



Oliver & Ohlbaum

Channel 4 Made outside England analysis

A report prepared by Oliver & Ohlbaum for Pact

August 2024

Key Findings

This slide outlines the key findings of this report

- **Overall, Channel 4 increased MoE commissioning in 2023**, reaching over 10.5% of both spend and hours. In Scotland, hours and spend rebounded after dipping in 2022, while Northern Ireland's hours increased somewhat but spend dropped
- Ofcom's modelling suggests **Channel 4 would need to shift £12 million of spend to meet a 12% quota in 2023**
- **Modelling a 12% MoE quota under digital-first commissioning suggests Channel 4 would need to add £16 million** to spending in the Nations in 2030, totalling £130 million from 2025-2034
- Introducing **Nation-specific quotas for Channel 4 would likely require an increase in hours and spend in Northern Ireland by £4.9 million in 2030**, which could come from London, other MoL areas, or be new spend
- **On whether returning series in London are likely to restrict Channel 4's ability to meet a 12% quota**, we find that they account for a lower share of commissions in London, and many may not continue until 2030
- **BBC's titles from the Nations are increasingly made by external companies**, with the BBC producing 16% of total qualifying hours in the Nations using external companies in 2023
- **Considering recent performance**, a 2027 deadline for compliance with a 12% Channel 4 quota would require £4-7 million additional spend in the Nations annually compared to a 2030 timeline

Glossary

This slide outlines the key sector definitions used in this report

- **Qualifying programmes/hours:** This refers to first-run originated network programming excluding national news
- **Made Outside London (MoL):** This refers to production that meets two out of the three criteria: a substantive business and production based in the UK outside the M25; at least 70% of the production budget must be spent in the UK outside the M25; and at least 50% of the production talent (i.e. not on-screen talent) by cost must have their usual place of employment in the UK outside the M25
- **Made Outside England (MoE):** This refers to production classified as Made Outside London, that has two of its three criteria assigned to either Scotland, Wales or Northern Ireland, collectively called the Nations
- **Qualifying independent production company (QIs):** A company not tied to a UK broadcaster through significant common ownership. The Broadcasting (Independent Productions) Order 1991 (as amended) states that an independent producer is: not employed by a broadcaster; does not have a shareholding greater than 25% in a UK broadcaster; or in which no single UK broadcaster has a shareholding greater than 25% or any two or more UK broadcasters have an aggregate shareholding greater than 50%
- **Non-qualifying independent production company (NQIs):** A production company which is more than 25% owned by any company which also owns a UK broadcaster or is a UK broadcaster
- **In-house studio:** A production company which is 100% owned by the UK broadcaster, or the parent company of that broadcaster, for which the company is producing a programme
- **External PSB studio:** A production company which is 100% owned by a UK PSB broadcaster, or the parent company of that PSB broadcaster, other than the broadcaster for which the company is producing a programme

Methodology

Our approach utilises the latest reported numbers from Ofcom, in combination with commissioning data from the O&O Producer Database, to create informed estimates of granular cuts which are not openly reported

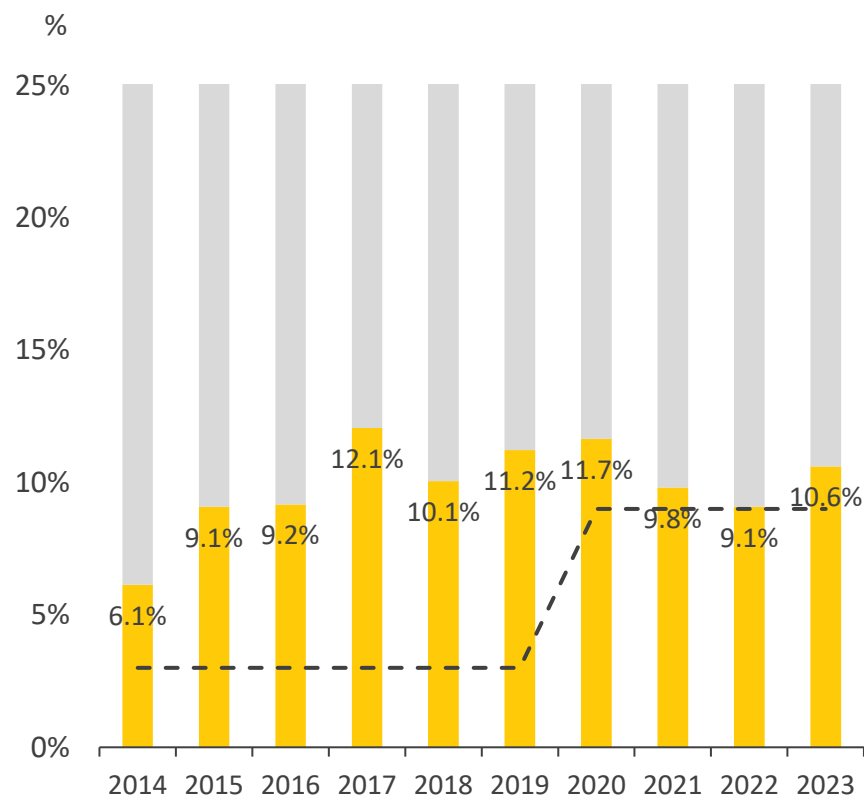
- The re-consultation references analysis outputs that have been redacted due to their sensitivity – Ofcom and Channel 4 do not report hours and spend data in enough granularity to fully replicate their analysis, so we have our own approach to estimating these numbers
- Total Channel 4 commissioning spend and hours is reported by Ofcom, as well as performance against their quotas
- Beyond this, we use the O&O Producer Database to examine how Channel 4 commissioning hours are split by genre and region, onto which we apply our estimates of average Channel 4 tariffs by genre and daypart to build a picture of how spend breaks down as well
- We subsequently make further modelling assumptions, as described during this report, to create forecasts for how Channel 4 might respond to quota changes
- It should be noted that numbers in this report, which extend beyond data which is openly available, are estimates and may differ from Channel 4 analysis based on their own known numbers, including the redacted figures from the re-consultation. Our estimates should broadly reflect the same trends and impacts though
- Much of our modelling is based on 2022, when total Channel 4 MoL qualifying spend is not absolutely known as they last reported spend by genre in 2021, so this required a further layer of estimation

1. How did C4 perform against its MoE and MoL quotas in 2023?
2. How has Ofcom estimated the potential impact of introducing a 12% MoE quota?
3. Would specific quotas for each MoE Nation have an impact within a 12% total MoE context?
4. How much MoL spend would be protected by raising the quota to match C4's voluntary commitment?
5. Are returning series from London a significant factor which limits C4 MoL performance?
6. Is the BBC's in-house production a significant factor enabling it to deliver against a higher MoE quota?
7. Would it be possible for C4 to comply with a 12% MoE quota prior to 2030?

