

UK's Creative Industries Boosting the regional economy

- The Creative Industries accounted for 6% of UK GVA in 2019, more than the automotive, aerospace, life sciences and oil and gas industries combined. The UK's Creative Industries are the largest in Europe and are central to promoting the UK's soft power globally
- At the core of the creative economy is the AV sector, which, in turn, is driven by the UK's PSBs. In 2019, the PSBs were responsible for 61% of primary commissions outside London and are the pillar upon which much additional regional economic activity depends
- Going forward, only the PSBs are likely to have the willingness and scale to invest in production centres outside London with sufficient gravitational pull to reorientate the wider creative economy towards the nations and regions

Sanchit Jain

sanchit.jain@endersanalysis.com

Tom Standen-Jewell

tom.standen-jewell@endersanalysis.com

+44 (0)20 7851 0900

19 March 2021

Related reports:

[Channel 4: 2019, 2020 and beyond \[2020-104\]](#)

[The BBC: Benefiting the UK creative economy \[2020-016\]](#)

[Subscription BBC? \[2020-008\]](#)

[Europe's Creative Hubs Update 2018 \[2018-065\]](#)

[BBC Studios: make or break \[2017-037\]](#)

The UK's Creative Industries are the crown jewel of the UK's non-financial economy, engaging more enterprises and employees than any other non-financial sector. However, the pandemic threatens to undo decades of progress, particularly in fostering business development outside London and in the nations and regions. Although the Creative Industries cover a multitude of clusters, the AV sector is the vital pillar and sustains activity in other sectors including music, advertising, and the digital economy, while also driving investment outside London. However, despite government support, the pandemic threatens to reverse the progress which the Creative Industries have made in terms of driving investment in the nations and regions and placing some 409,000 jobs at risk of permanent loss. PSBs play a key role in the post-pandemic recovery of the Creative Industries, as they engage a range of SMEs across the UK as a part of their commissioning quotas. The UK's post-pandemic interventions must focus on supporting and rebuilding the unique regional heterogeneity which drives the success of the sector.

The Creative Industries¹ are a huge success story for the UK economy, contributing £116 billion in GVA in 2019—6% of the UK's total GVA—thanks to the activities of some 300,000 enterprises and 2.1 million people, 33% of whom are self-employed. Since 2010 the growth of both GVA and employment within these industries has far outstripped that of the wider economy, growing at more than five and three times that of the economy over the same period, respectively.

Pre-pandemic, among the more impressive aspects of the Creative Industries—and often one of the most overlooked—is the rich ecosystem of SMEs and sole traders that are commercially engaged by this activity all over the UK, promoting a wellspring of important regional stories, alongside the more visible London cluster. Additionally, the creative economy bestows halo effects on local education, the digital economy, and the arts, among a myriad of other benefits. It is this rare ability to engage across the regions and nations of the UK, and foster a rich ecosystem of SMEs, that makes the creative sector such a significant addition to the UK economy.

The audiovisual (AV) cluster is among the vital pillars of the Creative Industries. Central to its strength are the UK's public service broadcasters (PSBs), which cultivate a unique heterogeneity within the wider sector and underpin a significant investment drive outside London and towards SMEs. The AV cluster provides a multiplier return on investment,² owing to the fact that the total direct and indirect GVA generated from the AV sector spills over into other industries such as tourism and culture for instance, while also supporting other parts of the Creative Industries such as music and advertising. Exports from the UK's AV cluster also far outweigh those of others, providing an invaluable boost to the UK's brand image on the global stage.

However, the pandemic has hit the Creative Industries acutely and threatens to undo the impressive progress the sector made over the past decade. A recent study by Oxford Economics found that the Creative Industries are projecting a GVA shortfall of £29 billion (-26%) in 2020 and a loss of 409,000 jobs—with over 70% of these losses within the self-employed contingent.³

Given the regional importance of the Creative Industries and the broader economic benefits they bring, supporting them at this time is paramount. This lesson was already learned in the wake of the 2008/09 crisis, when long-standing growth trends were reversed by catastrophic revenue declines, and the Creative Industries shrank. The outcome was a retreat of investment to well-established centres, levelling down the creative economy that had flourished in the nations and regions.

The revenue declines due to the pandemic in 2020 and 2021 pose the same threat to the sector, decimating the SME layer which supports the broader Creative Industries. A reversal of the hard-fought trends that make the creative economy such a valuable contributor to the UK will be catastrophic and foster a renewed levelling down. The policy conversation in the coming year must address how the Creative Industries as whole can continue promoting investment around the UK while providing coverage of regional stories. A focus on producing repeatable content from the nations and regions will be invaluable in boosting production companies who can then invest more heavily in education, training and development, and generally the creative economy outside of London. However, broadcasters ultimately have to consider affordability, so a system of robust incentives could be helpful in aiding this goal, bringing commercial broadcasters into the mix.

In this report, we map the Creative Industries and highlight the important regional contributions made by them, as well outlining the important role played by the PSBs, which will be driving the recovery and promoting regional heterogeneity through their investment.

¹ The Creative Industries consist of nine sub-clusters as defined by DCMS, which include: advertising and marketing; architecture; crafts; design and designer fashion; film, tv, video, radio, and photography (audiovisual); IT, software, and computer services; publishing; museums, galleries, and libraries and music, performing and visual arts.

² [Oliver & Ohlbaum, The contribution of the UK-based film, TV and TV related industries to the UK economy, September 2018.](#)

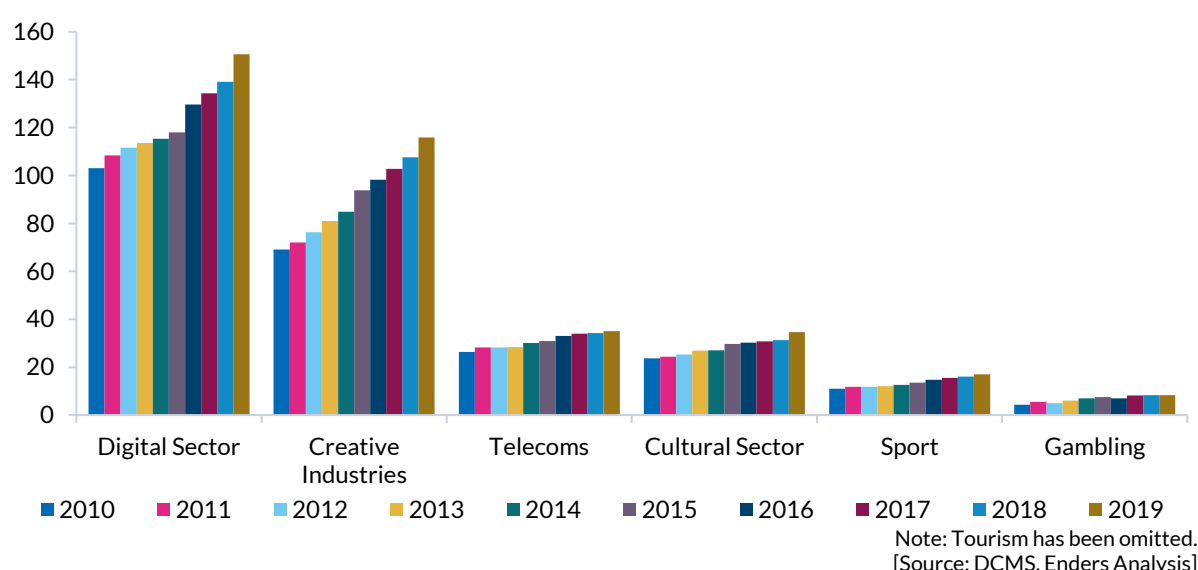
³ [Oxford Economics, The projected economic impact of COVID-19 on the UK Creative Industries, 16 July 2020.](#)

The UK's non-financial economy

The Creative Industries, digital sector, and telecoms, among others, are nominally under the responsibility of DCMS. Combined, these sectors contributed 15% of total UK GVA and accounted for 16% of all jobs. Over one quarter of all UK businesses were located within these sectors in 2018 and one in every ten pounds contributed to the UK's exports came from the DCMS sectors (excluding tourism).

