

10 May 2016

Charles Gurassa, Chairman  
David Abraham, CEO  
Channel 4 Corporation  
124 Horseferry Road  
London  
SW1P 2TX

DAME PATRICIA HODGSON  
Chairman

SHARON WHITE  
CEO

Dear Charles and David

### **Channel 4 Corporation's 2015/16 Statement of Media Content Policy**

This is the sixth year of the arrangements we have in place with regard to the production of Channel 4 Corporation's ("C4C") annual Statement of Media Content Policy ("Statement"), and we recently met with you to discuss the Statement for 2015/16.

In order to allow for greater detail and analysis to be presented, this year our comments on your Statement are provided in the attached statistical annex.

Our report highlights a number of your commercial achievements in 2015. In nominal terms you built on growth in previous years, delivering record revenues, with digital revenues in particular growing significantly year on year, and record levels of investment in content. In real terms revenues have remained flat since 2000, peaking between 2005 and 2007. Content investment has fallen in real terms since this peak, although grew year-on-year, continuing C4C's important role as one of the largest investors in the external production sector.

We remain of the view that, within the most likely range of market scenarios, C4C appears commercially sustainable well beyond 2016. We note, however, the speed of change in delivery technology and viewing patterns over the past few years, and the potential future volatility of advertising revenues. We welcome the steps C4C is taking to ensure it is as prepared as it can be to withstand future shocks or a more rapid change in the market. We note the conclusions of Ofcom's 2015 PSB Review, which suggested that consideration be given to updating the framework within which C4C operates, and the contribution of its multi-channel and online services to the delivery of its public service objectives.

We also welcome the broadly successful delivery of C4C's remit and obligations last year, building on strong performance in previous years. Within the challenging and changing market context in which you are operating, audiences continue to value the services you offer, with seven of your reputational tracker statements at peak levels in 2015, notably in respect of greater innovation, distinctiveness and diversity than other PSB channels. The main channel's overall share of viewing also remained stable year on year after a number of

years of decline. You also delivered stable or increasing share performance among your key demographics, adults aged 16-34 and ABC1 adults.

C4C continues to deliver creative and distinctive content. We are encouraged by your approach to delivering news to young audiences and to addressing diversity both on- and off-screen. You appear to be progressing well towards your out-of-England production target, and content covering international themes has grown. We will continue to monitor your performance in these important areas.

Our main concern remains around your approach to providing content that appeals to older children. Although C4C undoubtedly appeals to younger audiences, more so than the other PSBs, the extent to which it is meeting the specific needs of older children is less clear. This aspect of the remit is important given the rest of the market provides little such content to this age group, and it remains the main concern of stakeholders.

In next year's Statement we expect to see a much clearer articulation of the impact your strategy is having among older children. We are also asking you to consider how C4C could play a greater role in providing older children with an alternative voice, distinct from the output provided by the BBC. We would welcome an update on your plans in this area in the autumn, and expect to see the result of your considerations clearly set out in next year's Statement, ideally as part of a three-year strategy.

Overall, though, we welcome your positive commercial performance and the broadly successful delivery of your remit and obligations.

We have copied this correspondence and the attached annex to the Secretary of State and the Chairs of the Parliamentary Select Committees. We also intend to publish both documents.

Yours sincerely

The image shows two handwritten signatures in black ink. The signature on the left is 'Patricia Hodgson' and the signature on the right is 'Sharon White'. Both signatures are written in a cursive, flowing style.

**Dame Patricia Hodgson**  
Chairman

**Sharon White**  
Chief Executive

cc. *Rt Hon John Whittingdale MP, Secretary of State for Culture, Media and Sport*  
*Jesse Norman MP, Chair of Commons Select Committee for Culture, Media and Sport*  
*Lord Best, Chair of Lords Select Committee for Communications*

# Response to Channel 4 Corporation's Statement of Media Content Policy

## About this review

Channel 4 Corporation ("C4C") occupies a unique place in the public service broadcasting ("PSB") system. Publicly owned but commercially funded, it has a focus on diversity, and delivers programmes with an alternative take on the world to younger audiences who are increasingly seeking content beyond the PSB (and TV) environment. It provides content across its main channel, Channel 4, its portfolio of channels, including E4 and More4, as well as online, including on All 4.

C4C's remit and duties are defined in statute. As a PSB, the main channel must provide a broad range of high quality and diverse programming which demonstrates innovation, appeals to the tastes and interests of a culturally diverse society, includes programmes of an educational nature, and exhibits a distinctive character<sup>1</sup>. It also has quota obligations to include programming such as original productions and programmes made outside London.

Additionally, C4C has a range of media content duties which apply across all of its services (the main channel, portfolio channels, film, and online). These duties are wide-ranging, including requirements to provide news and current affairs, to provide content which appeals to older children and young adults, to promote measures intended to secure people are well-informed and motivated to participate in society, to support the development of people with creative talent, and to promote alternative views and new perspectives<sup>2</sup>.

C4C is responsible for determining its strategy for delivering these duties, the outcomes it intends to deliver and the measures by which it will assess its success. But as a publicly-owned institution, it is important that C4C is held to account for the delivery of its duties. C4C lays its Annual Report and Accounts before Parliament. It includes in this report its annual Statement of Media Content Policy ("Statement"), setting out its proposals for discharging its duties in the coming year and reporting on its performance over the past year.

C4C must consult Ofcom in preparing each Statement. This allows Ofcom to provide external scrutiny to ensure that C4C delivers its remit and performs its duties, and complies with obligations in the Channel 4 licence. In the event that C4C fails to meet an element of its remit, Ofcom is able to direct the Corporation to address the issue and, ultimately, vary the licence to ensure that it does.

This annual process is just one component of Ofcom's broader role in overseeing the PSB system. We also periodically review the performance of the PSB system as a whole, and of C4C's delivery of its media content duties over a longer period.

## Key findings

The growth of the internet continues to drive change in the media industry. While live television remains hugely important, catch-up TV watched over the internet, and programming and content premiered on the internet are becoming increasingly important to audiences, especially the younger audiences that Channel 4 seeks to attract. Today, only around half of 16-24s' audio-visual viewing is through live television (i.e. TV viewed at the time it is broadcast). The emergence of new entrants such as Netflix and Amazon Prime, providing services directly over the internet, is giving consumers greater choice and making the landscape more competitive.

Within this challenging context, we welcome C4C's positive commercial performance this year. In nominal terms it has built on growth in previous years, delivering record revenues,

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<sup>1</sup> As set out in section 265 of the Communication Act 2003

<sup>2</sup> The full list of duties is set out in section 198A of the Communications Act 2003 (inserted by the Digital Economy Act 2010)

with digital revenues in particular growing significantly year on year, and record levels of investment in content. In real terms revenues have remained flat since 2000, peaking between 2005 and 2007. Content investment has fallen in real terms since this peak, although grew year-on-year. Overall, C4C continues to play a vital role as one of the largest investors in the external production sector. We remain of the view that, within the most likely range of market scenarios, C4C appears commercially sustainable well beyond 2016. We note the speed of change in delivery technology and viewing patterns over the past few years and welcome the steps it is taking to ensure it is as prepared as it can be to withstand future shocks or a more rapid change in the market.