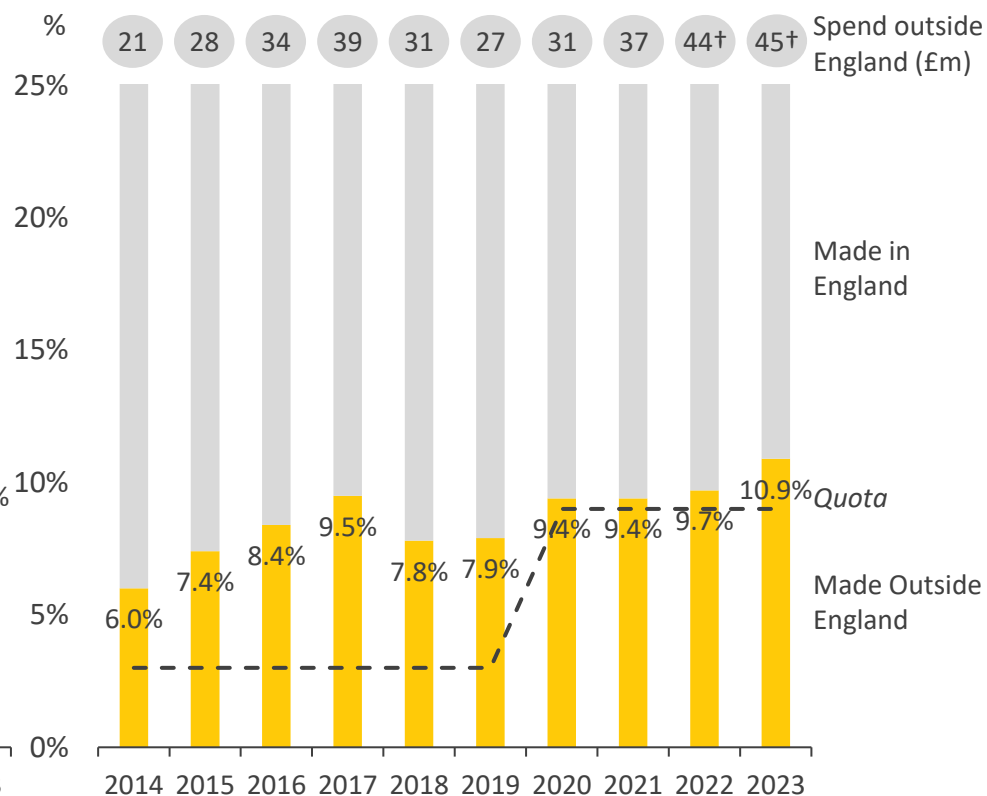
Channel 4 increased its MoE commissioning levels in 2023

10.9% of qualifying C4 commissioning spend was MoE, further above the 9% quota than in 2021 and 2022. The overall MoE cost-per-hour moved down towards the channel average given the smaller gap between hours and spend levels

Share of Channel 4 qualifying hours outside England, 2014-2023



Share of Channel 4 qualifying spend outside England, 2014-2023



Note: Qualifying production refers to first-run originations and excludes news. † Estimated as Channel 4 stopped reporting actuals in 2022
 Source: Ofcom PSB annual reports, Oliver & Ohlbaum Producer Database

Scotland commissions bounced back in 2023, while N. Ireland spend fell back

Share of value and volume of production in Wales has broadly increased over time. Northern Ireland's share of spend dropped significantly in 2023, suggesting a different mix of commissions

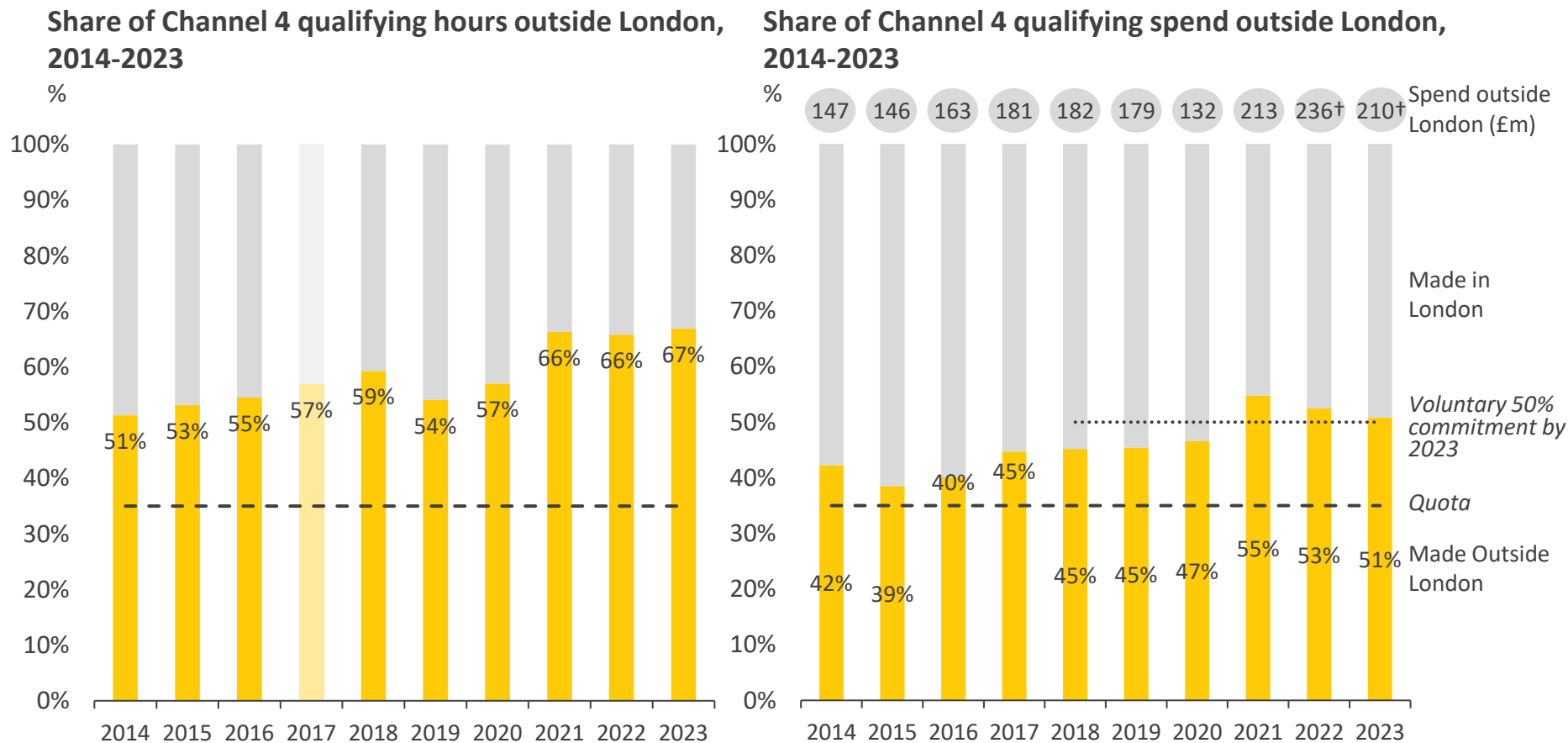
Share of Channel 4 qualifying production outside England, by Nation, 2014-2023



Note: Qualifying production refers to first-run originations and excludes news
 Source: Ofcom PSB annual reports

Channel 4 MoL spend remained marginally above its voluntary commitment

In 2018 C4C voluntarily committed to increasing MoL spend to 50% by 2023. Share of spend dropped to 50.8% this year, a small buffer which might be linked to the economic pressures, and hard choices, faced by C4C in 2023