Taking a closer look, it becomes apparent that the Digital and Creative Industries are crucial to the non-financial economy. The Creative Industries lag behind the digital sector in terms of GVA, contributing £116 billion compared to the digital sector's £150 billion in 2019, but this is still a not-insignificant amount as the collective GVA contributed by the Creative Industries is greater than the automotive, aerospace, life sciences and oil and gas industries combined.

Figure 1: GVA by DCMS sector (£bn)



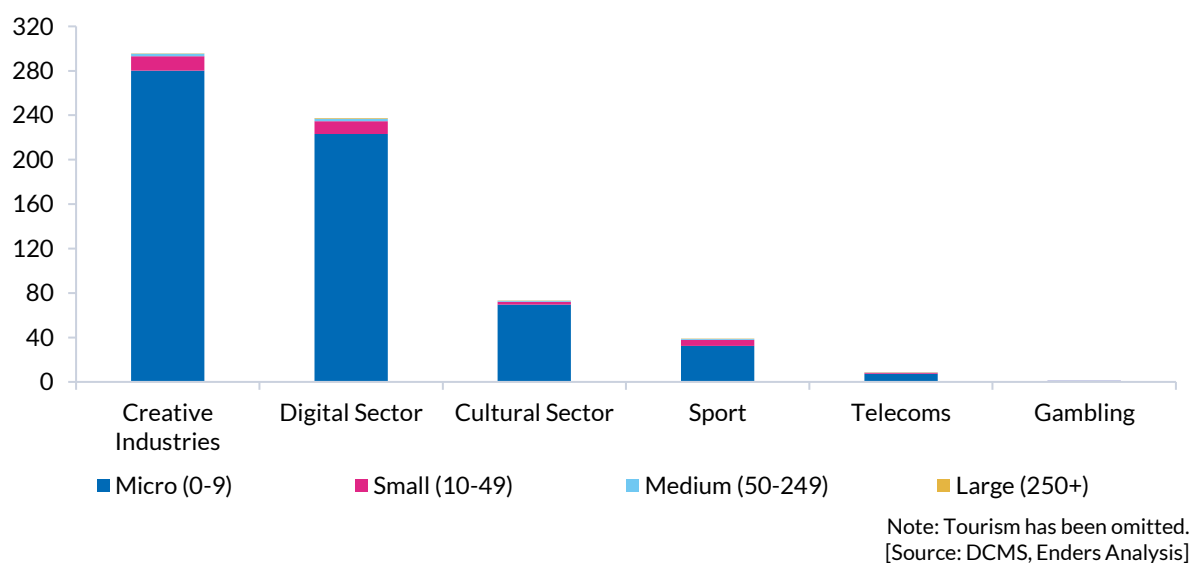
Growth of the Creative Industries has also been faster than any other DCMS sector over the past decade (with the exception of gambling), growing by 68% from 2010-2019. By comparison, the digital sector grew a respectable 46% over the same period (Figure 1) while the UK economy grew 36%.

The economic success of the Creative Industries is reliant almost entirely on the mobilisation of a rich base of entrepreneurs and SMEs across the UK. They are home to nearly 300,000 enterprises, 95% of whom are micro enterprises with between zero and nine employees. Not only does this crown the Creative Industries as having the highest level of enterprises of all DCMS clusters, but also the highest population of micro enterprises (Figure 2).

The Creative Industries also employ more people than any other DCMS sector. In 2019, the Creative Industries accounted for 6% of national employment—employing half a million more than those in the digital sector. Most impressive however, is the self-employed contingent within the sector which accounted for a third of all Creative Industries employment and was nearly twice the level in the digital sector, where 17% are self-employed and twice the level for the broader economy.

However, the fact that so much of employment revolves around micro enterprises is worrisome, as these businesses have been hardest hit during the pandemic, three times more likely to have ceased or paused trading during the pandemic than medium and large enterprises.

Figure 2: Number of enterprises by sector and size, 2018 (000s)



Any analysis of the Creative Industries inevitably boils down to a heady combination of figures which highlight just how important the sector is to the broader economy. Despite lagging the digital sector in terms of GVA, the Creative Industries outperform all DCMS sectors across nearly every remaining metric, employing more people and across more enterprises. Yet, while these figures are impressive, the contribution of the Creative Industries to the UK's exports are even more so.

The strength of the Creative Industries is also significant on the global stage, with the UK's standing as the most valuable in Europe. The Creative Industries are paramount in promoting the UK and its stories on a global stage, aided immeasurably by the exportability of British content around the world, particularly to English-speaking countries. In 2019, exports of goods from the Creative Industries amounted to £20 billion—£3 billion more than the value of exports from the digital cluster and 56% of all DCMS exports.

Regional biases: London and the South East dominate

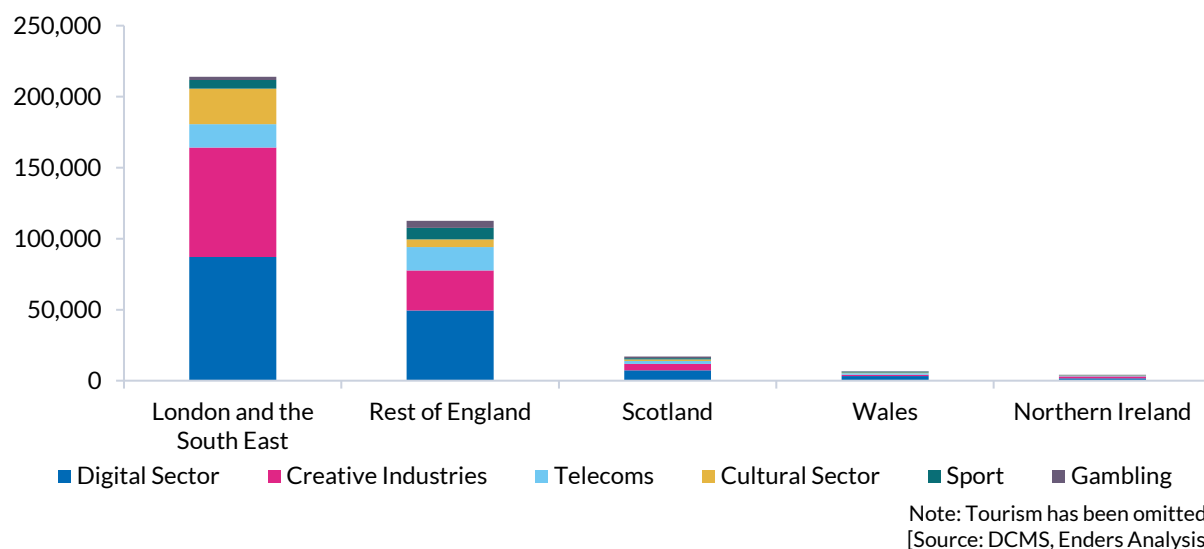
It is apparent that the non-financial economy is a key driver for economic activity in the UK, underpinned by the digital sector and Creative Industries. However, these sectors also display—like most other industries—a strong southern bias toward the creation of GVA, employment and enterprises. Nevertheless, of all DCMS sectors, it is arguably the Creative Industries which fight the hardest to drive investment outside London and the South East, which in turn has granted the sector a wider economic significance relative to Europe.

London is a world leader for Foreign Direct Investment (FDI) globally and in 2018 it attracted around 1 in 10 of all FDI projects into Europe.⁴ It should be no surprise then, that London and the South East lead the way in terms of enterprise creation, as firms cluster in these regions where investment is more readily available and therefore also attracts high-quality talent.

When looking at GVA a familiar pattern unfolds, with London and the South East contributing nearly twice as much in GVA than the rest of England and nearly eight times as much in GVA than Scotland, Wales and Northern Ireland combined (Figure 3).