We also welcome its broadly successful delivery of its remit and obligations in 2015, again building on strong performance in previous years. Audiences value C4C's services; seven of its reputational tracker statements were at peak levels in 2015. The main channel's overall share of viewing also remained stable year on year after a number of years of decline. It also maintained its share of viewing among 16-34 year olds and increased its share among ABC1 adults, vital for remit delivery and commercial sustainability.

C4C continues to deliver creative and distinctive content. We are encouraged by its approach to delivering news to young audiences and to addressing diversity both on and off-screen. C4C also appears to be progressing well towards its out-of-England production target, and the amount of content covering international themes has grown. We will continue to monitor its performance in these important areas.

Our main concern remains around its approach to providing content that appeals to older children. Although C4C undoubtedly appeals to younger audiences, more so than the other PSBs, the extent to which it is meeting the specific needs of older children is less clear. This aspect of its remit is of increasing importance as the rest of the market provides little such content, and this remains the main concern among stakeholders. We are therefore asking C4C to give further consideration to how it can better assess the impact it is having among older children, and to consider how it could play an even greater role in providing older children with an alternative voice, distinct from the output provided by the BBC.

Overall, though, we remain of the view that C4C is performing well, broadly meeting the remit that Parliament has set.

### **The context in which C4C operates**

Although the Statement process is limited by statute in the timeframe it covers – looking back one year at performance and one year forward to future plans – the broader context is vital to understanding C4C's place in the industry.

In some ways, the broadcast landscape has remained steady over the past decade:

- **The consumption of traditional broadcast television remains the most popular viewing activity across all screens:** it accounted for an estimated 85% of all watching activities among adults in 2014<sup>3</sup>. Individuals watched an average of 3 hours 36 minutes of traditional television on TV sets per day in 2015, compared to 3 hours 45 minutes on average in 2008<sup>4</sup>.
- **PSB remains popular:** the five main PSB channels continue to account for over 50% of viewing (compared to 60.5% in 2008) and around 70% when viewing to their

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<sup>3</sup> Ofcom Digital Day research, 2014. Adults 16+. Based on recorded, catch-up, on-demand services, DVDs and short-form content).

<sup>4</sup> BARB, Network. Note: new BARB panel introduced 1 Jan 2010; as a result pre- and post-panel change data must be treated with caution

portfolio channels is included. Satisfaction with the system has grown from 69% in 2008 to 79% in 2014<sup>5</sup>.

- **The television advertising market has remained robust:** the UK market grew 7.4% year on year in 2015, with a record amount of over £5bn pounds spent on television advertising<sup>6</sup>.

But in other important ways, driven by the growth of the internet, the broadcasting sector has undergone radical change since 2008:

- **Increased choice and competition:** the completion of digital switchover means that all TV households now have access to a wide range of channels. This increased competition has led to some fragmentation in viewing.
- **Globalisation and consolidation:** investment in content is growing, with commercial broadcasters and a range of new on-demand-only entrants investing heavily, in addition to the PSBs.
- **The rise of non-linear viewing:** the number of on-demand services has grown dramatically. And more people are using a range of connected devices to watch AV content – both long-form and short-form – at home and on the go; 50% of UK adults with a smartphone said they used this device to watch AV content in 2016, compared to 22% in 2012<sup>7</sup>.
- **A growing generational gap:** while television has shown resilience, there have been year-on-year declines in consumption since 2012, falling from an average of four hours per individual per day to 3 hours 36 minutes in 2015 (a 10% decline). This decline in viewing has been largely driven by the under-25s. Ofcom research suggests that live television viewing represents just 50% of 16-24s' viewing time across all screens, while viewing of recorded or on-demand programming (including subscription-based services) accounts for nearly a third, and short online videos nearly a tenth<sup>8</sup>.

Many of these trends, explored in more depth in our third review of PSB, published in 2015, pose potential challenges for C4C given its core audience is younger than that of most other broadcasters, and its main source of income is television advertising. This is why we carefully considered the sustainability of C4C when we consulted on renewing the Channel 4 licence in 2013. During that process we concluded that the financial model put forward by C4C appeared to be credible and that its submission that the licence obligations could be maintained was realistic.

Three years on from the relicensing process, despite growing revenues and increased content investment (which we consider in more detail below), questions have continued to be asked about the long-term sustainability of C4C, in part due to the challenges identified above. Overall, we are currently of the view that C4C is sustainable for a number of reasons.

First, television advertising has remained strong in recent years and C4C continues to hold a strong position within this market. In particular:

- **It performs well among key demographics:** the main channel's share among 16-34s remained broadly stable in 2015 (up by 0.1pp). Its audience profile is also much younger than any of the other PSBs with 22.8% of its audience aged 16-34 (compared to 10.3% for BBC One, 10.3% for BBC Two, 13.7% for ITV, and 17.5% for

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<sup>5</sup> Ofcom PSB Tracker, 2008 - 2014

<sup>6</sup> Thinkbox, 2016

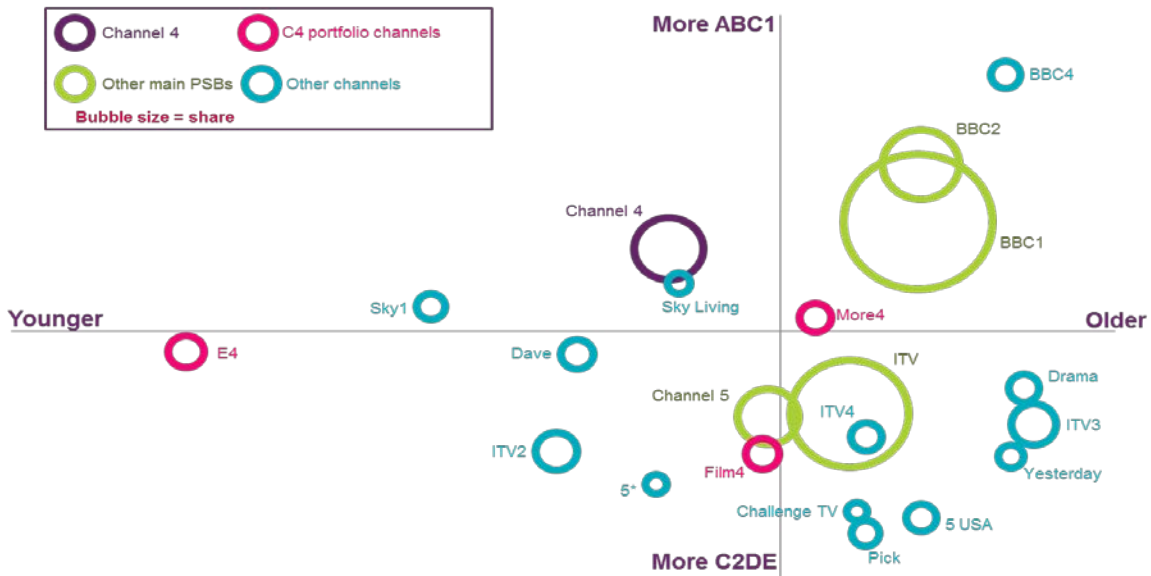
<sup>7</sup> Ofcom Technology Tracker, 1<sup>st</sup> half 2016 and 1<sup>st</sup> half 2012

<sup>8</sup> Ofcom Digital Day research, 2014

Channel 5). The main channel also slightly increased its share among ABC1 adults by 0.3 pp year on year.