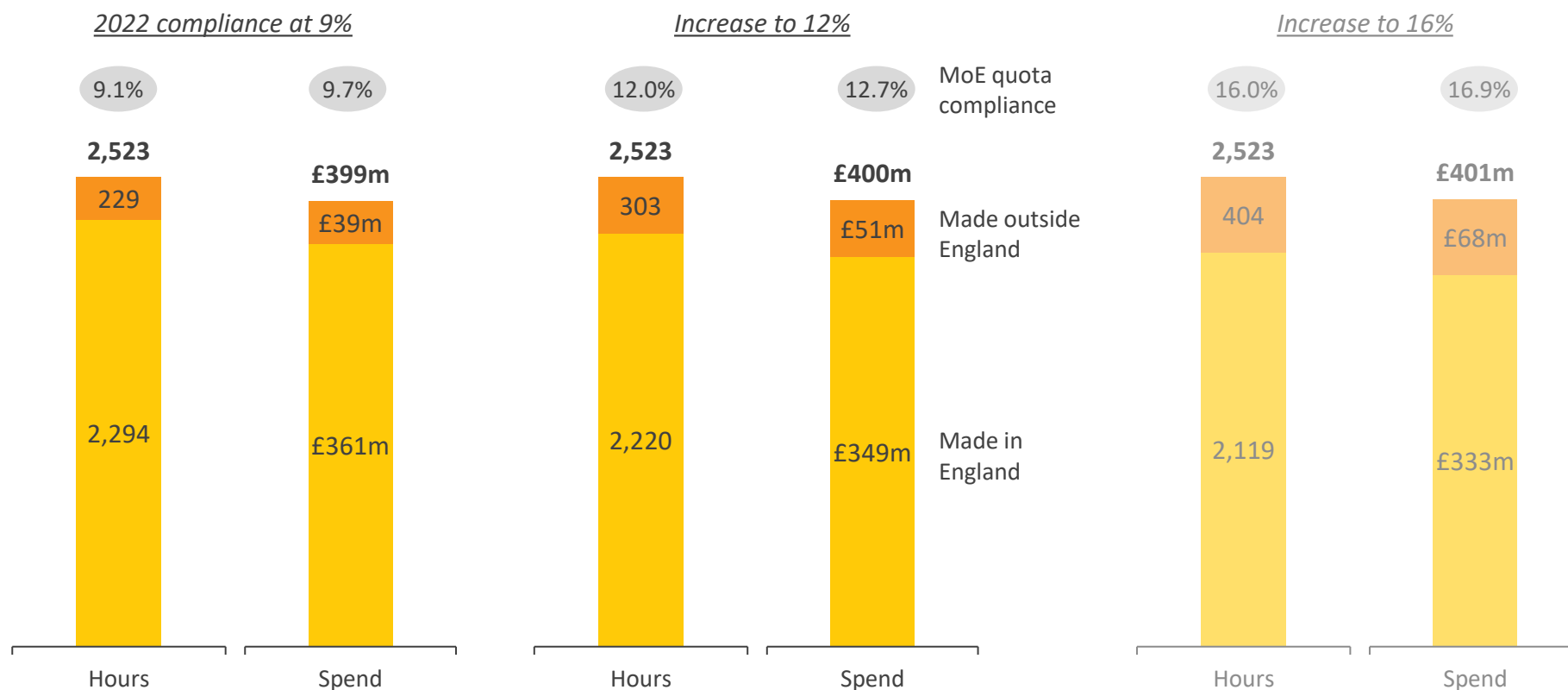
Note: Qualifying production refers to first-run originations and excludes news.. +Estimated as Channel 4 stopped reporting actuals in 2022
 Source: Ofcom PSB annual reports, Oliver & Ohlbaum Producer Database

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Ofcom's method suggests C4 would need to move £12m spend under a 12% quota

As per the method described in paragraph 4.36 of Ofcom's consultation document, a 12% quota would increase Nations commissioning by 74 hours and £12m spend in 2022. C4 said it would seek to migrate this from London

Indicative C4 qualifying hours and spend, by MoE quota level, with the 2022 average cost per hour for each Nation*
Hours, £m



Note: Qualifying production refers to first-run network originations and excludes news. *Assumes the genre mix produced in each nation is unchanged, meaning the total genre mix does change in favour of the genres produced in the Nations

Source: Channel 4 annual reports, Ofcom PSB annual compliance reports, Ofcom CMR, O&O Producer Database, O&O analysis

We have also estimated a 12% quota by 2030 under digital-first commissioning

The main difference between our estimate and Ofcom's is that it is a future forecast that accounts for changes in Channel 4's commissioning mix towards higher tariff genres, in line with its digital-first strategy

Digital-first commissioning

- Assumed qualifying originations spend remains unchanged
- Analysed BVOD vs. linear TV performance, excluding genres with stable spend (e.g., Soaps, Sports, Education)
- BVOD currently makes up 25% of Channel 4 viewing; projected to rise to 50% in a digital-first scenario, which Channel 4 is targeting
- Increased spend on popular BVOD genres, reduced spend on less popular ones, leading to higher investment in Drama and Reality TV, and lower in General Factual and Current Affairs
- Overall hours declined due to the shift to more expensive genres
- This transition is phased, with full implementation by 2030
- Maintained overall MoE quota performance for both hours and spend

Increase to 12%

- As outlined by Ofcom, Channel 4 believes it can achieve a 12% quota by 2030 by moving hours from London to the Nations
- Under the digital-first commissioning genre mix described, we modelled a gradual increase to 12% by:
 - Shifting the required hours from London to the Nations
 - Keeping the genre mix of additional MoE hours consistent with London's across each year, after taking into account the shift to a digital-first commissioning strategy
 - Distributing hours proportionally among the Nations based on current distributions
- Implied 2022 genre tariffs from London were applied to these extra MoE hours - i.e. assuming content costs are like-for-like – this follows Ofcom's approach
- Overall hours and genre mix are assumed to be unaffected by an increase in MoE commissioning
- Commissioning in English Regions stayed stable, while London's commissioning transitioned to the Nations
- This would create a buffer above C4C's 50% MoL voluntary commitment

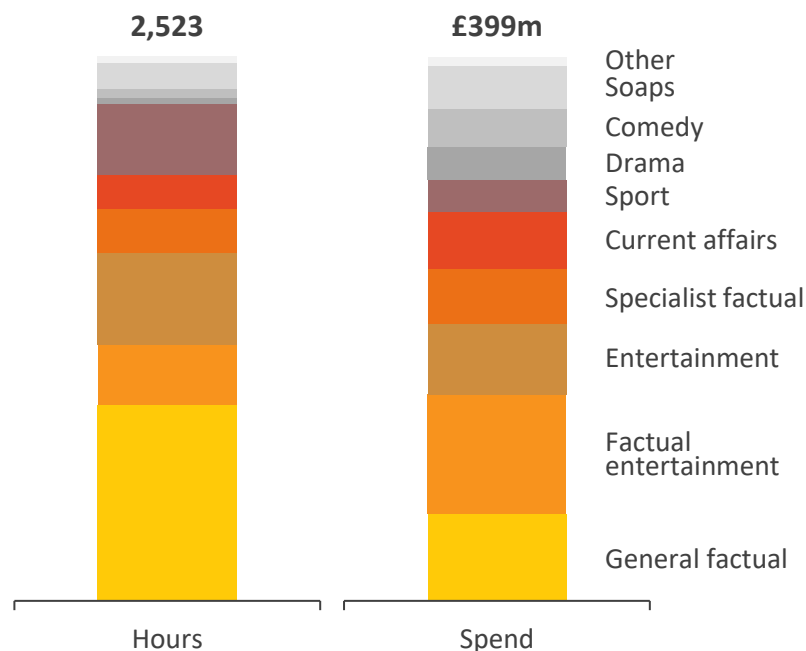
Drama commissioning grows in our estimate of Channel 4's genre mix by 2030