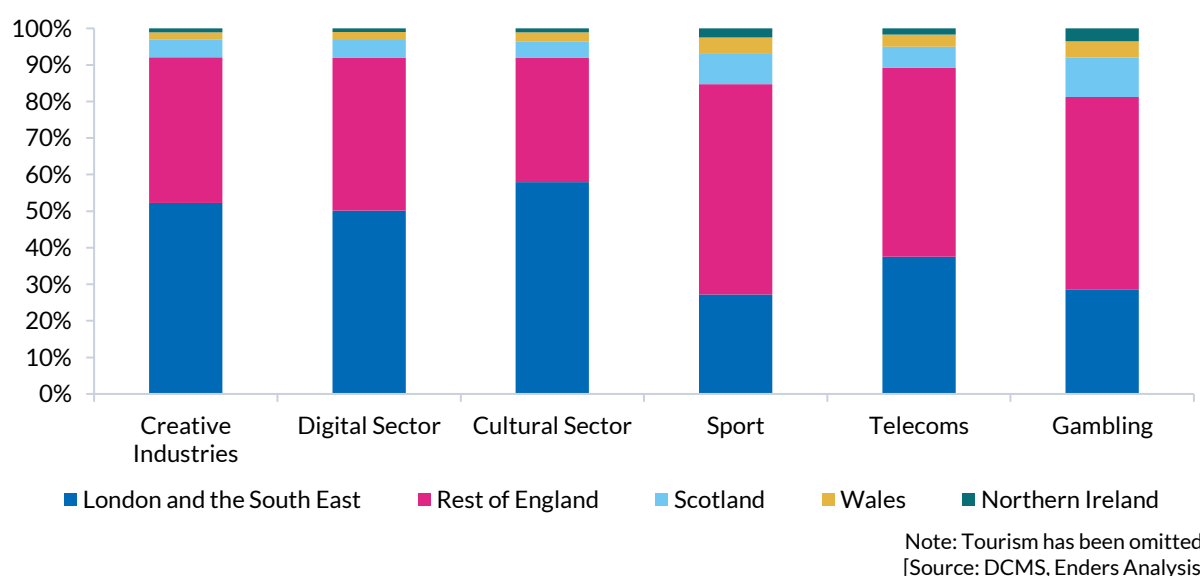
⁴ [Mayor of London, London Assembly: Foreign Direct Investment in London, 20 May 2019.](#)

Figure 3: GVA by region and cluster, 2018 (£m)



Unsurprisingly, London and the South East accounted for 50% of all businesses across the DCMS clusters in 2018, with the rest of England accounting for 41%, and Scotland, Wales, and Northern Ireland accounting for 5%, 2% and 1% respectively (Figure 4). The cultural sector (which overlaps significantly with the Creative Industries)⁵ holds the greatest proportion of businesses in the London and South East hubs with 58%, followed by the Creative Industries (52%) and the digital sector (50%).

Figure 4: Share of enterprises by DCMS sector and region, 2018 (%)

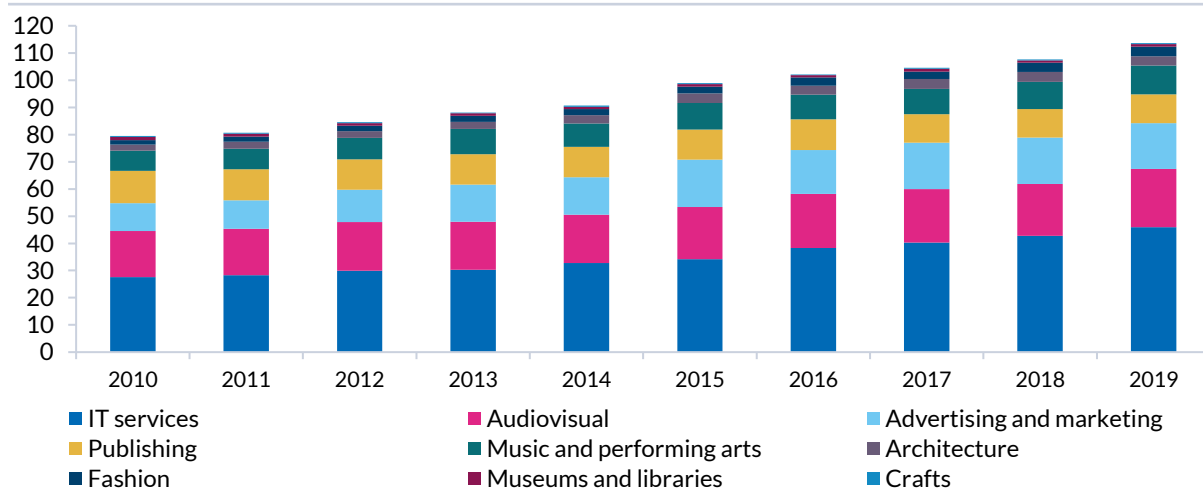


⁵ The Cultural Sector overlaps with the digital sector, Creative Industries and Tourism, covering verticals such as audiovisual and publishing for instance. However, specific roles within the Cultural Sector are mutually exclusive to others.

Deep dive into the Creative Industries

As defined by the DCMS, the Creative Industries consist of nine sub-clusters,⁶ and within these sectors, the IT cluster is by far the most valuable, generating more than twice the GVA of the AV cluster in 2019 (Figure 5). However, the IT sector is also the most broadly defined of all clusters, and includes programming, publishing, and consulting activities, all of which receive high amounts of foreign investment. Excluding the broadly defined IT cluster, the AV sector leads the pack.

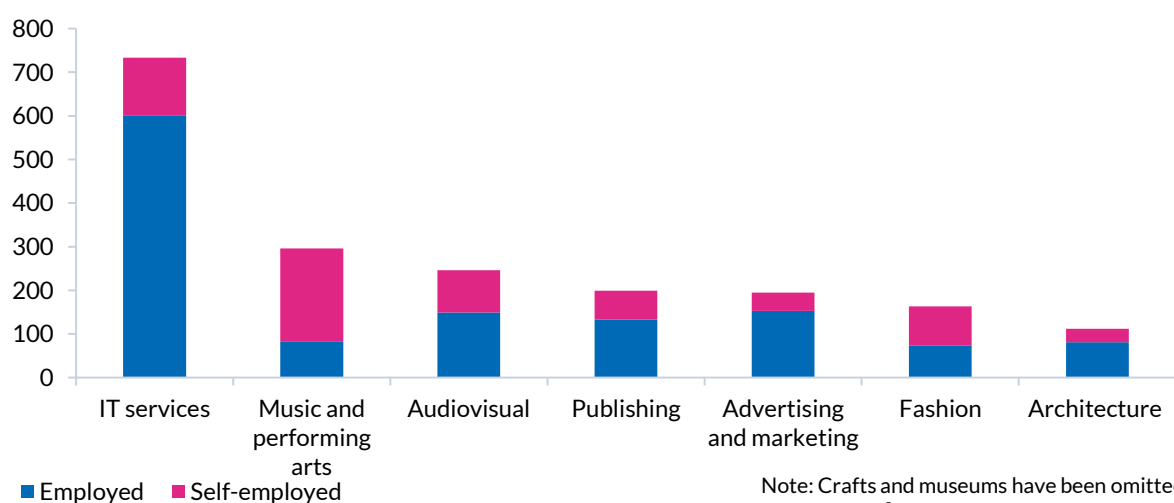
Figure 5: GVA by Creative Industries cluster (£bn)



[Source: DCMS, Enders Analysis]

In terms of employment, IT services account for 34% of all employment within the Creative Industries, followed by the AV and music sub-clusters with 13% and 14% respectively. However, one of the unique aspects of the employment within the Creative Industries is its ability to foster and encourage a strong base of self-employed individuals around the country and across all sectors. Overall, 33% of individuals working within the creative sector are self-employed, twice the reported level of the broader economy while the IT sector represents the lowest proportion of self-employed within the Creative Industries at only 20% (Figure 6).

