

SKY HIGH!

The real cost of watching subscription television

A BBCPA Report: compiled by Hugh Sheppard

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The first 'SKY HIGH' analysis was presented at the BBCPA AGM of April 16th 2015. This revised version incorporates clarification requested by members.

Summary

Television in Britain is at a crossroads. Broadcasting is becoming less relevant by the day, mainly due to convergence with the internet.

2013 was probably the last year in which the internet had a minority influence on viewing habits. Today it is of recognised importance for broadcasters' catch-up services and video on demand from online sources such as YouTube, Amazon and Netflix, none of which require an aerial, a satellite dish or a TV licence.

Assessing the real cost of television depends on many factors. This report relies on information from the communications regulator, Ofcom; the Broadcasters' Audience Research Board, BARB and various Annual Reports etc. as key data sources.

Ofcom's 2014 Communications Market Report (CMR), shows that while half the nation viewed television for the cost of the licence fee in 2013, the other half supplemented this with pay-TV, mainly from BSkyB – now SKY plc.

The annual £145.50 licence fee for receiving TV broadcasts primarily funds the BBC. It also sanctions a myriad of 'free-to-air' channels available from **Freeview** by aerial, or **Freesat**, the subscription-free satellite service. A TV licence is also needed to receive Pay-TV broadcasts; noting a typical subscription to SKY was circa £600 pa (see: [SKY: subscribers and income, p3](#)). However, most viewing in SKY homes was of free-to-air channels within various SKY packages (see: [Hours of Viewing, p3](#)).

This helps to explain the claim of the main free-to-air distributor, Freeview, that: '95% of the most watched programmes are available subscription-free on Freeview'.

In 2013, the typical cost of TV in a SKY home was five times the licence fee on its own. This should to be borne in mind in appraising the real value of the BBC.

N.B. In this report words such as 'half', used in the second paragraph, or 'typical' and 'average' elsewhere, are used colloquially. For example, 'half' is not precise, but is within $\pm 5\%$ of Ofcom's best estimate. (Free-to-air: 48.1%; pay-TV: 51.9%). Most figures have been cross-referenced; discrepancies are probably due either to different data sources and/or accounting periods, or to overlaps within households where more than one platform is in use.

The cost of watching television: evidence base

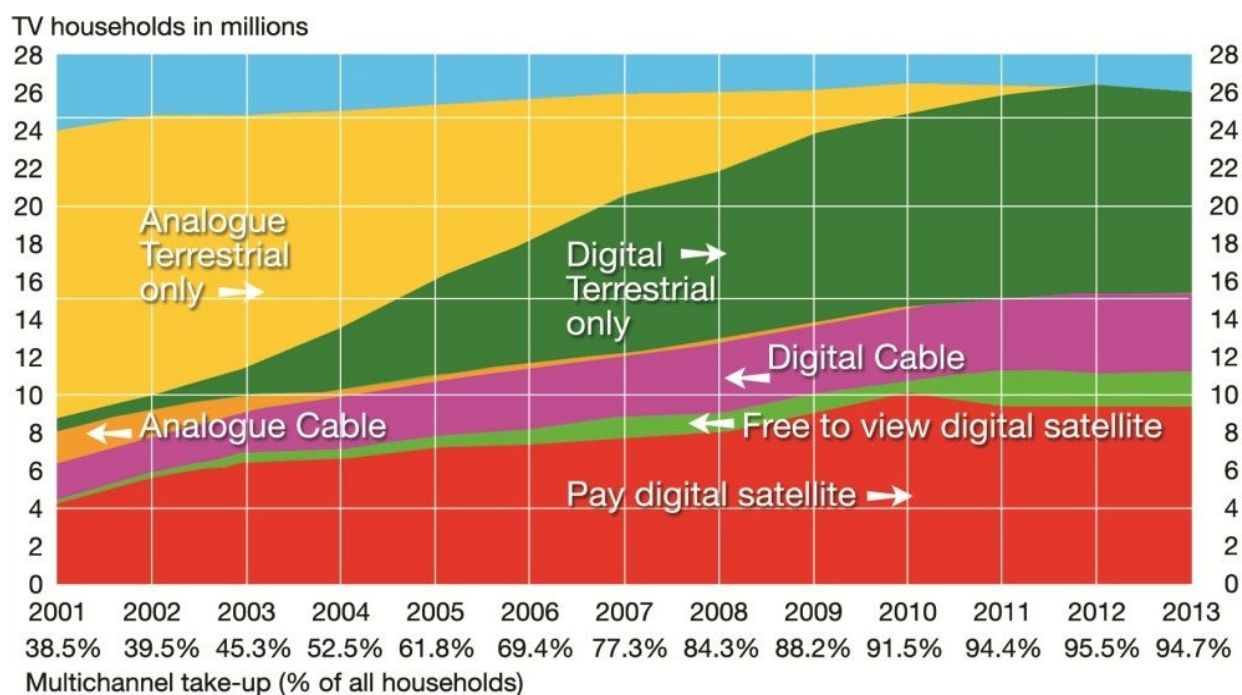
This report mainly compares the cost of viewing BBC and SKY originated channels. It recognises that SKY packages included other channels that were popular in their own right, but were not usually the reason for taking a SKY pay-TV subscription. For this, the key drivers were SKY's own entertainment, movie and sports channels.

