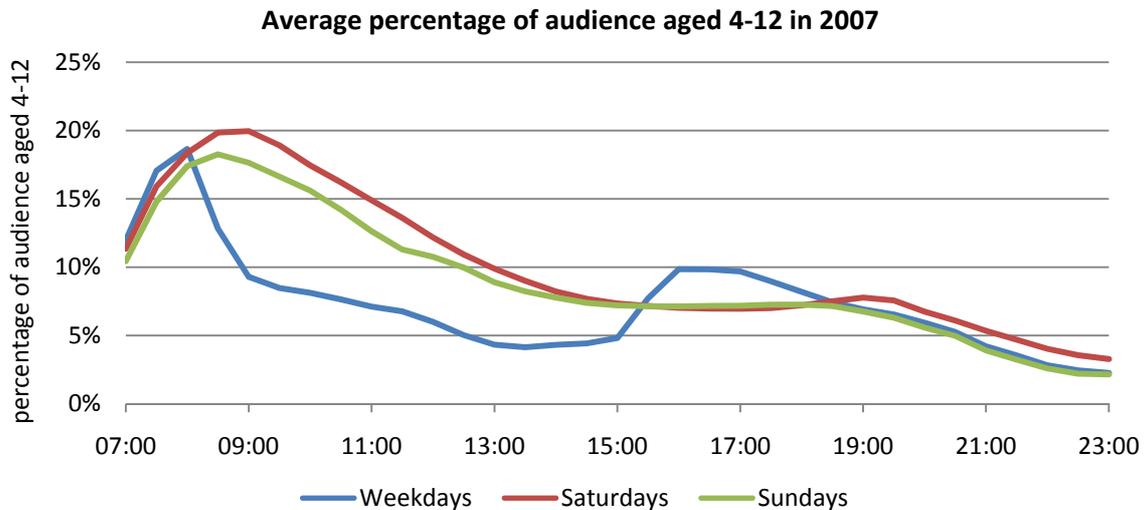
Is other programming more profitable than younger children's? The answer depends crucially on the area of the schedule under consideration. Sometimes, such as weekend mornings, children may form a large part of the available audience and so alternative programming may not be able to

⁸ That even though a particular programme is turning a profit, another programme would generate a greater profit and so would be preferred. The concept of opportunity cost is explained more fully in the document *The future of children's programming* – The business of children's programming – page 55

generate significantly more revenue. Here we might expect younger children's to remain. However, at other times, such as weekday mornings, there is a somewhat larger potential audience available and channels may face incentives to drop children's programming in favour of adult programming⁹. As an example the charts below give both the total average audience watching at one time and also the percentage of the audience that is aged 4-12.



Source: BARB



Source: BARB

These graphs show that weekend and weekday mornings are skewed heavily towards a child audience. However, during weekdays there is a larger total audience and therefore a larger potential adult audience available.

⁹ However, this rather simple picture is complicated by the programming decisions of other broadcasters. During periods when the audience is rich in children, such as weekend mornings, there may be numerous children's strands being broadcast, which would reduce the contestable child audience.

Section 2: Plurality and younger children's programming

"While the BBC has always been the cornerstone provider of PSB programming for children in the UK, the importance of its role is increasing as spend on UK original children's programming by commercial PSBs declines. This raises the broader issue of plurality of providers of PSB programming for children. Parents value provision from a range of different voices."¹⁰

Together the BBC and Five are the major providers of originated English-language programming for younger children. The rest of this document will look at the potential value that might be provided by this arrangement.

In the PSB Review Phase 1, Ofcom wrote that the value of plurality stems from three major sources. Firstly, in the guarantee of access to a range of voices and perspectives. Secondly, by enhancing reach and impact of public service content, due to the varied audiences drawn to differing organisations. And finally that competition provided by plurality helps to ensure public service broadcasting remains relevant and focused on meeting audience needs. Another formulation elsewhere in the document outlines the importance of plurality at different points in the broadcasting process:

- plurality of outlets: so that viewers are not reliant on a single provider for quality programming;
- plurality of commissioning: so that a range of commissioners working for different organisations can bring their different perspectives to bear; and
- plurality of production: so that there are different creative organisations competing for commissions.

This document will examine whether the plurality of provision of younger children's television by Five and the BBC provides the kind of benefits listed above. It will also look at the effect that the plurality of provision between Five and the BBC has on the independent production sector, and how this might contribute to the creation of vibrant PSB output.