Figure 6: Creative Industries employment by type and cluster, 2018 (000s)

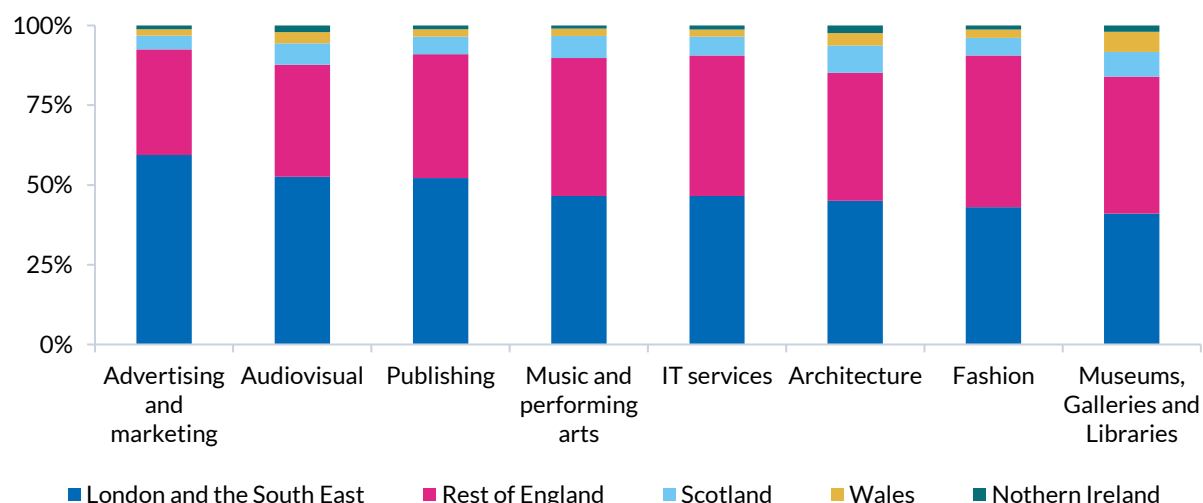


Note: Crafts and museums have been omitted.
[Source: DCMS, Enders Analysis]

⁶ See footnote 1 for details of the nine sub-clusters.

Employment inevitably clusters around London and the South East, with the advertising and AV clusters particularly concentrated in those regions. However, despite the predominant trend, the AV sector holds a proportionally greater share of its employment in Scotland, Wales, and Northern Ireland (Figure 7) as compared with its Creative Industries counterparts.

Figure 7: Average Creative Industries employment share by region, 2011-2018 (%)



[Source: DCMS, Enders Analysis]

The importance of the AV sector

The Creative Industries are loosely linked clusters. Though not entirely dependent on one another, the spill over effects from one sector can often impact another, as is the case with any ecosystem.

Of all the creative sectors, the AV sector possesses the most panoptic characteristics. While all sectors suffer from a historic and persistent bias towards London and the South East, the AV cluster is still able to hold a relative spread of employment around the UK, with hubs in Scotland and Wales playing a significant role in providing new bases for employment away from the South and South-East. Furthermore, the expertise and infrastructure provided by AV hubs in the nations and regions help drive non-London investment in other creative clusters, such as advertising and music.

The success of British content internationally also creates far-reaching multipliers, generating value in not only the tourism and culture sectors, but also in the music cluster. On the global stage, the UK is the second leading exporter of AV content (behind the US), with critically acclaimed UK funded productions such as *I May Destroy You* receiving widespread international recognition. In 2018, exports of goods and services from the AV sector amounted to £7.4 billion, being particularly popular within English speaking countries.⁷

International SVOD players have found the UK a rich source of content that is held in high regard amongst a wide range of international audiences, with many scrambling to stock their platforms with British shows. This performs an ambassadorial function, with many people's first perception of the UK shaped by iconic shows made in the UK. Furthermore, high global consumption of AV content also gives Britain a privileged position in shaping the global cultural zeitgeist, increasing the UK's soft power in fields as diverse as international politics, business and academia.

Underpinning the global strength of the AV sector are the UK's public service broadcasters (PSBs). From Jack Thorne (*Skins*, *His Dark Materials*) to Armando Iannucci (*Alan Partridge*, *The Death of Stalin*) much of the

⁷ DCMS, DCMS Economic Estimates 2018: Trade Report. 6 February 2018.

UK's globally renowned talent have cut their teeth in PSB productions. The PSBs have been instrumental in consistently providing the early opportunities and world-class training which now attracts large global players to set up production in the UK. The ability to nurture and showcase domestic talent in PSB content is in no small way responsible for the fact that UK lead and supporting actors appeared in films that generated 72% of gross of the top 200 films from 2001-2018.⁸

Although PSBs must evolve to meet public expectations in terms of costs and keep demonstrating their value as linear TV viewing decreases and SVOD adoption increases, they already have proven value as the lynchpin of one of the UK's most successful sectors internationally.

As we will discuss further in subsequent sections, balancing lofty commitments to nurture globally renowned talent and Britain's standing in the world, alongside obligations to provide a lifeline to local and regional communities is quite a challenge, and one that the public service broadcasters are most capable of meeting.

PSB support for the regional economy

The UK's PSB channels include the BBC, S4C and STV, as well as the main channels from ITV, Channel 4 and Channel 5. Although each PSB has specific remits and quotas, all share a commitment to support the creative economy throughout the nations and regions of the UK. The 2003 Communications Act most recently laid out the 'public purposes' of PSBs, upon which much of the wider creative economy in Britain rests. Consequently, each year public service broadcasters measure themselves against their pledges to:

- Inform the public's understanding of the world through impartial news, information, and analysis of current events, with quotas for local news coverage throughout the UK
- Stimulate informal knowledge and lifelong learning through content that is accessible in every corner of Britain
- Show high quality and distinctive output that reflects a diverse cultural identity through original programming at UK, national and regional levels
- Reflect, represent, and serve the diverse communities of all of the United Kingdom's nations and regions and, in doing so, support the creative economy

On top of these 'public purposes', the PSB's responsibilities to the nations and regions have been gradually formalised and supported by a delicate regulatory balance of quotas, tax incentives and symbiotic terms of trade with the independent production sector. Although regional programming has always been a core tenet of PSB production, consolidation in the sector and deepening regional imbalances have given a renewed impetus around increasing production outside London.

Since 2010, when Ofcom extended guidelines requiring that a suitable proportion of PSB expenditure and programmes are made outside the M25, the PSBs have consistently and emphatically outperformed their respective quotas.⁹ While total spend on 'made-out-of-London' (MOL) productions has actually declined 8.8% in real terms since 2012, PSB spending on production overall fell more rapidly, contracting by 9.9% in the same period.¹⁰ In 2019, the BBC spent 51% of its budget outside the M25, ITV 47%, Channel 4 45% and Channel 5, one of the smallest of the PSBs, managed to spend 36% of its total UK origination budget on regional programming, beating its 10% Ofcom quota and previous record of 22% in 2018 by a considerable margin.

⁸ [BFI, 2019 BFI Statistical Yearbook, 16/11/19.](#)

⁹ Quotas for the percentage of network production produced outside the M25 differ by PSB, with Ofcom stipulating that the BBC spend and produce 50%, Channel 4 and ITV 35% and Channel 5 10% of their budgets and content hours outside London.