- **The main channel delivers both the large audiences that advertisers want and the hard-to-reach demographics not reached by many other channels:** it does this by ensuring its main channel is young and upmarket enough to offer an appealing proposition to advertisers, while avoiding skewing too far from the average age and social class of television viewers overall, in order to maintain mass appeal, as demonstrated in the chart below.

**Figure 1: Channel profiles based on age and social class of audiences: 2015**



Source: BARB/InfoSys+/TRP Research. Whole Day 1/1/2015 – 31/12/2015. Adults 16+. Size of bubbles relate to adults 16+ share. Profile based on age: % 35+, social class: % ABC1. Axes cross at the average age/social profile of Total TV. Includes HD variants, excludes +1 variants.

Second, C4C has plans in place designed to maintain or increase share, to further strengthen its position in the advertising market. The Corporation's increased content investment in 2015 helped to stabilise viewing to the main channel, while the other main commercial PSBs lost share. In 2016, C4C's Statement outlines its plans to invest in a second phase of its *Creative Renewal* strategy, which again seeks to maintain audience levels, particularly among 16-34s.

Third, it can adjust its cross-subsidy model to absorb shocks. The Corporation balances raising revenues with delivering its public remit. Although many programmes can be both remit-delivering and profitable, there is often a trade-off between the two aims. C4C therefore operates a cross-subsidy model whereby its profitable portfolio channels subsidise more challenging output on the main channel, and on the main channel more profitable programmes cross-subsidise some of its less-commercially attractive and/or more expensive output. This flexibility will allow C4C to make short-term adjustments to the balance of profit-maximising and remit-delivering programming in its schedules, in the event of unexpected financial shocks in future. This ensures a degree of sustainability.

And finally, it is diversifying its revenues to reduce its reliance on television advertising. All 4 is helping to contribute to the Corporation's sustainability. Digital revenues driven by data collected from registered users have grown rapidly, with plans to increase this further next year. In 2015 C4C saw increased year-on-year consumption of content on this platform, and positive performance of its short-form content brand *Shorts*. We have discussed with C4C its plans to use this positive performance online, and its existing relationship with younger



viewers, to its advantage, and it appears to be in a strong position to adapt to significant changes in consumption, particularly under a future scenario in which online viewing becomes more dominant.

Despite these many positives, there is no room for complacency. Our PSB Review showed that PSB spend in general is under pressure as a result of changes in technology and audience behaviour. The challenges may be heightened if any of the market dynamics that we are seeing accelerate. While consumption of TV remains high overall, despite a decline over the past four years, young people’s behaviour may be an early indication of a more substantial shift across age groups to on-demand and online viewing.

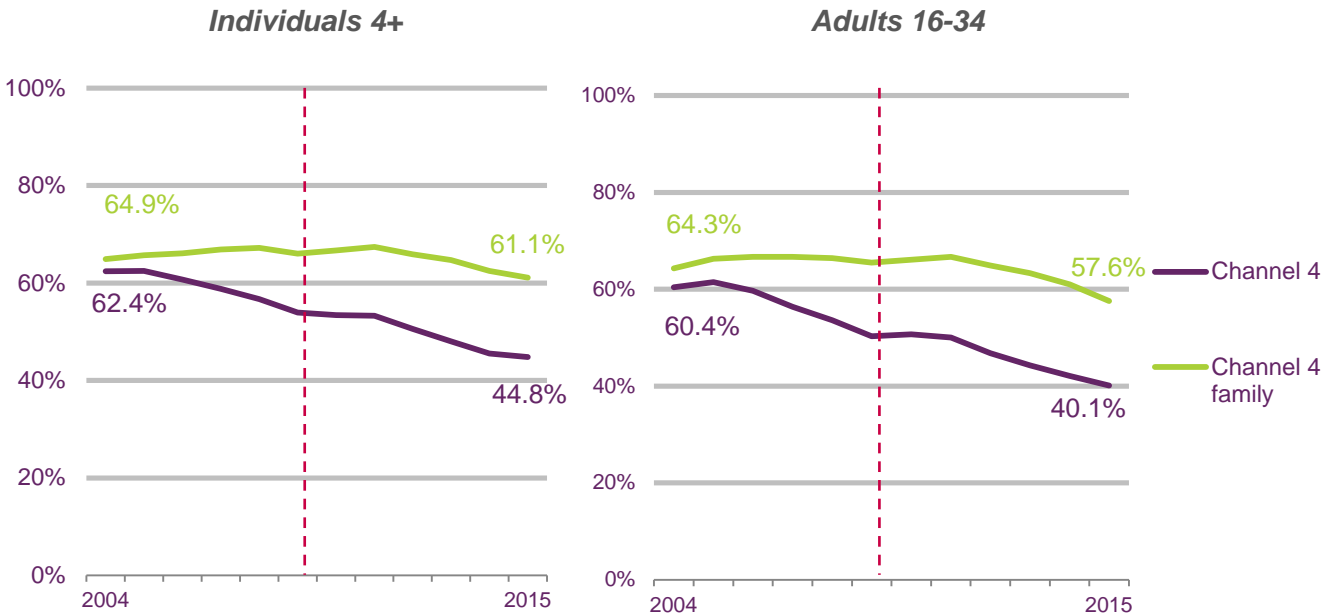
That is why our review concluded that PSBs will need freedom to continue to innovate, as audiences increasingly want content that is delivered over multiple devices and is specifically designed for the internet environment. Audiences are likely to want more than just traditional television content from public service broadcasters, and short-form video or online-first content could potentially serve as an effective way of delivering key PSB purposes.

The PSB Review also suggested that consideration should be given to updating the framework under which C4C operates, to ensure that it can meet the needs of younger audiences, whose media consumption habits are changing quickly. This might include allowing C4C to deliver some of the obligations attached to its core Channel 4 service across the range of its services, or guaranteeing that its channels and services are given appropriate prominence on the most popular user interfaces. We remain of the view that such options merit further consideration.

**Consumption**

The proportion of people who watch Channel 4 (or any television channel) in a typical week has progressively decreased over time. With its portfolio of channels, C4C as a whole has been able to broadly maintain its reach, both overall and among young adults aged 16-34. Reach of the overall C4C family has dipped over the last four years (by 9.3%); however similar levels of decline have been experienced by the other PSB families over the same time period (BBC down 6.5%, ITV down 9.2% and Channel 5 down 7.3%).