Plurality of Outlets

Ofcom noted in the conclusion of *The Future of Children's Television Programming* that younger children are currently well served by programming. This conclusion was based on a number of pieces of evidence including the increase in the overall volume of provision since 2002, parent and child satisfaction with the output delivered and the greater attractiveness of pre-school and younger children's programming as a commercial proposition. Another important indicator of the health of this sector was given as the range of PSB outlets across which content was available, this included BBC One, BBC Two, CBeebies and Five's *Milkshake!*

According to the deliberative research carried out by Opinion Leader on behalf of Ofcom, all the main outlets mentioned above are trusted, "Parents of pre-schoolers and younger children across all platforms feel well served by PSB programming on BBC One and Two, CBeebies, CBBC, and *Milkshake!* on Five." These views were echoed by parents in analogue-only, Freeview and cable and

¹⁰ Ofcom Research Report *The Future of Children's Television Programming* – Summary and conclusions

satellite homes, all of whom appeared to put great faith in the output provided through *Milkshake!* and the BBC.

In addition to the qualitative deliberative research, Ofcom commissioned a quantitative survey of parents of children aged 2-15 across the UK. Parents were asked to assess the PSB channels against PSB purposes and characteristics. The PSB channels considered were BBC One, BBC Two, ITV1, Channel 4, Five, CBBC and CBeebies; these channels were evaluated both individually and as a whole. Of the ten PSB purposes and characteristics identified by Ofcom, CBeebies was by far the best performing PSB, scoring at or above the PSB average on nine counts. Five's output also scored at or above the PSB average on six counts. Overall, parents with pre-school children were most likely to think that the PSB channels taken together delivered the PSB purposes and characteristics as a whole (with 18% of parents very satisfied and 62% quite satisfied).

Taken together these pieces of evidence seem to suggest a good range of plurality of PSB outlets and most importantly a significant level of child and parent satisfaction with the output of these outlets.

Plurality of commissioning

There are a number of outlets for PSB younger children's output. However, this does not translate into the same plurality of commissioning, as four of the major outlets, BBC One, BBC Two, CBBC and CBeebies all come under the umbrella of the BBC's commissioning process. This leaves the BBC, Five and S4C as the main commissioning entities in younger children's television market. However, only the BBC and Five commission English-language programmes and both have very different approaches to commissioning: both in terms of the process of pitching for producers must go through and the different perspectives that each brings to the material commissioned.

Plurality of commissioning process

The BBC is the largest commissioning entity in the UK and as such attracts a correspondingly large volume of interest from independent producers. In order to provide a level playing field for all applicants the BBC has developed a highly organised system for commissioning consisting of two annual commissioning rounds and a centralised e-commissioning gateway for pitching ideas¹¹.

Five's commissioning process is very different, largely due to its smaller budgets and sole focus on the pre-school and younger children's market. The process of pitching to Five is a far more informal process than with the BBC. Five commissions on a rolling basis throughout the year and approaches are encouraged via email¹².

Industry figures interviewed had mixed feelings about the BBC's new commissioning processes. One large children's producer thought that it was "a transparent, well-organised system – not subject to the whim of a broadcaster's personality". Such a system is required to deal with both the volume of content that gets pitched at the BBC and to discharge the BBC's responsibilities as a publicly funded broadcaster. However, the same producer said that it was a system which favoured larger children's producers which were "already honed".

Some interviewees in the production sector were critical of the long timescales involved for reaching a decision and a lack of feedback on unsuccessful pitches. Initial acknowledgement often comes two

¹¹ <http://www.bbc.co.uk/commissioning/tv/network/genres/cbbc.shtml>

¹² <http://www.five.tv/aboutfive/producersnotes/controller/NickWilson/>

weeks after submission and a final decision is received typically 20 weeks after submission, feedback on rejected ideas is not provided and ideas cannot be resubmitted. One producer, at one of the largest children's production units, strongly believes that the BBC's e-commissioning system is not yet suitable for children's content, "children's television ideas are highly visual and you cannot get them across using just a paragraph of text and a standard email attachment".