TV Licensing reported 25.4m licences in force in 2013, or circa 95% of all 26.4m UK households (ONS data). The colour TV licence fee was frozen at £145.50, while circa 13,000 homes had a £49 black & white licence. Ofcom estimated 12.5m households as relying on Freeview or Freesat in 2013 and paid no more. Of the 13.3m homes with pay-TV, SKY's satellite service was taken in 9.2m homes at a typical premium of £600 pa. Including a TV licence brought the outlay for such a household to £745.50 pa.

Virgin & BT were the main providers of pay-TV to another 4.1m homes by cable and the internet. Other IPTV (Internet Protocol Television) services, eg Netflix, were outside Ofcom's CMR analysis of 2013 and are not discussed here.

Platform take-up 2001 – 2013

Sourced from Ofcom Fig. 2.54 (Ofcom/BARB Establishment Survey. Data points based on Q4 data for each year)



Analogue terrestrial and cable services were all superseded by **Digital** before 2013.

The 10.6m UK households on the Freeview terrestrial platform in 2013 included those with YouView (see below*). Together with 1.9m homes taking the Freesat option, a total of some 12.5m free-to-air homes needed only to pay the TV licence fee.

Total pay-TV homes of 13.3m. in 2013 comprised 9.2m with SKY's pay-TV satellite service and some 4.1m with digital cable. Virgin Media (Liberty Global) and BT Vision or TalkTalk were the main cable service providers, to subscriber households that had a broadband connection linked to the internet.

*YouView from BT or TalkTalk required a standard internet hub associated with Freeview by aerial. Its pay service features catch-up TV such as iPlayer and 4OD.

The TV Licence and BBC Income [*For BBC Services see: Addendum, p.5*].

Income from TV licences at a frozen fee of £145.50 pa. primarily funded the BBC. This totalled £3,726m. in 2013 of which 16.7% or £607m. came from government, mainly for concessionary licences for households with a member aged over 75.

Programme Sales revenue of £1,042m (£174m net) from BBC Worldwide was the other key contributor to a total BBC income of £5,066m. (*BBC Annual Report 2014*.)

Ofcom estimates that the BBC spent £2.6bn on its television services in 2013. £650m of BBC income funded BBC Radio, with a reach of 67% of adults weekly and a total share of 54.5% of all radio listening. (*RAJAR data: Ofcom CMR p.223*.)

For interest: ITV (inc. ITV Breakfast/STV & UTV) advertising income: £1.27bn.
Channel 4 Broadcast revenue: £842m. (Both for 2013).

SKY: Subscribers and Income

Ofcom reported UK TV industry revenues as £12.9bn in 2013, of which total pay-TV subscription revenues had increased by 6.7% to reach almost £5.9bn.

SKY pay-TV was viewed in some 9.2m UK households (36%) in 2013 (*Ofcom*). This appears to be less than was reported in SKY's accounts, probably due to multiple contracts and different accounting periods/criteria. SKY published its latest average pay-TV subscription as £47 per month, based on 2014 packages costing from £21.50 to £71.25. (*media.info report*). For this analysis, SKY pay TV subscriber households are estimated to have paid an average of £50 per month (£600pa).

SKY reported subscription revenue from UK and Ireland in 2013 as some £6bn; advertising revenue from all sources was shown as £440m (*SKY Annual Report*).

Comparing the cost of a TV Licence with a SKY pay-TV subscription

- UK households comprised of 2.4 members on average in 2013 (*ONS data*). Individually, each watched an average of 3hrs 52 mins of TV daily (*BARB*).
- As a TV licence cost £145.50 pa. or 40p per day, the 9.3 hrs per day per household in Freeview and Freesat homes equated to 4.3p an hour per person, whether viewing alone or with others.
- Ofcom reported 36% of all TV homes as subscribers to SKY in Q4 of 2013. As SKY channels accounted for an 8.3% share of viewing nationally (see [Hours of Viewing](#)) this implied a 23% viewing share of SKY channels in SKY homes.
- Where viewing in SKY homes matched the national average of 9.3hrs per day, the cost of £745.50 pa (subscription + TV licence) or £2.04 per day, equated to 22p per hour of household viewing hour for all channels, including free-to-air.
 - Cost of a TV Licence for all free-to-air channels: 4.3p per viewing hour;
 - Cost of a TV Licence plus a SKY TV subscription: 22p per viewing hour.
- **Cost comparison per day for UK average of 9.3 hours household viewing: TV Licence fee: 40p; TV Licence + SKY subscription: £2. (5 times as much.)**