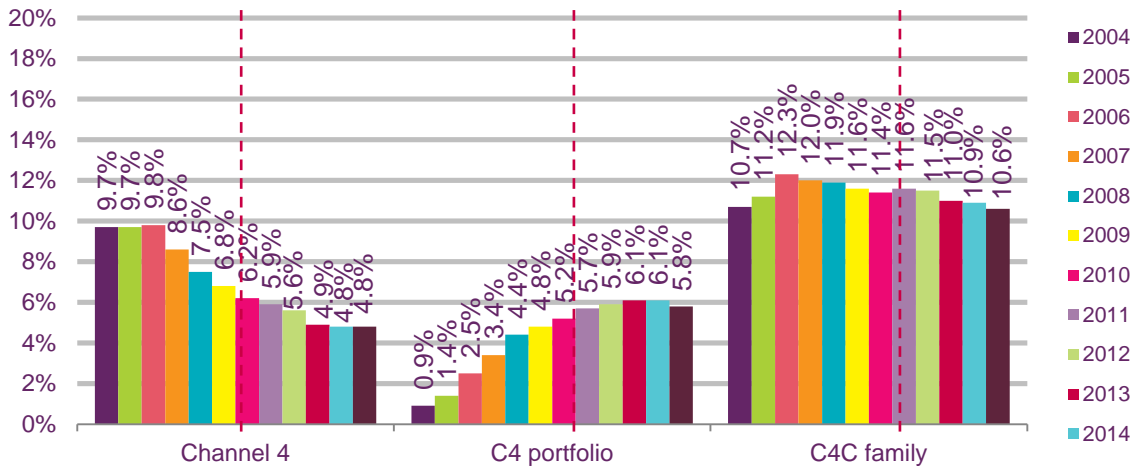
**Figure 2: Average weekly reach to C4C: 2004-2015**



Source: BARB. All Individuals (4+) and adults 16-34, Network. Reach criteria: 15 consecutive minutes, full weeks used. Channel 4 excludes Channel 4+1 and includes S4C up to 2009 when S4C carried Channel 4 programming until DSO in Wales in 2010. Channels include viewing to their HD channel variants where applicable. Note: a new BARB panel was introduced in 2010, as a result, pre- and post-panel change data must be compared with caution (see dotted line).

In an increasingly competitive AV landscape, overall C4C has broadly maintained its share of viewing among all TV viewers. While its main channel has seen a substantial fall in viewing in recent years, this has been largely offset by increased viewing to its broader portfolio of channels.

**Figure 3: Share of viewing to C4C channels, individuals age 4+: 2004-2015**



Source: BARB. All individuals (4+), Network. Channel 4 excludes Channel 4+1 and includes S4C up to 2009 when S4C carried Channel 4 programming until DSO in Wales in 2010. Channels include viewing to their HD channel variants where applicable. Note: a new BARB panel was introduced in 2010, as a result, pre- and post-panel change data must be compared with caution (see dotted line).

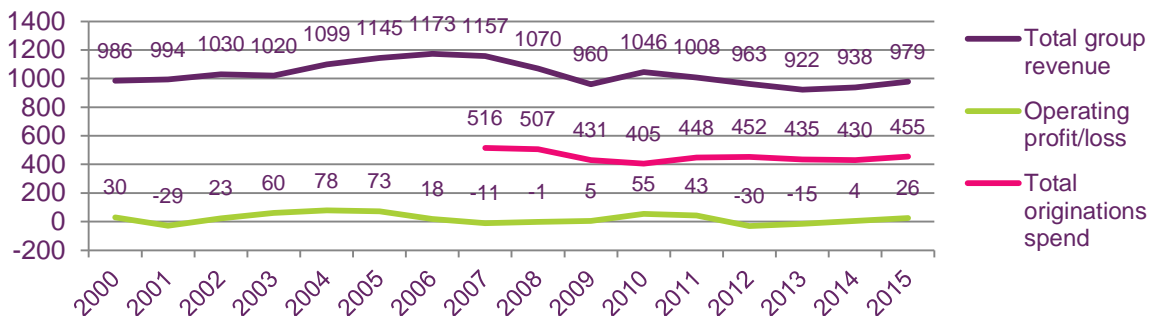
This is particularly the case among C4C’s target audience of adults aged 16-34, with the C4C family share growing from 14.3% in 2004 to 16.5% in 2015. Viewing to the main channel has stabilised in the last three years, both for all individuals and for 16-34 year olds.

### Commercial performance

In 2015, C4C reported record revenues of £979m in nominal terms, delivering record levels of total and originated content spend across its services (£629m and £455m respectively).

Our analysis shows that in real terms C4C’s revenues have remained relatively flat since 2000, peaking between 2005 and 2007. Content spend has also fallen since 2007 in real-terms although it did grow year-on-year from £430m in 2014 to £455m in 2015.

**Figure 4: C4C group revenue and spend (£m): 2000-2015 (real terms)**



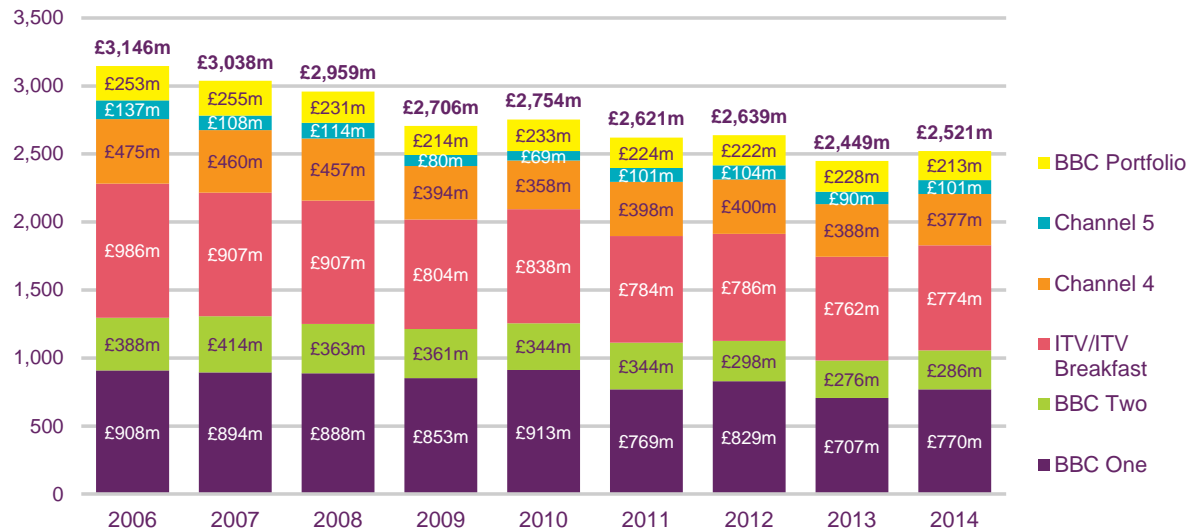
Source: C4C Annual Reports. Figures have been adjusted for inflation into 2015 prices using the ONS Consumer Price Index

As highlighted in our PSB review, given that the Office of National Statistics Consumer Price Index (“CPI”) measures price inflation of a basket of typical consumer goods, it may not be the most precise measure of price inflation in the underlying input costs of producing new UK programmes and other media content.