Again, there was a generally positive view Five's commissioning process alongside some areas of concern. A large number of the producers interviewed who have worked with Five have commented favourably on the broadcaster's flexible approach to commissioning. Specific points of praise were the speed at which Five will respond to pitch suggestions and the broadcaster's willingness to jointly engage in developing ideas. One respondent expressed the feeling that Five always has "an open-door, which can be very creative because ideas can be discussed and developed very early on to see if they will run".

Five also has fewer self-imposed rules about the extent to which it will commission and fund certain types of project. For example, the BBC will only fund 25% of an animation production which means the rest would have to be found from co-production and back-end funding. However, Five has greater flexibility in how it spends its production budget. The head of a smaller UK independent animation company recalls how Five's fully-funded commission of 60 episodes of one of their first productions was instrumental in the establishment of the company, "it was a great way to start a kids business, a real vote of confidence".

There was some concern expressed by one of the larger production houses that Five's limited commissioning budgets do not allow them to cover their overheads and consequently they cannot successfully pitch to Five. However, the same producer said, "It is Five's strict control of the costs of their productions and acquisitions that allows them to produce the fantastically polished schedule they have; it's incredible value for money".

Five and the BBC's commissioning processes are very different, and yet they appear to be complementary, with the BBC's approach of open competition for large pitches favouring the larger independents and Five's more informal and flexible approach working well for smaller independents.

Plurality of commissioning voice

With the departure of ITV1, the BBC is now left as the only commissioning broadcaster of the full range of children's PSB content. The BBC invests in programming ranging from pre-school to older children's content, including factual, comedy, animation and drama content. Some of the most popular children's programming is on the BBC, ranging from programmes such as *Tracy Beaker*, for older children to *Teletubbies* and *In the Night Garden*, for pre-schoolers.

The head of a small independent production company who does not work with the BBC noted that "as a broadcaster it [the BBC] does have a very distinctive voice which comes through in many of its programmes, even children's", this voice is described as "safe and educational". However, they also noted that "sometimes the BBC will do something brilliant and ambitious, like *The Smoke House*, which Anne Gilchrist [CBBC creative director] has to be congratulated for; no other channel could have done it."

Five broadcasts younger children's programming with a focus on pre-school; an area which traditionally has been dominated by animation. However, Five maintains a wide range of programming. Animation is a mainstay focus of the channel, and this includes large international co-productions such as *Roary the Racing Car* as well as commissions such as *The Bleeps*, and *Angels of*

Jarm, the first religiously themed UK produced cartoon. There is a strong factual element, with programmes such as *Animal Families*. Five has recently broadcast the first narrated observational documentary for pre-school children *Big School*, which was subsequently nominated for an RTS award.

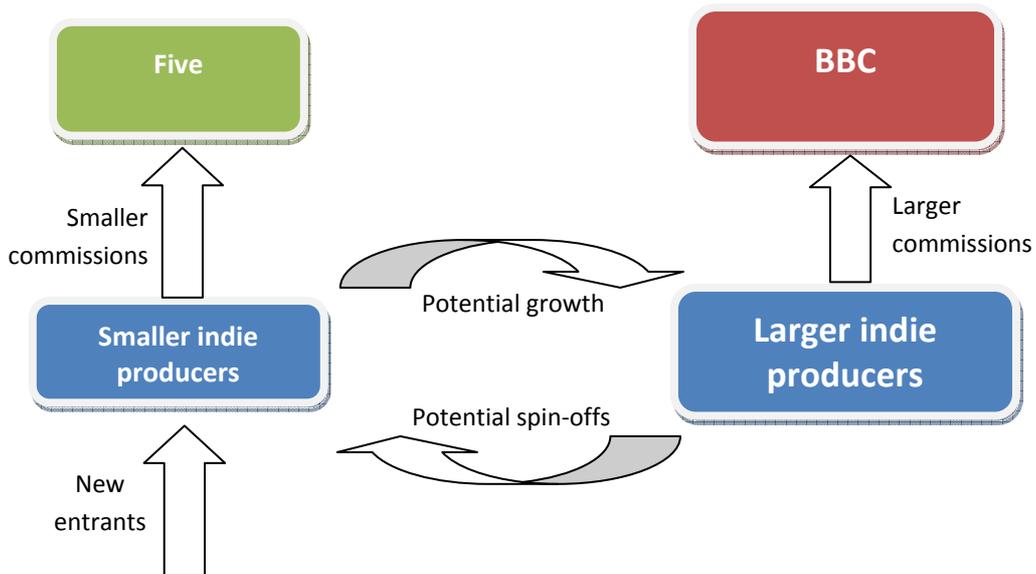
In terms of its voice, the head of a children's production company which does not work for Five noted that Five "places real emphasis on good story-telling, there's something very coherent about its scheduling". The same producer also noted that Five's schedule "exudes a certain kind of Britishness, because the new commissions sit well alongside the classics such as *Thomas [the Tank Engine]*, *Rupert [the Bear]*, and *Noddy*." Richard Deverell, when asked about the role Five play in younger children's television, noted "They do a very good job...the regret is that there isn't an equivalent for older children."