Share of spend on Factual Entertainment also increases while General factual and Current Affairs decrease. Total hours decrease by 167 due to the shift to more expensive genres, assuming total spend remains constant

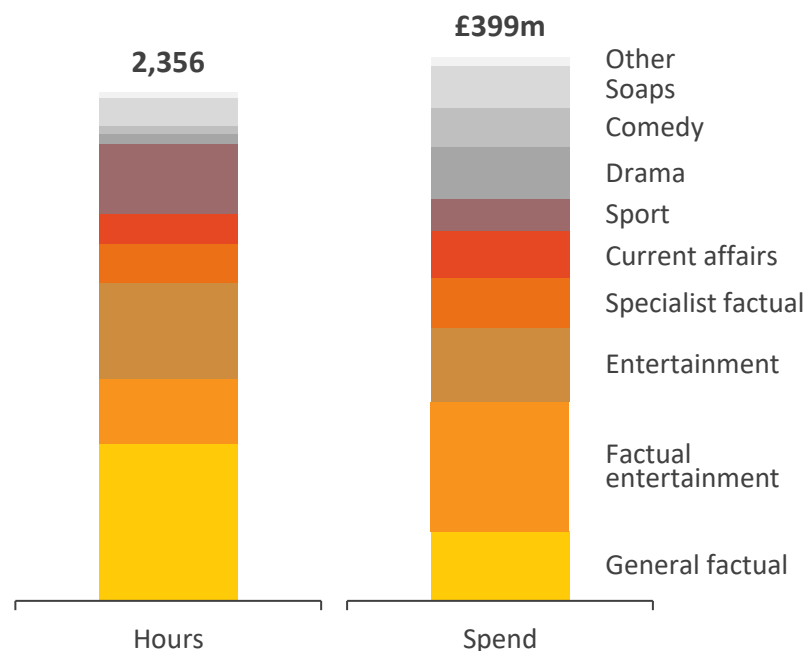
C4 status quo genre mix vs. digital-first commissioning, by qualifying hours and spend, 2022 and 2030*

Hours, £m

Status quo, 2022



Digital-first commissioning, 2030



Note: Qualifying programmes refer to first-run originations and excludes news. Other includes Arts & classical music, Children's, Religion & ethics, Feature films and Education, *Under the assumption that qualifying originations spend remains flat

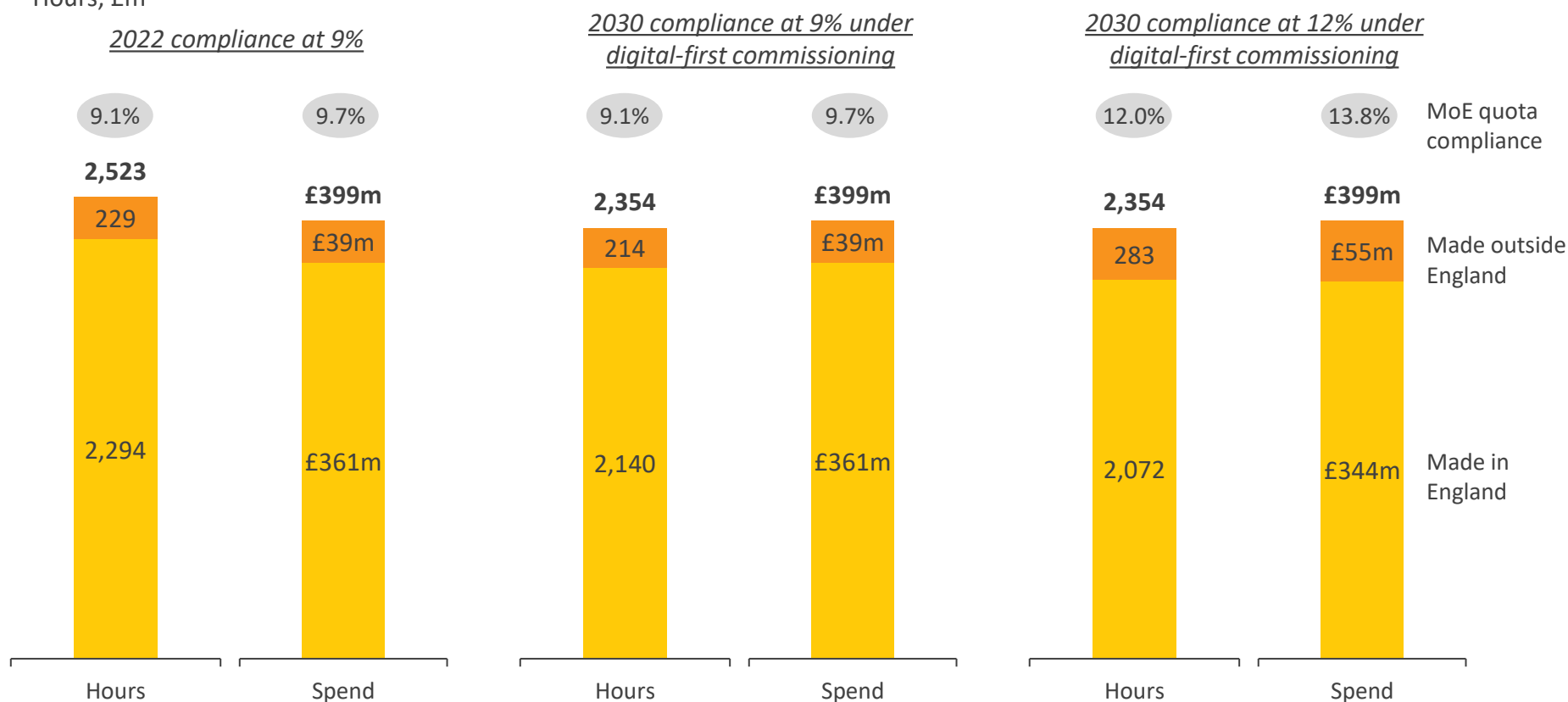
Source: Channel 4 annual reports, Ofcom PSB annual compliance reports, Ofcom CMR, O&O Producer Database, O&O analysis

We estimate a 12% MoE quota could add £16m to spending in the Nations in 2030

Under digital-first commissioning with a 9% quota, MoE spend remains at 2022 levels but hours decrease. Raising the quota to 12% increases MoE spend above the estimate as per Ofcom’s method – mainly due to the shift towards genres with higher tariffs on average, with some of these commissions then moving to the Nations

C4 qualifying hours and spend, modelled as described by Ofcom, by MoE quota level

Hours, £m



Note: Qualifying production refers to first-run network originations and excludes news

Source: Channel 4 annual reports, Ofcom PSB annual compliance reports, Ofcom CMR, O&O Producer Database, O&O analysis

On this basis, a 12% quota would boost MoE spend by £130 million over 10 years

According to our modelling, the uplift in spending in the Nations under a 12% quota would result in a cumulative increase of £130 million between 2025 and 2034