Most of C4C's originations spend is on programming broadcast on the main channel (90% in 2015). In 2014, (the latest year for which comparative data is available) Channel 4's spend on first-run UK originated content on the main channel was £377m, which compared to £774m on ITV<sup>9</sup>, £770m on BBC One, £286m on BBC Two and £101m on Channel 5.

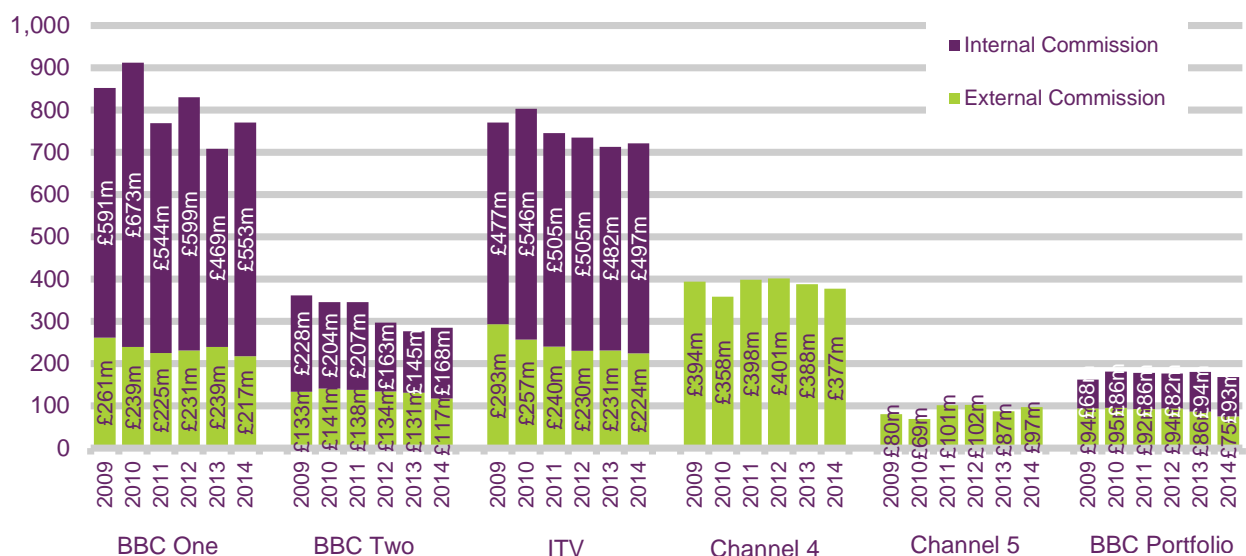
**Figure 5: PSB first-run UK originations spend (£m): 2006 – 2014 (real terms)**



Source: Ofcom/broadcasters. Note: figures are expressed in 2014 prices. BBC Portfolio includes BBC Three, BBC Four, CBBC, CBeebies, BBC News, and BBC Parliament. The analysis does not include S4C, BBC Alba or BBC HD. Figures exclude nations/regions programming.

C4C's spend on originated productions also makes a significant contribution to the production sector. No individual PSB channel spends more than Channel 4 on new content from external producers; this stems from C4C's publisher-broadcaster model. When taken as a whole, the BBC spent £409m on external commissions in 2014 compared to Channel 4's £377m.

**Figure 6: Spend on first-run commissions by PSB channels (£m): 2009 – 2014 (real terms)**



Source: Ofcom / broadcasters Note: Figures are expressed in 2014 prices. First-run network commissions including news and sports rights. BBC portfolio channels included in the chart: BBC Three, BBC Four, CBBC, CBeebies. ITV excludes ITV Breakfast.

<sup>9</sup> ITV main channel and ITV Breakfast programming combined.

Online, C4C's digital platform All 4 has helped to deliver new commercial revenue opportunities, while also enabling C4C to meet the changing needs of viewers. Digital revenues grew by 30% year on year in 2015, and the Statement reports that the Corporation's data strategy (which uses information from registered users to All 4) 'enabled' 30% of these revenues, with plans to increase this to 50% in 2016.

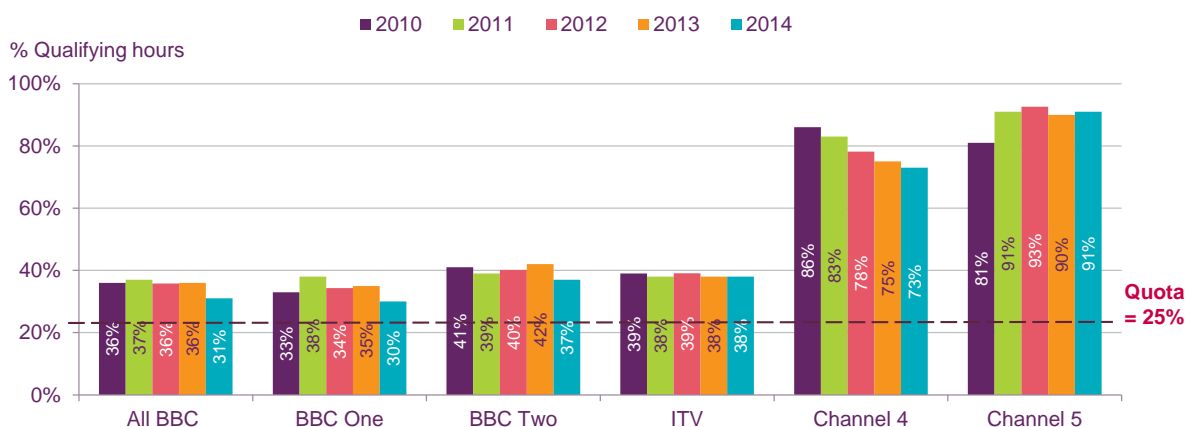
### Independent production

C4C operates as a publisher-broadcaster: it does not have any in-house production capacity. Our recent review of the television production sector<sup>10</sup> emphasised the important role that C4C plays in the creative industries, commissioning more new hours of programmes from external producers than any other PSB. C4C's Statement and our own analysis (provided in figure 6 above) also show that the main channel spends more on external commissions than any of the other PSB channels.

C4C's Statements in recent years have shown that the number of suppliers it uses across all of its services has been declining, including in 2015. C4C largely attributes this fall to its deepening of its relationships with suppliers after the *Creative Renewal* process, which it says led to an inflation in the number of suppliers used in 2012 and 2013.

Our analysis suggests that the overall fall remains in line with the market trend which we highlighted as part of our review of the television production sector, whereby the number of external producers in the market almost halved between 2006 and 2014. C4C continues to exceed the independent production quota significantly, as evidenced in the chart below.