¹⁰ [Ofcom, PSB Annual Compliance Report, 30 September 2020.](#)

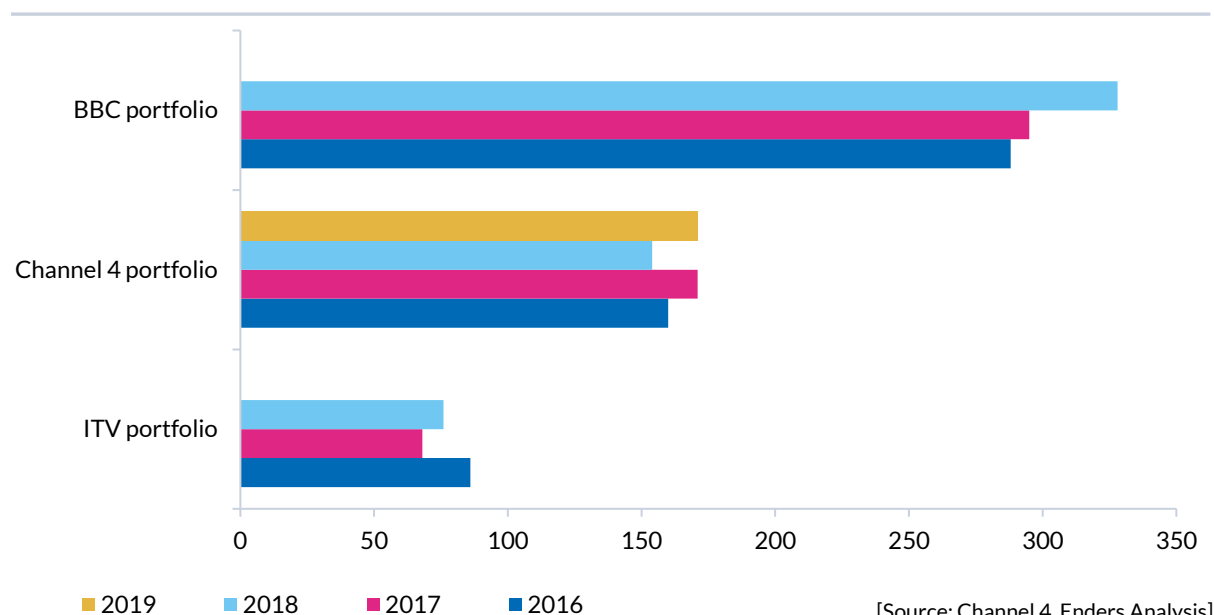
Driven by a specific mandate to create programming of societal value and adhere to specific quotas for production in the Nations and Regions, the PSBs have greater incentives to take risks on production in areas which may intuitively seem uneconomic.

Although there is still much work to be done, the fact that 52% of the BBC's workforce are now based outside London, and major centres of production have been set up by PSBs in places like Glasgow, Cardiff, Leeds and Salford is indicative of a wider redistribution of production precipitated by the PSBs.¹¹ Going forward, only the PSBs are likely to have the willingness and scale to invest in production centres outside London with sufficient gravitational pull to reorientate the wider creative economy towards the nations and regions.

Independent production

While all PSBs take their commitment to regional production seriously, Channel 4 and the BBC form the bedrock of the UK's PSB ecosystem outside London. Not only do they both spend more than either ITV or Channel 5 with the independent production sector in absolute terms (Figure 8), but they also frequently exceed their regulatory requirement to spend at least 25% of their budget stimulating SMEs outside London.

Figure 8: Number of independent TV production companies supplying the PSBs

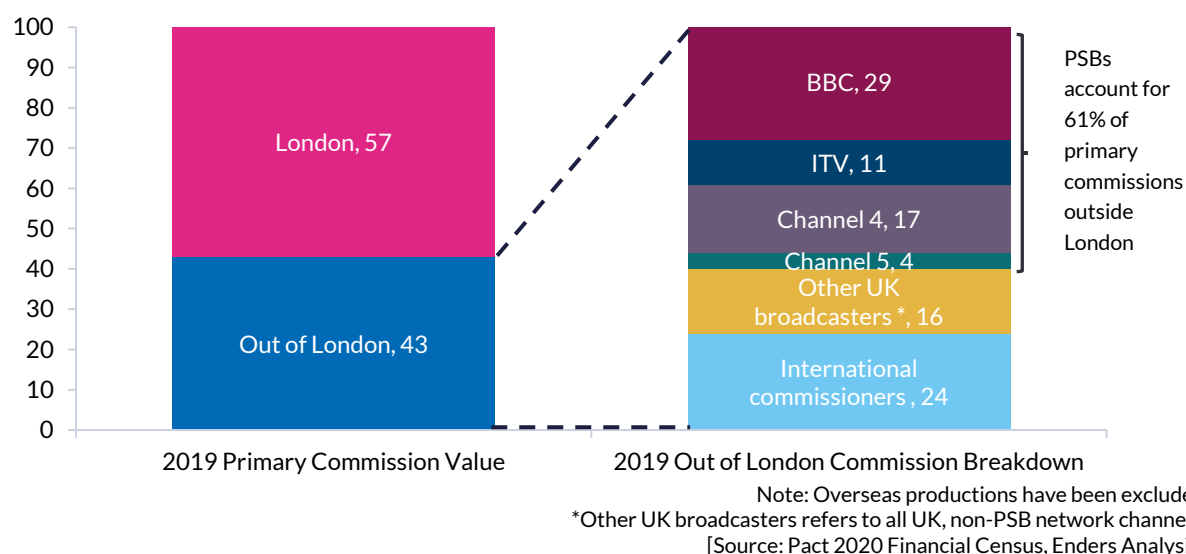


Motivating production outside the M25 among SMEs is a tangible goal for the PSBs who have spent between £1.2 billion and £1.3 billion on new independent UK productions each year since 2012.¹² Both the BBC and Channel 4 have also ringfenced 'Indie Growth Funds' geared towards fast-growing independent production companies in the nations and regions. Even in the context of fierce global competition and producer consolidation, Channel 4 and the BBC increased their usage of independents from 2016 to 2018, working with a combined 482 companies (Figure 8).

¹¹ BBC, BBC Annual accounts 2019/2020, 2020.

¹² Ofcom, PSB Annual Compliance Report, 30 September 2020.

Figure 9: Out of London primary commission value by commissioner, 2019 (%)

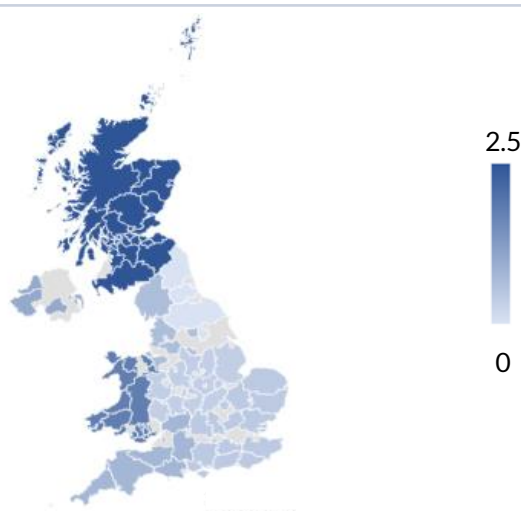


Although there has been criticism that independent production companies are being used as ‘pop up’ offices, which only last as long as the period of production in order to satisfy quotas, further tightening of the regional production criteria has the potential to make these encouraging signs more concrete.

Another key part of the PSB challenge to the London-centric status quo is unlocking the potential of independent production companies outside London. While spending on external production commissions from UK-based commercial providers is by no means insignificant, PSB commissioning still accounts for the majority of independent production investment in the UK’s nations and regions (Figure 10).

Despite the impressive level of primary commissions, economic headwinds and increasing consolidation have meant the absolute number of active independent production companies (ones which have produced any first-run, original content for a PSB in the last year) declined from 132 in 2008 to 120 in 2017. However, PSB efforts to move production outside London have meant the production sector that remains has become a more diverse ecosystem.

Figure 10: Indexed growth in the number of active regional production companies outside London (2008=1)



Note: An active producer is one which has produced any first-run, original content broadcast on the five main PSB channels in that calendar year. Active producers do not include the internal production arms of PSBs. More recent data was not available, some values were missing, and London has been excluded.
 [Source: Enders Analysis, Pact 2017 Financial Census]

While the Midlands and East of England have suffered declines in their independent production bases, other independent production is markedly less clustered around the capital. The growth of external production companies away from London is particularly apparent in Scotland and Wales, where the number of independents increased by 150% and 86% respectively from 2008-2017 (Figure 10).