Plurality of production

In the discussion above about the plurality of commissioning process that exists between the BBC and Five it is apparent that the BBC's processes and philosophy of "fewer, bigger and better" commissions may favour larger firms with an established portfolio whereas Five's commissioning structure may actually disadvantage larger firms which carry greater overheads. This natural tendency for both broadcasters to work with different sets of producers helps to create a diverse production landscape in children's programming.

Importantly it works to create a dynamic production environment. Some producers who have begun and maintained their businesses with small commissions from Five have over time developed their portfolios and are now in better positions to be able to bid for work with the BBC¹³. Furthermore a number of the smaller producers who were interviewed for this report were originally trained in bigger producers such as in-house at the BBC or at large children's independents such as Cosgrove Hall. As such Five's small commissions may work as conduit for new talent to find its way into children's programming. One producer working as head of children's in a large production house said "Nick Wilson [Five's director of children's programming] provides a nursery slope for a number of hugely talented young producers who I expect great things of in the future". The diagram below attempts to represent this dynamism schematically.

¹³ This is the case with a small south coast based animator and a London based factual producer. However, many of these producers still express some frustration with the BBC's lack of feedback on pitches.



Furthermore, as Ofcom notes, the purpose of plurality of production is not to support a host of production bodies for their own sake, but for the benefit they may eventually bring to audiences through creative competition for commissions. The benefits of this creative competition at the production level were cited with some enthusiasm by Richard Deverell, Controller of BBC Children's, in the context of the Window of Creative Competition (WOCC). "The WOCC has absolutely been good for the BBC, it's led to better programmes for the audience and better competition for in-house. Content now is distinctly stronger and the WOCC has been instrumental"

Therefore, it would not be unreasonable to assume that the diversity of production firms that are maintained by the BBC, Five and others are important in allowing creativity in the children's market to flourish.

Section 3: A world without Five

In *The Future of Children's Television* report, Ofcom commented on the likely effects that would accompany the withdrawal of commercial PSBs from the broadcasting of children's programmes:

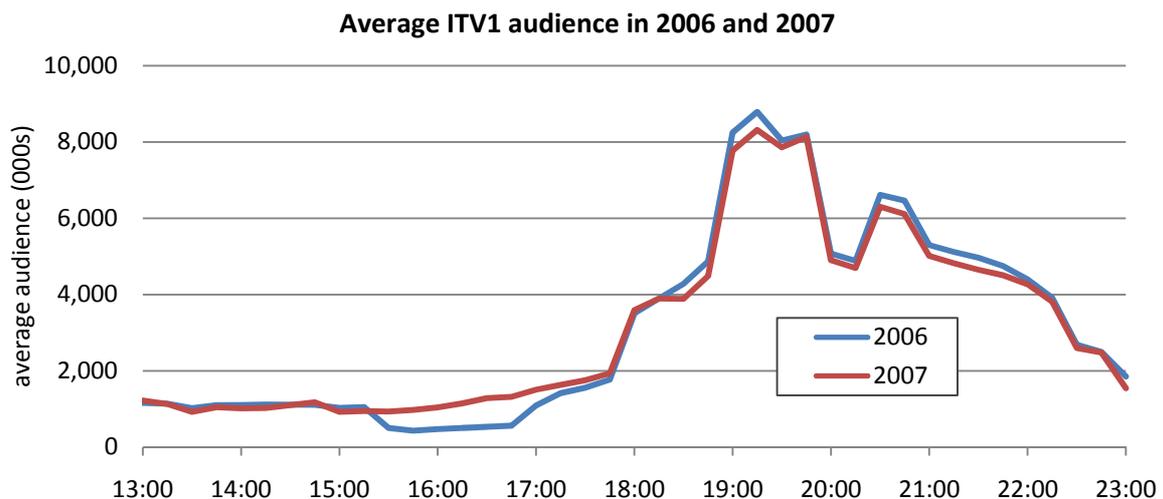
- the loss of high quality content for children
- the value of primary commissions to external producers;
- availability of high audience reach for programmes which are dependent on funding through merchandising and rights;
- the availability of this programming to other broadcasters on either a co-production or acquisition basis;
- a diminution of competition in the commissioning process