**Figure 7: Qualifying hours commissioned from qualifying independent producers: 2010–2014**



Source: Ofcom/broadcasters

We discussed with C4C its plans to ensure that it continues using a wide range of suppliers. C4C does not anticipate any further significant decline in these numbers, and expects the number of suppliers used to remain at similar levels to those in 2014 and 2015 for the foreseeable future. We were encouraged to hear that C4C has reduced its reliance on the top five external producers in the market, from 42% of its spend down to 27%, to ensure it is commissioning from producers of a range of scale and size.

We also discussed the recent impact of the Growth Fund. C4C informed us that the companies which had received funding had experienced considerable revenue growth in the past year. The Corporation views this initiative as a long-term venture and plan to replenish the fund in the future. The Growth Fund has the potential to contribute to the delivery of

<sup>10</sup> Review of the operation of the television production sector, 2015: [http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/tv-production-sector-review/TV\\_Production\\_Sector\\_Review.pdf](http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/tv-production-sector-review/TV_Production_Sector_Review.pdf)

C4C's duty to support the development of creative talent and to provide future revenue streams for the Corporation. We would welcome further updates in future Statements.

### **Remit delivery and creative strategy**

C4C's strong commercial performance is welcomed as it underpins C4C's ability to deliver its public service remit and duties. Our periodic review of C4C's delivery of its media content duties for the period 2010-2013, published last year, concluded that it was broadly meeting its requirements, while our response to last year's Statement noted that during 2014 it continued to perform well.

Our overall assessment of its performance in 2015 is that it has again broadly met its requirements. Given the extensive nature of its remit, this section does not comment on all aspects of its performance, but instead focuses on a number of key topics.

#### Creativity and distinctiveness

Channel 4's remit requires it to make programmes that demonstrate innovation, experimentation, creativity and distinctiveness. C4C's stated creative ambition for 2015 was to continue the *Investing in Innovation* strategy, with an increased content budget which would continue to deliver a mixture of longer runs of returning series, combined with new and one-off programmes.

The nature of this content appears to have made an impact among audiences across key areas of the remit: seven of C4C's reputational tracker statements were at peak levels in 2015, including 'shows the viewpoints of minority groups in society' and 'takes a different approach to subjects compared to other channels'. Overall, the main channel continues to outperform the other PSBs for 'challenging prejudice', 'catering for audiences other channels don't cater for' and being 'experimental'. We also note the critical success of C4C's programming, with 323 awards won in 2015.

Ofcom's PSB Tracker<sup>11</sup> shows that among 16-24s Channel 4 scores higher than BBC One and ITV for its delivery against the statement 'the style of the programmes is different to what I'd expect to see on other channels' and higher than BBC One, BBC Two and ITV for its delivery against the statement 'it shows programmes with new ideas and different approaches'.

Overall, we are of the view that Channel 4 continues to offer distinctive and creative content, offering a compelling alternative to citizens and consumers.

#### News

C4C must provide news content (on television or online) and its main channel is subject to quotas for national and international news. C4C's strategy in this area has two parts: building on the long-running and well-respected main bulletin on the main channel, and a "mobile-first" strategy for online news, intended to reach younger audiences in particular.

C4C told us that its performance against this strategy in 2015 was positive. On linear television, Channel 4's news output covered a range of domestic issues focused on the UK general election, as well as in-depth coverage of international issues. This output delivered four hours of news coverage in peak time per week, meeting the Channel 4 licence quota. C4C has reported that its news programme increased its average monthly reach by 1%, the first time this metric has grown since 2008. C4C also noted that its viewing among 16-34

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<sup>11</sup> Ofcom PSB Tracker data tables. Note: Base for BBC Two is under 100 and so data must be treated with caution.

[http://stakeholders.ofcom.org.uk/binaries/research/statistics/2016March/PSB\\_Tracker\\_2015\\_tables.pdf](http://stakeholders.ofcom.org.uk/binaries/research/statistics/2016March/PSB_Tracker_2015_tables.pdf)

year olds remained broadly level, which it views positively in such a converged media landscape.

While convergence and changing consumption habits are prominent in the news landscape, our own research shows that TV is still the most popular platform for news. Strong television news from C4C therefore remains vital. In our view, Channel 4's news output exhibits a distinctive character<sup>12</sup>. Much of its output has a strong investigative edge, and it reports on a broader range of international matters than is seen elsewhere on UK TV. It has a single main bulletin, aired in peak time with an hour-long format, different to the other main PSBs' news bulletins.

While this means that Channel 4 provides welcome choice, it also means that its news output is not intended as a mass-market proposition in the way as the bulletins from the BBC or ITV are. This is reflected to some extent in its performance: the weekly reach of Channel 4's news programming is 10% among all individuals, higher than Channel 5 (9%), but lower than BBC One and ITV (55% and 31%). Although it did achieve a higher weekly reach than the rolling news channel service from Sky News (8%), this was still lower than the 14% reach of the BBC News channel. Channel 4 has a 3% share<sup>13</sup> of total viewing hours to national and international news programming, significantly lower than other channels (BBC One and Two 66%, ITV 12%, Sky News 6%). In the 7-8pm weekday slot specifically, Channel 4's hour long news bulletin remained stable year on year, with its share of the audience up 0.2ppts to 3.2% in 2015.

Channel 4's news programming does, however, perform disproportionately well among younger viewers, perhaps reflecting Channel 4's overall demographic skew. Our analysis suggests that its share of 16-34s' total viewing to national and international news programming is double its all-audience share (at 6%) while C4C's Statement points out that 16-34s account for a larger proportion of Channel 4's news audience than of the other main PSB channels' news audiences.

With regard to C4C's online news strategy, although a dedicated news area was not integrated into the All 4 platform in 2015, as C4C suggested it would during this process last year, it has instead told us that it is exploring other alternatives in this area. This experimentation is aimed at delivering more tailored and attractive content to younger audiences, who might not be easy to reach via a Channel 4 News-brand offering on All 4. As part of this, C4C opted for a strategy which focused on increasing consumption of its news content on mobile devices in 2015.

Reporting on its delivery against this stated "mobile-first" strategy in 2015, C4C states that this approach delivered more than 500 million video views via Facebook (a five-fold year-on-year increase) and 55 million views on YouTube (a three-fold year-on-year increase). Our own analysis shows that, by comparison, Vice News had approximately 159m views to its YouTube channel over the same period<sup>14</sup>.

Ofcom's research into younger people's news consumption patterns and behaviour suggests that this approach is credible, given that for 16-24s the internet and apps are the most-used platforms for accessing news, followed by television.