Wales provides a particularly pertinent example of the potential PSBs have to foment regional production. For instance, since its inception in 1982, the Welsh-language broadcaster S4C has had a statutory duty to commission content from indies on commercial terms—overseeing a rapid increase in the number of independents in Wales and receiving widespread credit for sparking an entirely new industry and establishing the country as a major centre of television and film production.¹³

Even today, the publisher-broadcaster spends 94% of its budget with independent production companies, greatly exceeding its Ofcom quota of 25%.¹⁴ S4C often provides 4–5-year commission cycles for authentic content from indies throughout Wales, creating jobs and economic activity in Caernarfon, Llanelli, Swansea, and Cardiff. Past research has estimated that direct and indirect tax contributions from S4C's core activities was £39 million per annum—meaning a return of £0.51 for every £1 of S4C's total expenditure to HM Treasury, either in direct or indirect tax contributions. While S4C faces criticism about its low viewership, and its shifting funding model may hamper its impact going forward, BBC Cymru Wales' expansion and move to Cardiff's Central Square in April 2018 should offer another influence bolstering the gains made by the Welsh creative economy in recent years.

Whereas in the past independent production companies had struggled with tight margins just above the cost of production, the 2003 Communications Act strengthened terms of trade between PSBs and external producers significantly. Now, when buying the primary rights to a programme, PSBs are unable to make buying the secondary and international rights a precondition of the sale. This allows independent companies to tap into the long-term value of the assets they produce and increases cashflow to the extent SMEs are able to fund more ambitious content with certainty of income.

The last two decades have seen the UK carve out a formidable reputation for distinctive and high-quality content internationally, largely built upon PSB investment and equitable terms of trade which allow independents to take advantage of their intellectual property. The fact that Channel 4, the BBC and other PSBs are compelled to work with a diverse range of companies on fair terms goes a long way towards explaining why true independent productions still account for a significant share of total revenue; 66% of independent production revenues in 2019 were from companies with less than £10 million in turnover, growing 4% since 2018.¹⁵

Although terms of trade may have to be renegotiated in the face of changing viewing trends, there is little doubt that PSB willingness to work with, and not against, benign legislation designed to benefit the wider creative economy has greatly contributed to the national success story that is the UK AV sector.

The benefit of producing in the nations and regions

As mentioned, a key strength of the AV sector over time has been its ability to promote a breadth of regional stories by leveraging production in the nations and regions outside London, aided immeasurably by the PSB remits and quotas. Not only are these measures hugely important in promoting the richness of UK content, but also in facilitating the production of content which may not be commercially viable otherwise. However, beyond the importance of regional production to the Creative Industries, it has a far more direct impact on the local and regional economy.

¹³ As Professor Ian Hargreaves commented while reviewing the AV industry in Wales "Without S4C, Wales may well not have any independent television production companies at all."

¹⁴ [S4C, S4C Annual report, 23/09/2020.](#)

¹⁵ [Pact, Pact Census 2020: Nations & Regions Annex, 1 August 2020.](#)

Producing in Scotland: *Antiques Road Trip* and *The Victim*

Scotland is one of the largest AV hubs outside of London, accounting for 7% of all AV employment and the Scottish Creative Industries contributing £4.4bn to GVA in 2019.¹⁶ The nation has formed a strong AV hub over time, producing high quality and highly exportable content.

One example of such a production is *Antiques Road Trip* which is commissioned by the BBC but devised, developed and produced by STV Productions, Scotland's largest indigenous production company. The show runs almost every weekday and is entering its 21st season this year, employing between 50 and 60 people annually as a result of the volume of episodes, with approximately two-thirds of those employed, being Scots. Not only does this volume of employment contribute several millions back into the local economy, but the repeatability and certainty of continuation given to the show means the wider AV ecosystem in the region all benefit from training, education, higher investment and a richer environment in the long-run. The show is also popular globally, being sold to 40 territories by the end of 2018, a testament to the appetite for non-London productions.

Another Scottish success story is the 2019 BBC One commissioned drama *The Victim*, produced by STV. The four-part thriller is shot in Scotland (mainly Edinburgh, Glasgow, Port Glasgow, and Largs) and received an impressive 90% rating on Rotten Tomatoes. More importantly however, the production created 100 new jobs in the production sector, with 86 roles being taken by Scots who in turn contributed significantly to the local economy and region in terms of domestic expenditure and job creation. The fact that the show also was set in Scotland and boosted regional representation through its narrative was also a contributor to Scotland's influence domestically and globally. Clearly, these examples highlight the benefit of producing *from* the nations and regions rather than simply producing *in* them. Long-lasting repeatable shows brings greater regional investment and ultimately a richer self-sustaining ecosystem.

The ideal scenario for the nations and regions is of course for commissioned content to last beyond the duration of only one season, allowing the economic benefits to settle in more permanently and drive the creation of a stronger and more sustainable ecosystem around training and education which in turn, will attract further investment to regional AV hubs in the longer run. Additionally, with the certainty of longer-term commissions, production companies are able to invest a greater amount in, for example, the quality of sets, which then improves the quality of production.

However, the production of more 'one-off' series is a product of affordability. It is ultimately expensive to tie star actors and writers to repeating roles and as a result, PSBs and commercial broadcasters alike are constrained by the number of multi-series shows they can commission. Additionally, audiences generally decline from season to season, which adds to the disincentive to commit to long-term shows.

Producing in Wales: *His Dark Materials*, *Prynhawn Da* and *Heno*

Hit BBC One show *His Dark Materials* averaged an audience of 11.4 million across all screens in 2019, the biggest launch of a new series of any genre in the year. The show was a co-production between HBO and Welsh studio Bad Wolf, with the show filmed mainly in Wales. Although the series is an adaptation based on author Philip Pullman's series of fantasy books, Pullman himself was brought up in Wales, hence the strong connection to the region. The production itself hired over 40 University of South Wales students and graduates, many of whom have remained involved with the show throughout its various seasons and will continue to do so. The show represents another example of how producing content in, and more importantly, from the nations and regions, can lead to a hugely successful outcome.

¹⁶ DCMS, DCMS Economic Estimates 2019: Trade Report, 6 February 2019.

A success story of Welsh content produced in Wales comes from magazine programmes *Prynhawn Da* and *Heno*, both of which are produced by Welsh company, Tinopolis, and are broadcast on S4C. Both shows are platforms to promote regional stories and content and have been on air for over a decade, but it is the repeatability and regional focus of both shows which has led to a thriving regional economy being created in Llanelli, Carmarthenshire—Tinopolis’ HQ. The company is the largest employer in the town, employing more than 120 individuals and provides work opportunities in disadvantaged communities in the region.

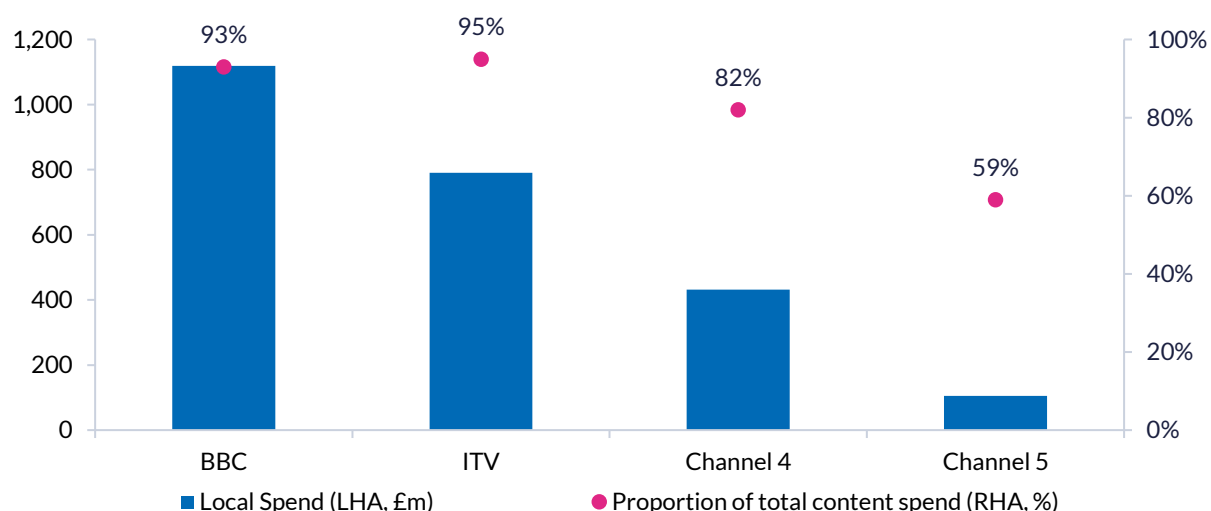
Clearly, producing content outside London is a valuable contributor to local regions and economies, while also adding a layer of additional richness to narratives, without which the threat of staleness can creep in. Not only is this variety appreciated by audiences in the UK—who benefit from regional representation—but is also appreciated on a global stage. However, the next layer of regional benefits are unlocked when repeatable content is produced, not only for a single season. This allows production companies to invest more deeply in cultivating and attracting high-quality local talent, while also incentivising those in the regions to consider roles in the AV cluster, all of which drives investment around the UK, breaking the London-based hegemony. However, content production over a longer period of time faces its own constraints from the perspective of broadcasters who would commission the content, in terms of tying down top-tier talent as well as committing to multiple seasons without the certainty of audiences actually tuning in to watch the show.