At the time when the report was being prepared the full effect of ITV's withdrawal from active involvement in the children's programming sector had yet to be felt. Now it has been over two years since ITV1 stopped commissioning and it may be possible to get a clearer view of the consequences. The box below examines the departure of ITV1 from children's television.

The children's TV world without ITV

In March 2006 ITV stopped commissioning new material for its children's television slots, and at the beginning of 2007 it stopped showing children's programmes during their traditional afternoon slot on the main channel.

The reason for ITV's decision was purely financial, audiences were down year-on-year and Channel 4 and others had shown that it was possible to generate large adult audiences during the late afternoon. In other words there was a large opportunity cost to showing children's programming. The chart below shows the average audience during an average day from the first three months of 2006 compared to the first three months of 2007.



Source: BARB

The dip in viewing figures that is associated with children's airtime in the 2006 figures is no longer present in the 2007 figures. Not only was ITV1 able to generate higher audiences - and thus higher revenues – by replacing children's programming but it was able to significantly reduce its programming costs. From a peak of almost £50m a year, ITV1's spend on children's programming fell to approximately £25m in its last full year of commissioning¹⁴. In contrast the drama repeats that ITV has been screening in this slot have come from its substantial inventory of programming and as such at a minimal cost.

The savings that have been made by ITV have come at the expense of original children's production. Historically, most of ITV1's spend on children's programming has been on original productions and of this around half was spent on in-house commissioning and the rest with the independent production sector. The impact on in-house production was almost immediate, in June 2006 ITV announced the closure of ITV Production Kids with the loss of 19 jobs.

The effect on the independent production sector has been "devastating" according to the head of children's production at a major independent producer. This has resulted in the loss of this company's entire children's development team with the emphasis now changed from building a centre of children's excellence to one of surviving "commission to commission". Similar accounts are repeated across the sector. Some producers estimate that ITV was the source for 30% of the total children's commissioning funding.

The effect for viewers has been one of lessened choice of viewing and diminished investment in programming. Whilst a number of ITV properties have been picked up by other broadcasters, such as *Thomas the Tank Engine* and *Pocoyo* by Five, investment in a number of award-winning comedy and drama programmes, such as *My Parents are Aliens*, has disappeared. One producer noted that although "more brilliant ideas than ever" are being pitched to the BBC, the BBC has "limited airtime and a limited budget" and so many of these ideas are not being commissioned. Furthermore the 250 million hours of viewing by 4-15 year olds of the CITV slot in 2001, a substantial 'shop window' for the UK production sector, has now vanished. This has harmed the ability of UK production sector to garner revenues from co-productions or subsequent international sales.

Some interviewees also claimed that the departure of ITV from children's commissioning has had negative effects on the BBC. The CBBC afternoon slot has no competition amongst the main PSB channels. The BBC has moved its slot to BBC Two from BBC One and now the slot is shifted and contracted on occasion to make way for other programmes. According to one industry source, at a major independent producer, this would "not have happened in the days of competition with CITV". Some producers also note that this has changed the relationship between independent producers and the BBC. Previously there was genuine competition between the BBC and ITV for innovative programme ideas, and titles could be made attractive to either broadcaster with small changes of tone. Now producers do not have this option and the BBC does not have any competition in the race for ideas. This may not provide the right incentives for the BBC to be agile in the length of time it takes to respond to pitches for ideas.