Forecasted spend on Channel 4 PSB first-run originations, modelled as described by Ofcom, 2025-2034

£m

Increase quota forecast (12% MoE quota), with digital first commissioning

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total	£399m	£399m	£399m	£399m	£399m	£399m	£399m	£399m	£399m	£399m
London	£184m	£182m	£180m	£178m	£176m	£174m	£174m	£174m	£174m	£174m
English regions	£171m	£171m	£171m	£171m	£171m	£171m	£171m	£171m	£171m	£171m
Nations	£44m	£46m	£48m	£50m	£52m	£55m	£55m	£55m	£55m	£55m

Base case forecast (9% out of England quota)

Nations	£39m	£39m	£39m	£39m	£39m	£39m	£39m	£39m	£39m	£39m
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Increase in Nations spend

Nations	£6m	£8m	£10m	£12m	£14m	£16m	£16m	£16m	£16m	£16m
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Cumulative increase in Nations spend over 10 years: £130m

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Assumptions and Methodology

We assume Nation-specific quotas for Channel 4 would be apportioned based on relative population size, similar to the BBC. We then analyse recent Channel 4 MoE activity to examine how they might need to respond

Nations specific quotas

- The re-consultation considers adding Nation-specific quotas to the 12% MoE but deems them not appropriate due to the impact on Channel 4's flexibility in commissioning and ability to meet commercial objectives. Pact would like to understand what adding Nation-specific quotas proportionate to population might mean
- The BBC has Nation-specific quotas based on the relative population size of each UK Nation: Scotland at 8%, Wales at 5%, and Northern Ireland at 3%, totalling 16% MoE
- A 12% quota for Channel 4, using the same population-based ratio, would imply quotas of 6% for Scotland, 3.75% for Wales, and 2.25% for Northern Ireland. Currently, Channel 4's commissioning in the Nations is mostly skewed towards Scotland and Wales – which could leave them short of the Northern Ireland quota and require them to move spend around under such an approach
- We have modelled expected Channel 4 performance against Nation-specific quotas, to total 12% MoE, by analysing the average split of MoE activity by Nation across the past three years (to meet their 9% MoE quota) then scaling this up proportionally to a 12% MoE level
- This assumes that Channels 4's commissioning mix across the Nations would remain similar, as current activity is indicative of their presence in each area – however, Channel 4 can ultimately decide how to adjust its spending to meet new quotas, which could mean focusing on underrepresented Nations when meeting a 12% MoE quota

MoE and nation-specific quotas, C4 and BBC

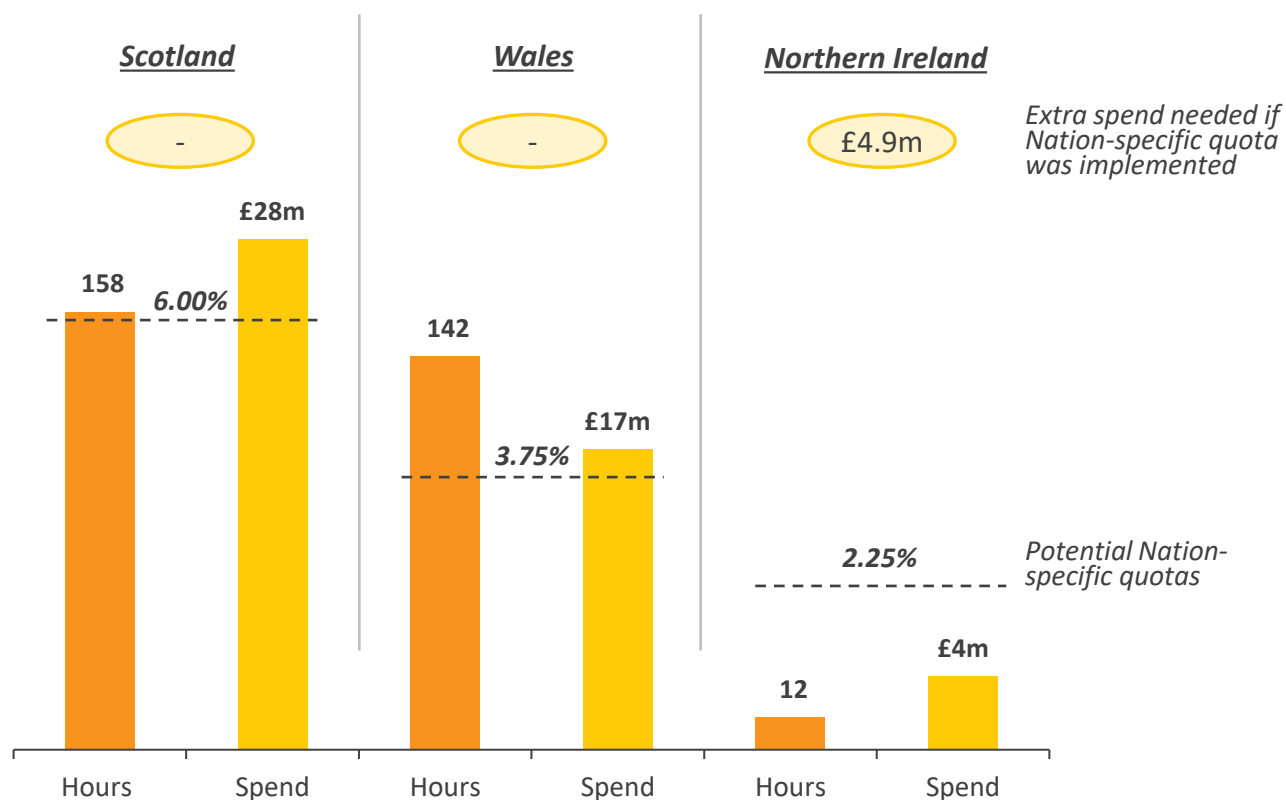
	C4 est.	BBC
Total	12.00%	16.00%
NI	2.25%	3.00%
Scotland	6.00%	8.00%
Wales	3.75%	5.00%

Nation-specific quotas would require increased hours and spend in N. Ireland

Based on current commissioning ratios, Channel 4 would likely need to boost its Northern Ireland activity – the extra £4.9m p.a. spend required could come from London, other MoL areas, or be purely additional spend

C4 qualifying hours and spend, by Nation, 2030 compliance at 12% quota with no Nation-specific quotas

Hours, £m



Based on recent ratios, C4 would underperform against a representative NI quota

£4.9m extra spend per year would be required in NI to meet a 2.25% quota – C4 could potentially source this by diverting London spend, other MoL spend, or by increasing overall content spend

Scotland activity comes close to the hours quota, and would be at risk of dropping below in some years without a small amount of extra commissioning as a buffer

Note: Qualifying production refers to first-run network originations and excludes news

Source: Channel 4 annual reports, Ofcom PSB annual compliance reports, Ofcom CMR, O&O Producer Database, O&O analysis