Hours of Viewing

- In 2013, 51% of the share of viewing nationally was spent on the 5 main-stream channels: BBC One, BBC Two, ITV, Channel 4 and Channel 5. With the portfolios of these free-to-air channels taken into account, they represented a share of some 72.5% of national viewing overall (Ofcom).
- BBC-One was the nation's most watched channel, at circa 21% of all viewing (19% in digital satellite homes). The BBC's portfolio share across all UK homes went up from 29.5% in 2004 to 32.4% in 2013, while the national share for SKY's portfolio of channels decreased from 10.4% to 8.3%. (Ofcom CMR Fig. 2.74 below).
- Of SKY's 8.3% share of viewing nationally, ie 23% in SKY households, a 2.7% share was of SKY Sports channels, representing 7.5% of viewing in SKY homes.
- This report takes the use of different platforms at face-value, eg not taking account of SKY channels that are also on other platforms. It also ignores an estimated 3.4% more viewing that takes place in terrestrial homes than in satellite homes.

Figure 2.74 BSKyB portfolio shares in multichannel homes



New BARB panel introduced in 2010. Data pre & post the change should be treated with caution.

The Real Cost of viewing

BBC TV accounted for one-third of viewing nationally (Ofcom: 32.4%), or some 3.1 hours viewed daily of the 9.3 TV hours per household. In free-to-air homes this represented 13p per BBC hour, at the average daily rate for the licence fee of 40p, with all other viewing discounted, ie not costed.

With SKY channels taking a 23% of viewing across all SKY households (and some may have viewed more), this averaged under 15 minutes per hour. If SKY homes watched for a typical 9.3 hours per day, the pro rata cost of watching SKY channels for the daily subscription of £2 was circa £1 per hour, with non-SKY hours discounted.

For SKY Sports, with an average share of viewing in SKY homes at 7.5%, this was under 5 minutes in every household viewing hour, or some 40 minutes per day. For those who say they only subscribe to SKY for the sport, the typical rate would be circa £3 per viewing hour, if all non-SKY Sports hours are discounted.

Conclusions

- SKY pay-TV households paid an average of £2 per day in 2013 to watch television, including the cost of a TV licence. This was 5 times the 40p daily rate of a TV licence alone for households where all viewing was of the free-to-air broadcasts.
- SKY portfolio channels were viewed 23% of the time on average in SKY homes; on this basis the typical £2 daily subscription funded 2 hours 8 minutes of pay-TV out of the average 9 hours 18 minutes of viewing daily.
- In SKY homes where SKY Sports channels were a 'must have' reason to subscribe, £2 purchased a 7.5% share of viewing time for sport, or 42 minutes per day.
- In free-to-air homes, £2 of the licence fee funded 5 days reception of all services. An average 9.3 hours per day would have included over 3 hours of BBC portfolio channels. In other words, £2 funded over 15 hours of BBC TV during any 5 day period, together with all the other BBC public services.

The report indicates the true cost of viewing SKY pay-TV for most subscribers; it underlines the incomparably good value of the TV licence fee at £145.50 pa. This enables reception of all the UK's free-to-air television and radio services. Moreover it funds the BBC, the world's pre-eminent public service broadcaster.



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Addendum: Services provided by the BBC

BBC Television:

BBC One, BBC Two, BBC Three, BBC Four, BBC News, BBC Parliament, CBBC; CBeebies: 3 National Regions, 8 English Regions: S4C & BBC Alba (part-funded).

BBC Radio:

BBC Radio 1, BBC Radio 2, BBC Radio 3, BBC Radio 4, BBC Radio 5 Live, BBC Radio 6 Music: Long Wave and DAB variations and supplementary channels, eg. BBC Radio 4 Extra and BBC Radio 5 Sports Extra.

BBC Online & Mobile:

BBC Online includes BBC News, Sport, Weather, CBBC, iPlayer & iPlayer Radio.

BBC World Service:

The international English language service, with 27 other language services.

BBC Worldwide:

As a wholly-owned BBC subsidiary, BBC Worldwide returns a profit of circa 17% from its commercial revenue of £1bn approx. largely generated abroad.

Under Royal Charter, all BBC UK broadcasts, internet and other services, including orchestras etc. are primarily funded as a public service by the £145.50 pa licence fee.

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