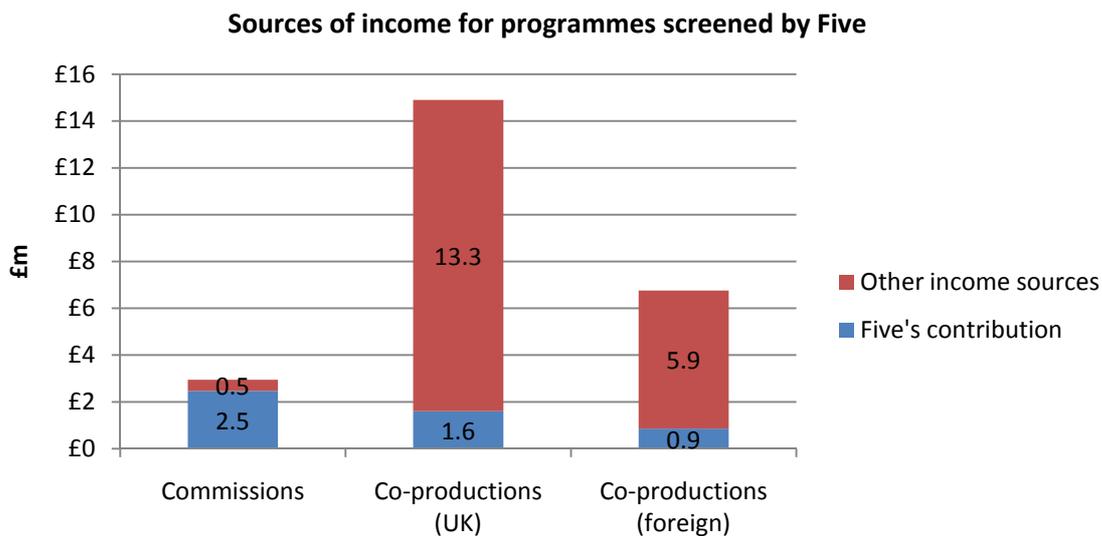
Through the analysis conducted so far we can now look at the hypothetical effects if Five were to end its commitment to the pre-school children's market.

Firstly, it is important to note that if Five were to withdraw from children's television, audiences would lose a much-trusted and well loved brand. As Ofcom's research showed, *Five's Milkshake!* is

¹⁴ Since then there has been no real investment in kids programming by ITV, although it may release £4m to help refresh the ageing content being repeated on the CITV channel.

rated above average on the majority of PSB characteristics. Furthermore a large volume of programming for younger children would be lost from a PSB channel with reach and impact, currently over 20 hours a week.

There would also be a significant impact on the production sector. To this extent we can look at the types of programming in which Five invests. The chart below shows the total funding that came from Five and that which came from other sources for all 18 of the commissions and co-productions which Five funded in 2007.



Source: Five

For the nine commissions, Five provided the majority of the budget. It may be that some of the shows that Five commissioned may have been able to find primary commissioning funds elsewhere in Five's absence. However, if they did it is likely that they would simply have displaced other programming and as such the effective loss of primary funds would be similar. We can then say with some confidence that Five's primary investment of £2.5 million would not have been replaced. Furthermore, the small additional revenues that these nine shows generated would also have been lost. This would amount to another £0.5m lost from the UK production sector.

The nine co-productions have very different funding structures. These are the animations which have global distributional reach, such as *Fifi* and *Roary* for which Five provides co-production funds. For these shows, the television fee is only one part of a more complex funding puzzle¹⁵. Although the primary funding provided by television may not be vital to such projects, the commercial shop window a terrestrial TV slot provides certainly is¹⁶. It is important as it reassures the non-TV investors that the UK merchandising market will be exploitable. This is one of the strengths of Five, as a free-to-air PSB delivering popular programming for younger children, it forms a particularly

¹⁵ Keith Chapman, of Chapman Entertainment the makers of *Fifi* and *the Flowertots*, noted in an interview that "only 20 per cent of *Fifi* is covered by the TV funds, so it has to have merchandising potential to make it viable. The budgets run at the £3.5m mark for the 52 episodes..."

<http://archive.thenorthernecho.co.uk/2005/4/21/15851.html>

¹⁶ Ibid "All the toy companies around the world want *Fifi* because they can see the potential and the trick is to get this project on TV..."

attractive destination for merchandising and international TV sales dependent shows. Five co-produces programmes which are made in the UK and also programmes which are made overseas.

As shown in the chart above a number of programmes which Five co-produces are originated in the UK production sector. In the absence of Five would all of these shows find new homes and thus prove attractive for investors to invest in? It is unlikely they all would, the BBC does not invest as much in shows funded through this model and the satellite channels may not have the reach and impact of Five's *Milkshake!* strand.