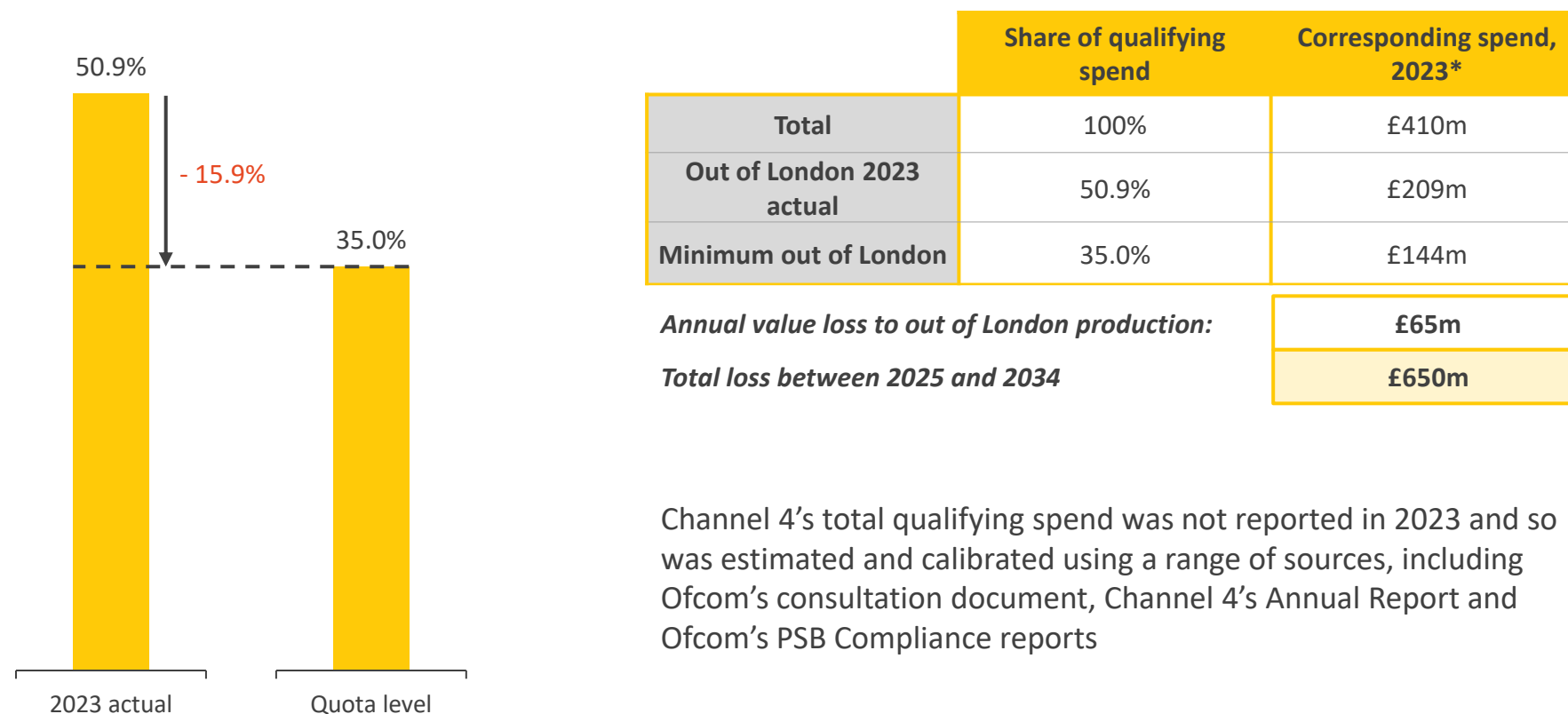
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C4's voluntary MoL commitment protected £65m of spend in 2023

If Channel 4's spend in 2023 had been at the quota level rather than its commitment of 50%, its spend outside London could have been £65m lower, assuming no change in total spend and no buffer above the 35% quota

Share of Channel 4 qualifying spend on production outside London

%



Channel 4's total qualifying spend was not reported in 2023 and so was estimated and calibrated using a range of sources, including Ofcom's consultation document, Channel 4's Annual Report and Ofcom's PSB Compliance reports

Note: *Estimated as Channel 4 stopped reporting actuals in 2022. Qualifying spend refers to first-run originations and excludes news
Source: Ofcom PSB annual reports

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Channel 4 suggested that returning titles limit their ability to meet higher quotas

Long-running series help drive Channel 4 revenues and enable delivery of its remit. Many of these are currently made in London. This spend may be difficult to re-direct, but there are new titles being commissioned from London

- In Channel 4's information response to the re-consultation, it said that it is not realistic that it could increase its overall level of commissioning [to reach a 16% MoE quota] by migrating all of the required spend from London
- Channel 4 said that existing commitments to key returning series, which are currently essential for driving large audiences and sustaining commercial revenues, mean that there are limitations on the volume and pace at which it can feasibly reallocate spending from London
- It should be acknowledged that these big returning titles play an important role in the sustainability of Channel 4 and will likely represent a substantial proportion of peak-time commissioning spend. An increase in public service obligations could place limitations on Channel 4's ability to commission and retain these titles
- An analysis of Channel 4 commissioning also shows a lot of new titles from London – this raises the question of whether this commissioning could be re-directed to the Nations to meet new targets, especially on a 2030 timeframe by which time many currently returning titles may have been replaced

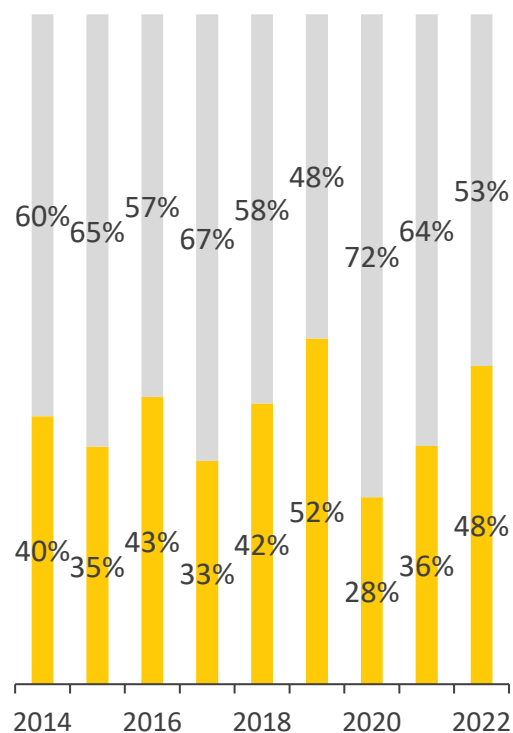
New titles account for a higher share of commissions in London than outside

In both the Nations and the English Regions, returning titles accounted for approximately half of all commissions in 2022, while in London they accounted for 28% in 2022

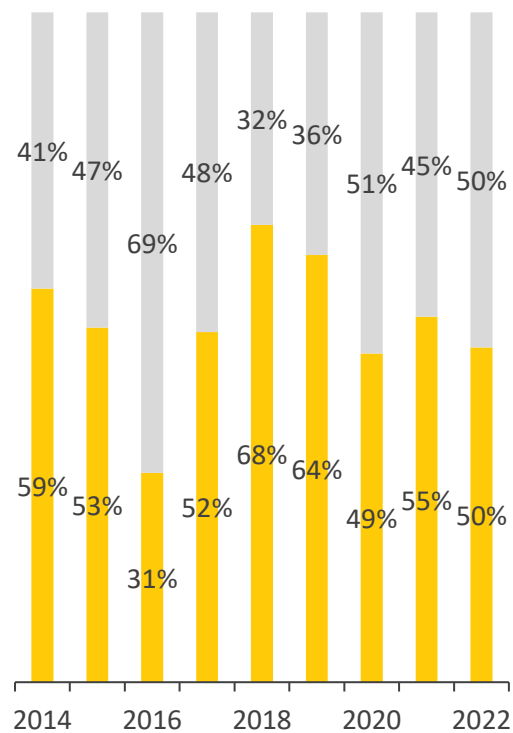
Share of C4 qualifying strands that are new vs returning, by region allocation, 2014-2022