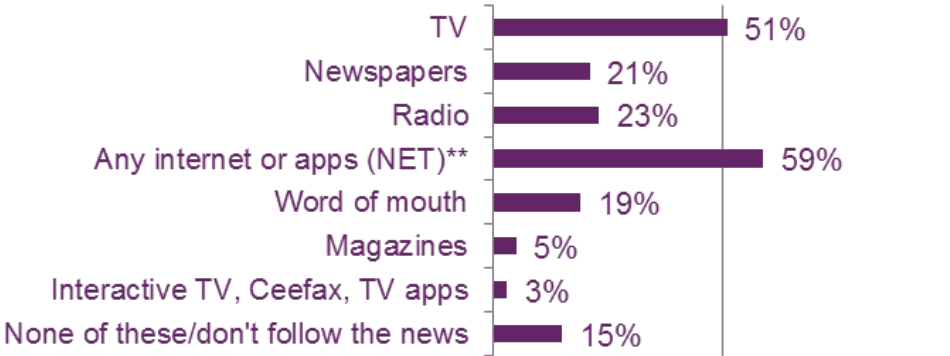
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<sup>12</sup> Ofcom PSB Review research, 2014

<sup>13</sup> Note: News analysis refers to Channel 4 total (includes +1). Other channels also include +1s (where applicable).

<sup>14</sup> Source: Social Blade

**Figure 8: Platforms used for news ‘nowadays’, 16-24s**



Source: Ofcom News Consumption Report 2015. Q3a/3aa Which of the following do you use for news nowadays. Adults 16-24 (368). \*\*Any internet or apps is aggregate figure of all internet devices.

This research also shows that, as with its linear performance, C4C’s online news has a smaller presence than other players in the market. In 2015, across all platforms, 8% of all respondents aged 16-24 who use news claimed to use Channel 4 as a source of news ‘nowadays’. This compares with 67% who said they used the BBC as a source of news, 24% who said ITV, and 17% of respondents who stated they used Sky<sup>15</sup>.

On websites or apps, 1% of 16-24s who used the internet for news in 2015 claimed to use Channel 4’s website or app as a source of news ‘nowadays’. This compares with 56% for the BBC’s website or app, 7% for ITV’s website or app, and 12% for Sky’s website or app. Among the same group of respondents, 3% claimed to use Vice’s website or app as a source of news ‘nowadays’ and 10% claimed to use BuzzFeed’s website or app<sup>16</sup>.

Although C4C has demonstrated that consumption of its mobile and online video content is growing, it was less clear about the impact its online strategy was having on the delivery of its remit. This is due to the experimental nature of this approach, and C4C has therefore committed to consider how it might measure the impact of its news content on the younger demographic, reporting on this as part of next year’s Statement. Nonetheless, the early indications are that its performance in this area is encouraging. Given the important role C4C plays in the news landscape and in engaging with young audiences, we will continue to monitor its delivery in this area closely.

Content for older children and young adults

C4C is required to provide content across its range of services that appeals to the tastes and interests of older children and young adults. For the purposes of this duty C4C has interpreted ‘older children’ as 10-14 year olds and ‘young adults’ as 14-19 year olds.

C4C’s stated strategy for appealing to young adults, beyond the general appeal of its services to young audiences more broadly, is via a range of educational content specifically aimed at this age group. This content seeks to focus on the life skills which fall outside the school curriculum (e.g. sex, relationships, the digital landscape, and friendships).

For older children, C4C has moved away from commissioning bespoke content, which was often shown on E4, towards making programmes for the main channel which have themes

<sup>15</sup> Ofcom News Consumption research.Q5a-5e Thinking specifically about <source> which of the following do you use for news nowadays?

<sup>16</sup> Ofcom News Consumption research.Q5e Thinking specifically about websites or apps, which of the following do you use for news nowadays?

which will resonate with 10-14s, but will also appeal to a broader audience. C4C's intention is to deliver greater levels of viewing, both among older children, and overall.

Our analysis shows that the age profile of Channel 4's audience skews younger than the other PSB channels, and E4 skews younger still. At a headline level, therefore, this suggests that C4C is meeting what is a very broadly-defined element of its remit: to provide content that appeals to older children and young adults.

With regard to young adults specifically, in 2015 C4C spent £5m on its educational television output for this audience (a small year-on-year decrease), delivering 16 hours of output (up 78% on the prior year). This programming reached 1.4 million 14-19 year olds, an increase on the 1.1 million reached in 2014. Online, C4C continued to develop its *Am I Normal?* portal for young adults, commissioning content specifically for the website, as well as ensuring relevant television output was made available on the site. C4C's Statement outlines its intention to build on this life-skills strategy further in 2016, and to better measure the impact that this content is having on the audience.

With regard to older children, we have previously raised concerns about C4C's approach to serving this audience. C4C reports that it increased its spend on content for older children by £1.4m (68%) in 2015. It suggests that its new strategy for this age group is working: the wide-appeal programmes on the main channel, which it identified as having storylines and elements that would resonate with older children, considerably outperformed the slot averages for this age group.

Our own analysis confirms this: between 80% and 450% more 10-14 year olds<sup>17</sup> watched the four key programmes identified in the Statement than in their slot averages in 2015. Channel 4 also increased its share of viewing among 10-14 year olds in 2015, while BBC One and ITV both lost viewing share among this audience.

However, the weekly reach of the main channel among older children fell, continuing a trend over time. And while the main channel's audience profile does skew younger than the other PSBs' and many commercial providers', its audience contains a smaller proportion of 10-14 year olds (at 2.7% of its total audience) than the total TV audience (2.9%). C4C has been unable to provide any evidence on the impact its strategy is having, beyond increasing viewing. We therefore remain concerned that C4C may not be delivering as well for older children as it is for young adults, at a time when children are under-served by the wider market.

C4C has been clear with us that appealing to this age group is commercially challenging. We acknowledge this; indeed, the PSB Review set out a number of reasons why this may be the case.

We also note C4C's clear statement in response to our PSB and C4C reviews last year: that its "investments in this area would be necessarily modest, given the multifaceted nature of [its] remit and because, compared with other PSBs, there is no historical slot or dedicated channel available for this type of content on Channel 4." C4C has said that increasing its investment in this area "will inevitably mean reducing investment in other equally important areas" of the remit. As such, it has no plans to commission bespoke content for this age group.

We recognise that the way in which C4C balances the delivery of the various elements of its remit is primarily a matter for the Corporation itself. In doing so it needs to determine how best to balance remit delivery with more commercial output to support its cross-subsidy

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<sup>17</sup> '10-14 year old children' is a non-standard BARB audience and does not include guest viewing. We have used it in our analysis to assess the success of the provision of content to this age group by C4C. The main channel's share among children 10-15 increased by 0.2ppts from 4.5% in 2014 to 4.7% in 2015.



model. We recognise that it also needs to make judgements as to where it can deliver the most impact given its strengths and its place in the broader market. However, an important part of Ofcom's role is to highlight areas where we believe C4C should place greater emphasis. One such area is C4C's approach to providing content that appeals to older children. This is an area where the market delivers little, and this is the main area of concern among many stakeholders. We are therefore asking C4C to:

- provide evidence in next year's Statement of the impact its strategy is having among older children, beyond simply viewing figures; and
- consider how it could play a greater role in providing older children with an alternative, distinct voice to the output provided by the BBC. We would welcome an update on its plans in this area in the autumn, and expect to see the result of its considerations clearly set out in next year's Statement.