However, as *Thomas the Tank Engine* was salvaged by Five from the flotsam of CITV, some of Five's shows may be rescued by other channels. However, this will most likely result in the co-production funding displacing some other funding, and we can therefore assume that the £1.6m of Five's co-production fee would be lost. Although it is not as easy to gauge a precise figure for the loss in additional revenues from these shows, a conservative assumption would be to assume that maybe three quarters of these would have failed to find sufficient funding in the absence of Five. Therefore we can add another £10 million to the sum that will be lost by the independent production sector.

The co-productions made abroad are much more likely to be able to continue without Five's investment. Nonetheless there would still be a financial impact on the UK production sector as often there is script development work in the UK prior to production, and Five always re-voices its internationally made co-productions. Five's investment also allows it to have an approval role in the editorial process, thus adapting co-productions to UK audiences.

The losses that might be suffered are summarised below.

Funding area lost	Amount	Certainty of loss
Spending on acquisitions and repeats	£1.0m	Highly likely
Primary funding for UK commissions	£2.5m	Highly likely
Secondary funding for UK commissions	£0.5m	Highly likely
Primary funding for UK co-productions	£1.6m	Highly likely
Secondary funding for UK co-productions	£10.0m	Hypothesis that ¾ of co-productions do not get made without PSB 'shop window'
Total	£15.6m	

This figure is potentially an underestimate of the loss to the UK production sector as it is derived from the budgets of productions rather than the total return that Five's investment generated. Therefore it is likely that the loss will be greater than the £14m figure suggested by Ofcom in Section 8 of *The Future of Children's Television Programming* report as the financial effect if Five were to withdraw.

Although we have estimated the loss in funding that Five's departure from children's programming might entail, we should examine in more detail the consequences for independent producers and for the wider arena of younger children's PSB as a whole.

Industry interviewees, when asked about the possible consequences of Five's withdrawal from the market on the independent production sector were very bleak in their outlook. The head of children's production at a large indie claimed "many indies are completely dependent on Five, without it they would disappear". The head of a small indie who works very closely with Five claimed the effect would be "disastrous, many smaller producers would be thrown out of the sector as they wouldn't be able to work for CBeebies at their current scale". Some plurality of production would certainly be damaged

Although many respondents, especially small producers who work closely with Five, spoke of the financial consequences and implications for their own businesses of a possible Five withdrawal, they also focused on how the PSB landscape might change as a result. The head of a small indie said that diversity would be reduced, "children need a choice, even at that young age". Others mentioned the need to keep "CBeebies on its toes".

The effect of Five's departure would also be felt by the BBC. Richard Deverell noted that Five is CBeebies main competitor and that on weekday mornings *Milkshake!* on Five regularly beats the programming on BBC2. "We look at their ratings, shows, look at them overall, their presenters, all their activities. Personally I think that this is healthy." Without Five the BBC would no longer have this competition which both Five and the BBC acknowledge as being a creative force.

Summary and conclusions

In this report we have attempted to map the pre-school children's television ecosystem with a particular emphasis on the BBC and Five. This report suggests that the value of Five's involvement stems from four main areas

- the perspective that it brings to bear on younger children's television through the range of producers it employs – a perspective which is enjoyed by parents and children;
- the dynamic production environment which it helps to maintain;
- the competition in creativity that it maintains with the BBC; and
- the value created in the UK production sector by Five's originations spending

Only the last of these is easily measurable in financial terms, Five's spend of £6 million a year supports income within the UK independent production sector of over £15.6 million (£4.1m directly from Five supporting secondary revenues of £11.5m) . The other benefits are not so easily measured but would undoubtedly be costly to replicate if Five's children's investment were to be lost.

Sources

A number of industry figures agreed to be interviewed , those who agreed to be named include:

- Richard Deverell, BBC
- Nick Wilson, Five
- Mary Durkan, Chorion
- Christopher Pilkington, Initial
- Nigel Pickard, RDF
- Luke Gallie, Two Hands
- Peter Scott, Impossible TV
- Sallyann Keizer, Sixth Sense

Sources for data include:

- The Future of Children's Television discussion paper (Ofcom 2007)
- The Future of Children's Television research report (Ofcom 2007)
- The PSB Review – Phase 1: The Digital Opportunity
- BARB
- Broadcast magazine online
- BAFTA
- The Northern Echo
- Five annual review and statement of programme policy
- ITV annual reports
- Channel 4 annual reports
- GMTV annual review