



**Ofcom's call for evidence on 'regulating
the quantity and scheduling of
television advertising on public service
channels'**

Sky Response

October 2022

Introduction

Sky welcomes the opportunity to respond to Ofcom's call for evidence on regulating the quantity and scheduling of television advertising on public service channels. The call for evidence asks for stakeholders' views on the arguments for removing the stricter rules that apply to the quantity and scheduling of television advertising on PSB channels or keeping them as they are.

In addition to being a major broadcaster and platform operator, Sky is one of the UK's largest advertisers, and the second largest television advertising sales house in the UK. This gives us a unique and well-informed perspective from which to consider potential changes to the scheduling of television advertising,

A proposal to increase the amount of advertising on the main commercial PSB TV channels in the UK would be bad for viewers. Ofcom evidence shows that television viewers dislike advertisements – they are the price of access to free to air television. Ofcom evidence also shows that viewers do not want more advertising on television. Yet removing the stricter rules that apply to the PSB channels would increase the amount of advertising shown to millions of UK TV viewers by 850 hours per annum.

It would also result in more advertising being carried in news bulletins during peak hours, or news bulletins moving out of peak hours, driving viewers away from this critical public service content.

We do not consider that there would be benefits to viewers that would offset these detriments. The main beneficiaries of such a change would be ITV shareholders.

Given these clear detriments to viewers, any proposal to increase the amount of advertising carried on ITV1, Channel 4 and Channel Five would require strong justification. The reasons put forward in the call for evidence, however, in terms of improving the "*financial sustainability*" of the commercial PSBs or addressing competitive distortions do not meet this threshold. The focus on the financial position of the commercial PSBs is inappropriate, and Ofcom has recently concluded that the provision of PSB services by ITV and Channel 5 is likely to be commercially sustainable, whilst the differential rules on advertising have a *de minimis* effect on competition.

For these reasons, we consider that Ofcom should not proceed to a consultation on this issue.

Increasing the amount of advertising on the main PSB channels would harm viewers

Television viewers dislike having TV programmes interrupted by advertising; advertising breaks are the price of access to commercial free to air television channels. This is one of the key reasons why the amount of advertising that broadcasters of such channels can offer is limited by regulation in the UK. It is, fundamentally, a measure to protect consumers.

Ofcom's own 2020 research exploring audience attitudes to programme standards found that 45% of people think there are already more advertising minutes in an

hour than they are happy with on the main commercial PSB channels.¹ A further 38% said they would not want to see any more advertising, meaning more than 80% of audiences would consider an increased amount of advertising as detrimental. Only one in ten would be prepared to accept a small increase in advertising breaks per hour.

Ofcom research shows that more than 80% of viewers do not want more advertising on the main commercial PSB channels

Attitudes were similar towards the frequency and length of advertising breaks per hour; both were in the top two spontaneous advertising concerns mentioned by viewers.²

Yet the proposal being considered by Ofcom would result in a substantial increase in the amount of television advertising carried on the main commercial PSB channels. We calculate that the effect of the proposal would be to increase the amount of TV advertising borne by UK viewers by around 850 hours per annum

One of the reasons cited by Ofcom for considering a change in the rules is that there have been significant changes in viewing habits since those rules were introduced. Whilst this is true, it is a bad reason to contemplate inflicting more advertising on UK viewers of the main commercial PSB channels. Despite the many viewing options available to UK households today, the main PSB channels remain the cornerstone of the UK television system. The commercial PSBs' main channels continue to account for over a quarter of broadcast television viewing. On average, over a million people watch ITV1 every day, with programmes on ITV1 consistently being among the most watched on television. As Ofcom notes, "almost half of all people in the UK watch Channel 3 each week"³.

A proposal to increase the amount of advertising carried on the commercial PSB channels would therefore adversely impact millions of UK television viewers every year.

PSB television is also relied upon disproportionately by older and less advantaged viewers. Ofcom research found that older audiences (aged 65+) "are felt to be the most reliant on PSB and would be 'lost' without it".⁴ The report also includes the following diagram detailing the societal groups for whom PSB channels are deemed particularly important, with reliance on the PSBs increasing from left to right:



¹ Page 51, 'Audience attitudes to programme standards, Cross Platform Media Tracker 2020', Ofcom. (https://www.ofcom.org.uk/__data/assets/pdf_file/0026/227087/audience-attitudes-towards-broadcasting-standards-2020-data-cross-media-tracker.pdf)

² Pages 49 and 51, *ibid*.