In the PSB Review we suggested that the Government might consider reviewing C4C's remit to better focus the Corporation on delivering in those areas of PSB where it can make the most distinctive contribution. Such a review could consider the importance of appealing to older children versus other elements of C4C's remit.

We will continue to monitor C4C's performance against the two elements of this duty, to serve both older children and young adults, in next year's process.

### Diversity

C4C is required to provide programmes and content that appeal to the tastes and interests of a culturally diverse society. This year's Statement process has taken place in the midst of on-going industry debates about the low levels of diversity, both on-screen and behind the camera. Ensuring diversity both on- and off-screen is a challenge for all broadcasters, C4C included.

In response to these debates, C4C launched its 360° Diversity Charter in 2015, which sets out clear strategies for both on and off-screen diversity.

On-screen, C4C defines its diversity output as content which addresses multiculturalism, disability, religion or sexuality. It has said that it is committed to exploring diversity issues in specific programming titles, but also believes strongly in reflecting the diversity of the UK across all of its programming, including additional areas such as gender and social mobility. Its new commissioning guidelines are intended to help deliver this by ensuring that all productions meet at least one of the on-screen diversity criteria.

In 2015, C4C reported an increase in the amount of diversity programming in peak time, following a fall in 2014. C4C has also informed us that it made positive progress against its Charter in 2015, meeting 24 of the 30 commitments made. It also stated that it has extensive plans to make 2016 its Year of Disability, building on its coverage of the 2016 Rio Paralympic Games.

Off-screen, C4C has stated that it supports a range of initiatives such as training schemes and apprenticeships, and hosts events, all of which aim to help people from different backgrounds develop careers in the creative industries. The new commissioning guidelines expect all productions to meet at least one of the off-screen diversity criteria. C4C's aim is to help nurture talent, which will make a lasting difference to the industry as a whole.

Diversity is an area in which C4C has historically performed relatively strongly. Analysis carried out by Ofcom in 2013 shows that, in viewing terms, Channel 4 tends to perform well

with ethnic minority groups (“EMGs”)<sup>18</sup>. Our analysis of its performance this year suggests that this positive performance is continuing:

- There were strong visible themes related to diversity across C4C’s output in 2015, drawn out in the Statement, such as the portrayal of women in film, and C4C’s continuing output related to disability, sexuality and religion, all of which contributed to ensuring a diverse range of programming was visible on screen.
- Our PSB Tracker research shows that 63% of viewers to Channel 4 believe that it ‘shows different kinds of cultures within the UK’, performing slightly above the overall PSB average (62%)<sup>19</sup>.

Overall, C4C continues to perform well in meeting the needs of a culturally diverse society, particularly this year in its portrayal of life for disabled people in the UK. However, there is still a long way to go for the industry as a whole to address the challenges and concerns in this area.

We look forward to the first report from Diamond, the pan-industry diversity monitoring system, which will help us to assess C4C’s performance in this area more broadly, across the many different facets of diversity and also across C4C’s range of channels. We expect C4C to continue to play a leading role as the wider industry seeks to address these concerns, and we will keep its progress under review.

### Nations and regions

Another key element of C4C’s commitment to providing content which appeals to a culturally diverse society is its work in the UK nations. We have discussed with C4C its commissioning strategy for the nations, where it is working towards a 9% out-of-England production quota that was introduced as part of the 2014 relicensing process and will come into effect in 2020.

We note the challenges C4C states it faces in achieving sustainable scale in these areas (as opposed to a ‘lift and shift’ approach) and the positive progress being made towards the new quota. C4C emphasised that it is strongly committed to its performance in this area, and will continue to use initiatives such as the Alpha Fund to help grow and nurture talent in a range of locations.

C4C extended its engagement with a range of nations’ representatives in 2015, including the Ofcom Nations’ Advisory Committees, in line with the approach agreed during the relicensing process. Feedback from those meetings has been positive. We also welcome the improved presentation of the nations’ and regions’ metrics in this year’s Statement, making C4C’s reporting more transparent.

### International

C4C has a duty to support and stimulate well-informed debate on a wide range of issues, including by providing information and views from around the world. It reports its performance on this by monitoring the number of first-run hours on the main channel covering international matters<sup>20</sup>.

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<sup>18</sup> For full findings, see report: Ethnic Minority Groups and Communication Services, 2013  
<http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/ethnic-minority-groups-comms/>

<sup>19</sup> Ofcom PSB Tracker, 2015:  
[http://stakeholders.ofcom.org.uk/binaries/research/statistics/2016March/PSB\\_Tracker\\_2015\\_tables.pdf](http://stakeholders.ofcom.org.uk/binaries/research/statistics/2016March/PSB_Tracker_2015_tables.pdf)

<sup>20</sup> This figure excludes news, but does include hours of the *True Stories* strand broadcast across the C4C family of channels.

The volume of such content fell notably in 2014, despite C4C's stated ambition to provide more international content. Given the degree of under-performance against its stated ambitions, we felt it important to highlight this in our response to last year's Statement. We accepted that it was largely due to scheduling changes, and said we would continue to monitor performance in this area. C4C's strategy for 2015 was to refocus on international content, and to deliver output which covered a wider range of genres.

C4C has reported a 14% increase in hours of international content on the main channel in 2015. The number of genres covered by this output has increased from four to five, although we note that current affairs and documentaries account for almost 90% of the 2015 output. Current affairs programming appears to resonate well with audiences, with *Unreported World* achieving the highest score among all PSB current affairs programmes for 'showing stories about parts of the world you would rarely see on British TV'.

C4C has introduced a new metric in this year's Statement, measuring the hours of first-run foreign language content across the television family (126 hours in 2015). We note that in 2016, C4C will focus more on foreign-language programming, with the launch of *Walter Presents* at the start of the year, which aims to eventually host more than 1000 hours of worldwide drama on All 4.

We are satisfied that C4C's performance in this area has improved as intended. Given the susceptibility of schedules to unexpected changes, we suggest that C4C might wish to consider metrics beyond hours of output against which to assess performance in future.

As with its duty to appeal to older children, this aspect of the C4C remit may be an area in which the Government might consider providing greater clarity on the intended outcomes, were it to review C4C's remit.

#### Additional areas covered by this review

The detail of this report is focussed on a number of key topics, but regarding its other media content duties we also note:

- C4C continues to support the development of people with creative talent, in particular those at the beginning of their careers. C4C stated that in 2015 it hosted a number of pop-up events around the UK which aimed to identify undiscovered talent, particularly among young people. C4C also continues to offer apprenticeships to school-leavers, and a graduate scheme, to ensure that it provides entry points into the industry at different levels;
- C4C's commitment to invest an annual £15m in film expired in 2015. This year's Statement included an increased film budget of £25m in 2016, a commitment to UK film we welcome; and
- C4C's coverage of the UK general election in 2015 appears to have resonated well with young audiences. C4C reported that its coverage on election night reached more 16-34 year olds than any other commercial channel. We also note C4C's initiative to close E4 on the day of the election to encourage 16-34s to vote, contributing to its duty to motivate people to participate in society.