This very heterogeneity stands to be lost post-COVID, as investment clusters around regions where it is ‘safest’—London and the South East. It is in this environment where PSBs play a key role in continuing to drive production and investment across the UK and regions. However, with PSBs equally stretched financially in a post-COVID world, the government must consider alternatives to driving investment outside London and continue supporting the rich ecosystem of SMEs in the AV sector.

Beyond the screen: why PSBs matter

Not only do the PSBs support diverse geographies throughout the UK economically, but they also have a range of powerful, intangible benefits that are not easily captured by traditional metrics. As by far the largest investor in first-run, UK-originated programming, the BBC sets the tone for the bulk of British content and is actively encouraged to “prioritise distinctiveness” and regional diversity in the UK.¹⁷

Figure 11: Spend on first-run UK originated programming by value and share, 2019



[Source: Ofcom 2020 Communications Market Report, Enders Analysis]

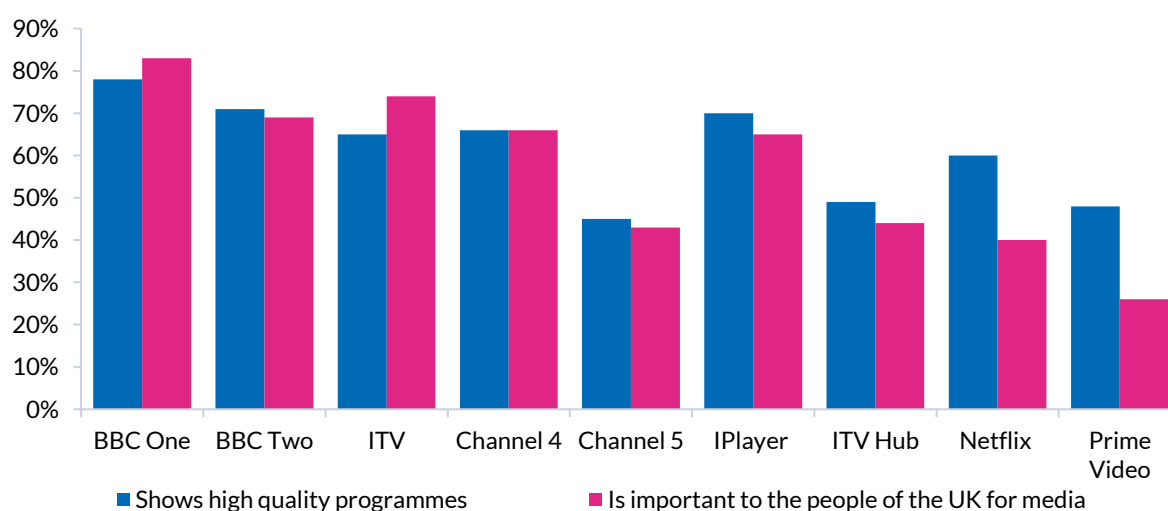
¹⁷ Most recently in the DCMS’s Charter Review.

The BBC's £1.2 billion spend in UK content amounts to only slightly less than the three other main channels of ITV, Channel 4 and Channel 5's combined spend (Figure 11). By contrast, Netflix reported content spend of £400 million in the UK in 2019, representing a tiny proportion of its of its first-run, original programming, and UK library.¹⁸ Consequently, despite having a UK revenue estimated to be ten times larger than Channel 4's, Netflix spent less on original British content in absolute terms, is less likely to take risks on regional programming, and covers fewer genres than its PSB counterpart. There are also concerns that although UK-made TV and production remains at the heart of Netflix's current corporate strategy to drive subscriptions in late adopter demographics, this could turn on a sixpence as it continues to look for content that satisfies global audiences. This is not to undermine the significant contribution that international companies have made to the UK creative economy in recent years, but to put into context the importance of PSB funding as the bedrock of new content creation in the UK.

While the PSBs remain the chief funders of content, even before 2020 PSB spend was declining in real terms and as a proportion of total spending on content. Decreases in programme spend have been constant since the early 2000s and fiscal restraints around COVID-19 may sharpen future cost-cutting. The PSBs are increasingly trying to do more with less, and if they are to keep pace with SVODs (which, according to BARB, added almost ten million new subscriptions in the first three quarters of 2020) and maintain their high-quality and globally exportable content, current trends will need to be reversed.

Although PSBs face a mounting challenge to reverse declines in reach and stay relevant to younger audiences, it is easy to take their role for granted. PSBs are essential in funding a diverse range of original content that enriches the public sphere, much of which would not be considered economically viable by other producers. Given few institutions are more woven into the social fabric of British life, it is difficult to establish the counterfactual. However, it seems reasonable to assume that, in the absence of PSBs from the market, neither SVODs, nor other commercial channels would pick up the unprofitable mantle of religious content, Welsh-language programming, or local democracy reporting. International streaming services have less incentive to produce culturally distinctive content that reflects all the voices and cultures of the UK and are able to have a long-standing legacy within British communities. A more holistic approach is needed to measure the true value and many positive externalities of the £2.5 billion combined PSB spend on original, cross-genre content, that actively promotes regional cultures and holds up a mirror to British society.

Figure 12: Channel/service rating for quality/importance (% of respondents)



Note: c.500 adults per country (5,640 respondents across 11 countries), June/July 2020.
[Source: BBC value for audiences report, Enders Analysis]

¹⁸ [House of Lords, Public service broadcasting: as vital as ever, 5 November 2019.](#)

In spite of the fact that the British public is no longer quite as unanimous in its support for public service broadcasting, for many international and UK communities, the BBC and other PSBs are still synonymous with quality (Figure 12). BBC One is still considered as the channel with the most quality and important programming, with SVODs lagging behind the four main PSB channels.

Similarly, the PSBs are still the go-to news source for much of the population. Ofcom's tracking revealed that the BBC was the most important source of information throughout the ongoing COVID-19 crisis, ranking above even the NHS and WHO. The Prime Minister's statement on 10 May 2020 for instance, (which announced the easing of the UK's first lockdown) was seen on TV by 27.6 million viewers, 95% of whom were watching on one of the PSB channels.¹⁹ If recent events in America have demonstrated the perils of not having widely used sources of information from which we all draw common facts, then impartial PSB news which reaches a large proportion of the population every day cannot be underestimated as a force for good.

From the *Bodyguard* finale, to England's fated World Cup run, the PSBs are one of the only media still capable of regularly providing shared experiences that foment social capital between diverse groups of people. Despite declining audiences and squeezed budgets, the broad levels of PSB viewership are still able to bridge enormous cultural, social, and demographic divides. One only has to watch an episode of Channel 4's *Gogglebox* to be convinced of the ability of PSB content to break through siloed echo chambers and spark a conversation. At a time of increasing division and dwindling collective experience, PSB content that authentically reflects our lives can be uniquely unifying, reminding squabbling family members, and even competing nations, what they have in common.