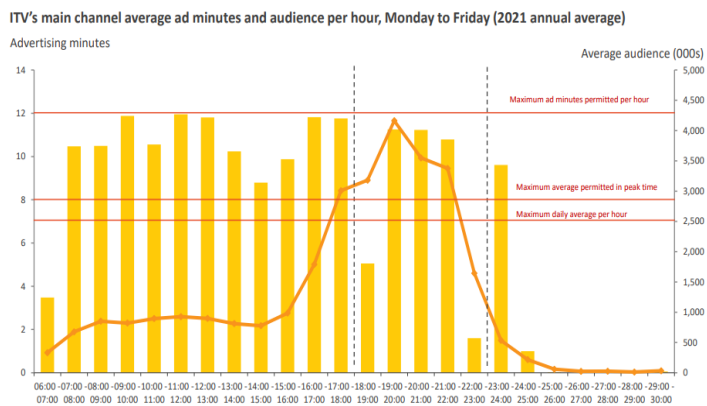
³ Page 2, 'Licensing of Channel 3 and Channel 5, A report to the Secretary of State under section 229 of the Communications Act 2003', Ofcom, June 2022. (https://www.ofcom.org.uk/__data/assets/pdf_file/0011/240203/s.229-report-channel-3-and-5-licensing.pdf)

⁴ Page 49, 'An exploration of people's relationship with PSB, with a particular focus on the views of young people', Ofcom, July 2020. (https://www.ofcom.org.uk/__data/assets/pdf_file/0024/199104/exploration-of-peoples-relationship-with-psb.pdf)

Given these factors, the potential adverse impact on UK television viewers of increasing the amount of advertising carried on these channels would be substantial.

The proposals would impact viewing of television news

The COSTA rules on PSB advertising minutage apply as an average across the peak viewing period (between 6pm and 11pm), together with an upper limit on the amount of advertising permitted in any hour. This enables the commercial PSBs to choose to have more advertising during popular programming, and less advertising during less popular programming. During peak time, shows with the largest audiences are served the full minutage allowance, while other slots carry little or no advertising. In particular, news bulletins – for both national and regional news – typically carry little or no advertising in peak periods, as shown in the following chart:



Note: Data above is inclusive of ITV main channel (inc. Breakfast) in both SD, HD, and +1

Source: Oliver and Ohlbaum report for COBA, 'Assessing the impact of potential changes to TV advertising minutage regulation', October 2022.

In the event of a relaxation of the COSTA rules applying to PSBs, given the existing high advertising loading during popular programmes in peak periods, PSBs would be likely to respond by increasing the amount of advertising carried during news programming.

There is evidence that increases in advertising loading diminishes viewing of TV programmes.⁵ Accordingly, there is a risk that one of the effects of enabling greater levels of advertising on the main commercial PSB channels would be to reduce viewing of important television news.

Giving the commercial PSBs the ability to carry more advertising during this period increases the opportunity cost, in the form of foregone advertising revenue, associated with broadcasting news programmes in peak. This would create a strong incentive for the commercial PSBs to move news programmes out of the peak viewing period (resulting in reduced viewing), to be able to carry and monetise more popular programming.

These are particularly concerning outcomes of Ofcom's proposals. The provision of high quality, trusted, impartial news, and its viewing by UK citizens, is one of the most important functions of public service broadcasting in the UK. Ofcom's recent review

⁵ See, for example, Marc Ivaldi and Jiekai Zhang, 'Platform Mergers: Lessons from a Case in the Digital TV Market', TSE Working Paper, No. 20-1112, 2021. (<https://www.tse-fr.eu/sites/default/files/TSE/documents/conf/2021/ivaldi.pdf>)

of public service broadcasting found that “trusted and accurate” news was considered the most important feature of public service broadcasting by the public,⁶ and it performs a critical role in the UK by underpinning our democracy and ensuring that citizens are well informed.