%

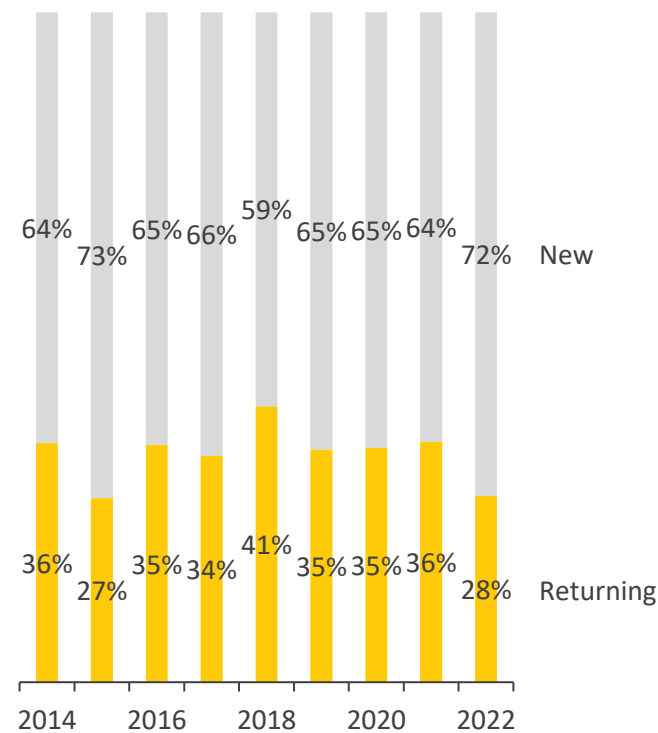
Nations



English regions



London



Note: Qualifying production refers to first-run originations and excludes news. Region as determined by Made Outside London register
 Source: Ofcom Made Outside London registers, Oliver & Ohlbaum Producer Database

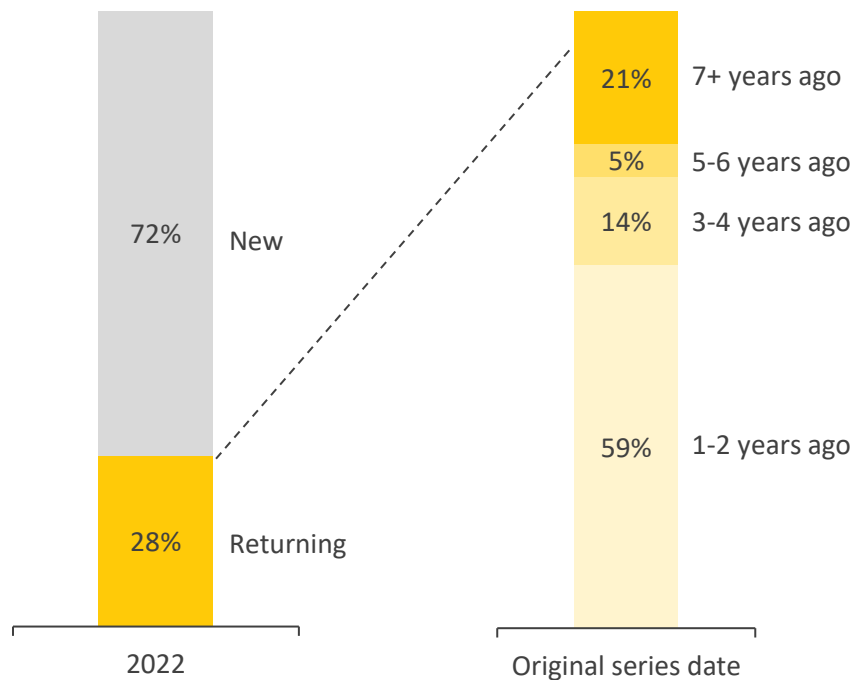
Many currently returning series might not survive until 2030

The majority of returning titles do not last more than five years. By 2030, much of Channel 4’s portfolio will have been refreshed – creating an opportunity to re-direct commissioning

Strand length, C4 made in London programmes, 2022

Titles, %

London



- 28% of Channel 4’s qualifying titles made in London were returning in 2022
- The majority were less than 1-2 years old, and only one-quarter have been running for five years or more
- In the five years to 2030, we would expect many of these titles to have been replaced
- There is an opportunity to meet new quotas by diverting spend activity in line with this natural catalogue turnover, rather than forcing a premature change to long-running titles
- However, it should be noted that the longest-running titles (e.g. Gogglebox, Taskmaster) are likely to represent a higher amount of hours and spend than other titles

Note: Qualifying production refers to first-run originations and excludes news. Region as determined by Made Outside London register. Doesn’t sum to 100% due to rounding

Source: Ofcom Made Outside London registers, Oliver & Ohlbaum Producer Database

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The re-consultation did not consider BBC comparisons to be directly relevant

The BBC can deliver its quotas via its in-house production, whereas C4C is not in the same position – however, the role of BBC Studios in the BBC’s MoL commissioning may be declining, particularly in the Nations