What next?

The Creative Economy underpins the UK's non-financial economy, drawing in foreign investment, raising the profile of the UK on a global stage as well as contributing to growth among other sectors. Central to its success has been the ability to leverage a vast body of SMEs and sole traders around the UK, all of whom provide their own unique perspectives which are essential to the richness of the ecosystem.

Within the creative economy, the AV sector stands out as a vital lynchpin, not only contributing significantly to employment and GVA within its own purview, but also causing ripple effects in the hugely significant sectors of music, advertising, tourism, and culture. Underpinning the success of the AV landscape are the UK's PSBs, who operate with a specific remit to encourage regional narratives and promote investment across the UK and outside the hegemony of London alone. The richness of the creative environment is by far the biggest strength of the sector and is the sole reason why creative exports are valued so highly on the international stage. However, it is this very creative vibrancy which is under threat as a result of the pandemic.

The past year was expected to be a year where the creative economy continued its upward trend of growth. However, the pandemic has hit the sector hard. Now, the creative industries are projecting a decline of £39 billion in GVA over 2020 (-26%).²⁰ Many of the job losses in the sector are seen as being permanent and an expected 409,000 jobs were lost in 2020, most of which are coming from the self-employed or SMEs. With the likelihood that the pandemic's effects will continue to plague the economy in 2021, the creative economy's projected losses from the pandemic could get much worse.

Aside from the tangible losses in terms of GVA and employment, the creative economy is at greatest risk of losing the regional heterogeneity which has given it such strength over the past decade. Already, the Creative Industries Federation is reporting that 63% of its respondent businesses have seen their turnover decrease by more than half, with freelancers hit the hardest.

¹⁹ BARB, AdvantEdge.

²⁰ [Oxford Economics, The projected economic impact of COVID-19 on the UK Creative Industries, 16 July 2020.](#)

Furthermore, businesses in Scotland, Wales and Northern Ireland were more than twice as likely to report it would take more than 12 months to return to normal income levels.²¹ As investment and profits get sucked out of the creative sectors, businesses will turn to London and the South East as the 'certain' profit centres as they did after the 2008/09 crisis, undoing the hard work of the past decade in breaking the South stronghold. In this regard, the importance of regulation and the PSB environment in encouraging continued investment outside London is paramount.

Of course, PSBs must continue outperforming their MOL quotas, and look to increasingly tell meaningful regional narratives which not only contribute to the diversity of content produced from the UK, but also allow a truer representation of the UK on the global stage. However, a reversal of long-standing declines in their budget and content spend would unlock more of their creative potential. Within a policy framework which sees PSBs as in danger of 'crowding out' private investment and seeks to limit their activity solely towards addressing market failures, their true contribution to the wider creative economy will always be undervalued. Narrow economic metrics do not always capture their importance as innovators, nor their ability to expand the frontiers of the market into new geographical areas. Their obligations to act in the interest of the wider public good lead them to take risks on new content and production bases that commercial providers might not, pulling independent production with them and providing a range of intangible benefits which far outweigh their current cost. If viewed as market-shapers which enrich the entire ecosystem and de-risk new areas for the private sector, rather than just market-fixers of historic underinvestment, the PSBs could be an even more powerful policy instrument in fomenting regional production.²²

Their Reithian ethos also means they are uniquely primed for longer-term development cycles, and future regulation should reflect the importance of repeatable production in sustainably levelling up training and investment in clusters outside London and the South East. The PSBs are essential as drivers of truly culturally distinctive content which can create long-standing economic and cultural legacies within British communities. However, PSBs are not responsible for encouraging regional production alone, as commercial broadcasters and content producers also play a key role in promoting the creative industries outside London. Despite the fact many are already taking the initiative and encouraging regional production, such as *The English Game* from Netflix in Yorkshire, or *Brassic* from Sky in Lancashire, the establishment of a system of financial incentives could drive yet further investment outside London.

One possible option would be to expand the highly successful High-End Television Tax Relief programme to encourage production in the nations and regions specifically. In a similar vein, the government could also consider readjusting its pre-existing film tax relief investment, which grants production companies significant subsidies if the content produced fulfils criteria around representing British culture and employing British firms, among others. The subsidy had the highest return on investment of any intervention within the AV cluster at £7.69 followed by High End TV at £6.10.²³

Films such as *Avengers: Infinity War* and *Endgame*, *Mission Impossible: Fallout*, *Jurassic World: Fallen Kingdom* and *Star Wars* have all qualified as UK co-productions. The relief has been worded to encourage production utilising British and/or European Economic Area (EEA) individuals and companies but following Brexit and the difficulty of cross-border travel, this could be adjusted to promote regional production instead.

Supporting the creative economy is a necessary and achievable objective, one that the government should not consider as secondary to a broader economic recovery. The pandemic has pushed the sector onto the back foot, but given the right support and incentives supporting regional investment, the creative industries will contribute greatly to an economic recovery in the UK. Upcoming Ofcom and

²¹ [Creative Industries Federation, Creative Industries Federation warns of "crippling inequalities" unless government acts now to support UK's creative sector, 19 February 2021.](#)

²² [Mazzucato, Mariana, The BBC as market shaper and creator, Open Democracy 16 October 2015.](#)

²³ [BFI, UK screen sector economy, 2018.](#)

DCMS consultations considering the future of PSBs must be cognisant of the significance these institutions hold within the broader Creative Economy, particularly in promoting the richness and diversity of content which is so important for the Creative Industries more generally. Amid changing viewership patterns, these consultations are inevitably considering how best to integrate and incentivise SVOD production in the UK and again, in this regard, ensuring the promotion of regional content and investment outside London is essential. Although the creative economy is crucial to any economic recovery, future policy frameworks should also avoid a purely reactive approach which only considers the exigencies of the creative industries in the context of this current crisis. Any extra PSB investment or financial incentives should be accompanied by strengthened criteria for sustainable regional production. For a genuine 'levelling up' in the nations and regions, regional production needs deeper roots that can weather the frost of perennial economic contractions.

About Enders Analysis

Enders Analysis is a research and advisory firm based in London. We specialise in media, entertainment, mobile and fixed telecoms, with a special focus on new technologies and media, covering all sides of the market, from consumers and leading companies to regulation. For more information go to www.endersanalysis.com or contact us at info@endersanalysis.com.

If your company is an Enders Analysis subscriber and you would like to receive our research directly to your inbox, let us know at www.endersanalysis.com/subscribers

Important notice: By accepting this research note, the recipient agrees to be bound by the following terms of use. This research note has been prepared by Enders Analysis Limited and published solely for guidance and general informational purposes. It may contain the personal opinions of research analysts based on research undertaken. This note has no regard to any specific recipient, including but not limited to any specific investment objectives, and should not be relied on by any recipient for investment or any other purposes. Enders Analysis Limited gives no undertaking to provide the recipient with access to any additional information or to update or keep current any information or opinions contained herein. The information and any opinions contained herein are based on sources believed to be reliable but the information relied on has not been independently verified. Enders Analysis Limited, its officers, employees and agents make no warranties or representations, express or implied, as to the accuracy or completeness of information and opinions contained herein and exclude all liability to the fullest extent permitted by law for any direct or indirect loss or damage or any other costs or expenses of any kind which may arise directly or indirectly out of the use of this note, including but not limited to anything caused by any viruses or any failures in computer transmission. The recipient hereby indemnifies Enders Analysis Limited, its officers, employees and agents and any entity which directly or indirectly controls, is controlled by, or is under direct or indirect common control with Enders Analysis Limited from time to time, against any direct or indirect loss or damage or any other costs or expenses of any kind which they may incur directly or indirectly as a result of the recipient's use of this note.

© 2021 Enders Analysis Limited. All rights reserved. No part of this note may be reproduced or distributed in any manner including, but not limited to, via the internet, without the prior permission of Enders Analysis Limited. If you have not received this note directly from Enders Analysis Limited, your receipt is unauthorised. Please return this note to Enders Analysis Limited immediately.