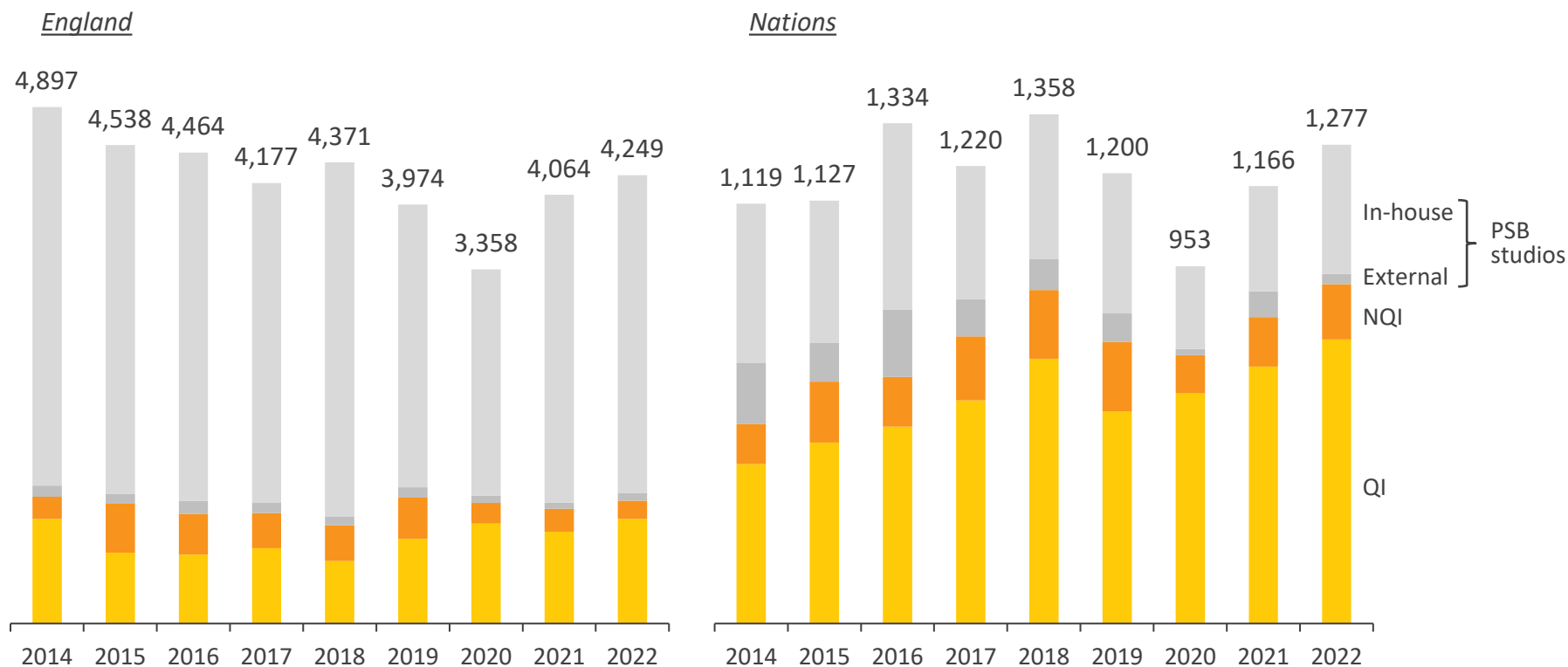
- The re-consultation notes that “several stakeholders pointed to the fact that the BBC appears not to have experienced difficulty in meeting its nations quotas and therefore C4C should be able to increase its delivery”
- However, Ofcom did not consider this “experience to be directly relevant as C4C is of a much smaller scale and the BBC can deliver its quotas by way of its own substantial in-house production bases across the UK's nations and regions whilst C4C is currently entirely dependent on the availability of external production companies”
- The BBC’s in-house production capability certainly gives it more flexibility as to how it delivers against its quotas, including moving its own titles to units outside of London or forming relationships with local indies near its production bases, and this means it is not as dependent on independent production supply as Channel 4 today
- Our analysis shows that the BBC has increased externally commissioned hours in the Nations since 2014, especially from independent producers. BBC Studios plays a smaller part in the delivery of quotas in the Nations compared to the English Regions

The BBC's titles from the Nations are increasingly made by external companies

In 2022, over 16% of total BBC qualifying hours were made in the Nations by external companies, exceeding the Channel 4 quota. The BBC has increased externally commissioned hours in the Nations since 2014

BBC One and Two qualifying hours produced in England and in the Nations, by producer type, 2014-2022

Hours



Note: Qualifying production only. PSB owned are external labels owned 25% or more by another UK PSB, or 50% or more by multiple. England includes English regions and London

Source: Ofcom Made Outside London registers, Ofcom CMR, Ofcom PSB compliance report, BBC Annual Reports Oliver & Ohlbaum Producer Database

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The re-consultation states Channel 4 needs until 2030 to meet a 12% quota

Channel 4 is adapting its commissioning strategy to focus on digital-first content. Ofcom considers that enforcing a 12% quota before 2030 could impose significant additional pressure and potentially harm the broadcaster

- When Ofcom previously increased the MoE quotas in 2014, a 5-year adjustment period was applied, with the quotas coming into force in 2020. In the re-consultation document, Ofcom suggests a similar adjustment period for increasing the quota from 9% to 12%, with the new quota coming into effect in 2030
- Several reasons are given by Ofcom for this proposed adjustment period:
 1. **Need for an adjustment period similar to when 9% quota was introduced** - Channel 4 took several years to adjust to the 9% quota introduced in 2020. Despite the larger previous increase, greater uncertainty now requires a similar adjustment period for sustainable delivery
 2. **9% quota remains difficult to achieve** - Exceeding the 9% quota remains difficult, with Nations' spend expected to decrease in 2024 compared to 2023
 3. **12% quota would require additional investment in talent and skills** - While a small change in content spend, achieving a 12% quota would require Channel 4 to additionally invest in its existing talent and skills initiatives
 4. **12% quota would pull focus from need to shift to digital-first commissioning** - Given the challenging environment, Channel 4's focus should be on digital commissioning, and imposing a 12% MoE quota soon would pull focus from this
 5. **Digital-first commissioning increases the risk of non-compliance** - Channel 4 is shifting to a digital-first strategy, focusing on fewer, high-impact productions, with more scripted content that is prone to delays, increasing the risk of non-compliance. This shift also leads to lower content volume, reducing flexibility for meeting quotas

We assessed recent performance against a 12% quota

In 2023, producers in the Nations delivered 10.9% of Channel 4's spend, and over 16% of BBC qualifying hours, indicating they have existing relationships and skills in the Nations

Need for an adjustment period similar to when 9% quota was introduced

Channel 4 states it took several years to adjust to the 9% quota introduced in 2020.

Data from the period (as shown on Slide 5) on Channel 4's percentage of spend MoE shows that rather than a gradual adjustment, there was a jump from 7.9% in 2019 to 9.4% in 2020, following little change between 2016 and 2019.

It's likely that this step change required some planning, but the proposed quota change is smaller, at 1.1% above Channel 4's achieved levels in 2023 (before a compliance buffer).

9% quota remains difficult to achieve

In 2023, Channel 4 delivered 10.6% share of hours MoE and 10.9% of spend MoE. While this may represent a peak, it demonstrates the capacity of producers in the Nations to deliver these hours and spend.

12% quota would require additional investment in talent and skills

The fact that Channel 4 was able to achieve a 10.6% share of hours and 10.9% share of spend MoE in 2023 indicates that the skills and talent are present to deliver above the 9% quota. Similarly, the BBC's ability to deliver over 16% of its content in the Nations with external producers shows the depth of skills in the Nations. Additionally other Broadcasters, SVODs and Screen bodies are all investing in skills development in the Nations, with existing policy initiatives to increase this

A 2027 deadline would require £4-7m additional spend in the Nations per year

When modelling the impact of a shorter adjustment period alongside the shift to digital commissions, 2027 would likely result in additional £4-7m of spend to be directed towards the Nations, in comparison with a 2030 timeline

Forecasted spend on Channel 4 PSB first-run originations

£m

Increase quota forecast (12% MoE quota)*, with digital first commissioning, with 2027 compliance deadline

	2025	2026	2027
Total	£399m	£399m	£399m
London	£184m	£182m	£180m
English regions	£171m	£171m	£171m
Nations	£48m	£52m	£55m

Increase quota forecast (12% MoE quota)*, with digital first commissioning, with 2030 compliance deadline

Nations	£44m	£46m	£48m
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Increase in Nations spend

Nations	£4m	£6m	£7m
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- We modelled the necessary spend to reach a 12% MoE quota by 2027, with the shift to digital commissioning fully implemented by 2030
- This shows that hitting a 12% quota in 2027 would require an additional £4-7 million of investment in the Nations per year from 2025-2027, in comparison with a 2030 deadline
- While this investment is significant, the large number of new commissions in London raises the question of whether and how this could be reached by shifting new commissions out of London rather than adding to Channel 4's total content spend or moving returning series

Note: Qualifying production refers to first-run network originations and excludes news. England includes London. Values may not sum to total due to rounding, * No Nation-specific quotas

Source: Channel 4 annual reports, Ofcom PSB annual compliance reports, Ofcom CMR, O&O Producer Database, O&O analysis

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