The importance of trusted, impartial news has grown over time with the increased availability of fake news and misinformation via online sources. And its importance was highlighted clearly during the Covid-19 pandemic when, as set out in the recent DCMS Select Committee report on the future of public service broadcasting: “the number of people accessing broadcast news expanded significantly: average daily news viewing (across all channels) increased by over 90% in March 2020 compared to the previous year”. The PSBs themselves have stressed the essential role they played in supporting the public during this crisis. For example, ITV stated:

*“At a time of real worry and social isolation, a free, reliable and universally available PSB system stepped up to serve everyone in Britain in an era of misinformation online. ITV stayed live to the nation for 10 hours a day during the first lockdown, we launched our new mental health campaign, Britain Get Talking, to millions of viewers in primetime”.*⁷

It is also highly significant that ITV is the principal alternative source of regional television news to the BBC. Again, such news has clear public service value and harming viewing of such news by increasing the amount of advertising carried in local news bulletins on ITV would undermine this important facet of UK public service broadcasting.

Whilst viewing of news would be likely to be particularly impacted by increasing the amount of advertising carried on the main commercial PSB channels, it is likely that all genres of PSB programming on the commercial PSB channels would be impacted by reduced viewing. This would be an undesirable outcome from changing the COSTA rules.

There are unlikely to be off-setting benefits to viewers

In principle, the changes being considered by Ofcom should be expected to increase revenue for the commercial UK PSBs. (We discuss why this may not be the case for all commercial PSBs further below.) Whilst the impact of more advertising on the main PSB channels on viewers is plainly negative, in theory this might be offset to some extent if, for example, those additional revenues were invested in services that benefited viewers, particularly more or higher quality original programming.

Significant off-setting benefits are unlikely for two main reasons.

First, in the case of the privately owned commercial PSBs (ITV and Channel 5) higher revenues are unlikely to drive additional investment in content. These broadcasters already optimise their spend on programming to maximise audiences. If it made sense for them to spend more on programming to drive higher audiences and greater advertising revenue, they would have already done so.

Furthermore, given their private ownership, ITV and Channel 5 are under strong incentives to return increased revenue (and therefore increased profit) to their

⁶ Page 3, ‘Small Screen: Big Debate Consultation—The Future of Public Service Media’, Ofcom, December 2020. (https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf)

⁷ ‘A British Success Story Rooted in The Nations & Regions’, ITV, 2021. (https://www.itv.com/presscentre/sites/default/files/itv_ool_report_2021.pdf).

shareholders. This is clearly indicated, for example, by the ITV Board's commitment to investors to grow its dividend over time, using surplus cash for acquisitions or increasing returns to shareholders.⁸ (This factor is not the case for Channel 4, given that it does not need to return profits to shareholders; it is unclear, however, how much Channel 4 would benefit financially from a change in the rules.)

The Board is committed to an ordinary dividend of 5p per annum, which will grow over time. Surplus cash will be used for accretive, value-adding M&A or further capital returns.

ITV Investor Proposition

Second, any gains in revenue to the commercial PSB main channels are likely to come at the expense of revenues earned in relation to other TV channels, including TV channels operated both by other broadcasters and the commercial PSBs themselves (i.e., portfolio channels). We do not believe that these revenue transfers are likely to affect incentives to invest in programming. However, it cannot reasonably be asserted that additional revenues earned by the PSBs would be invested in more or better programming without also believing that those transfers would have a negative effect on programming spend on other channels. Accordingly, if it were believed that changes in revenues would impact the programming spend of other broadcasters, such as Sky, that are making significant investments in high quality original UK programming (including programming that meets public service content criteria), the impact on viewers of that programming, would also need to be taken into account. In this context it is notable that the multichannel sector has seen far greater increases in programming spend in recent years than the PSBs. A negative impact on programming from these sources would therefore impact the only part of the sector that is growing materially.⁹

As a result, there can be no well-founded presumption that transferring revenue to the broadcasters of the main commercial PSB channels would result in a net gain to UK viewers from more or better programmes.

The effect of the proposal would need rigorous evaluation and there may be unintended consequences

Any proposal to alter the COSTA rules in the way being considered by Ofcom would be a major change and require rigorous evaluation of its costs and benefits, and the distribution of those costs and benefits.

As Ofcom has found when it has considered this issue in the past, the effects of any change in the COSTA rules are complex to evaluate. The proposal being considered would increase the total supply of advertising minutage in the market. All else being equal, this is likely to lower the overall price of TV advertising. As Ofcom is aware from previous examinations of this issue, modelling the impact of changes in minutage on prices is difficult. Ofcom's report on the relicensing of the Channel 3 and Channel 5 licences acknowledges that there is "*much uncertainty about how the price per impact would be affected if the number of commercial impacts increased*".¹⁰

The commercial PSBs' gains and losses would be determined by the extent to which potentially lower prices, which would be likely to affect all their channels, would be offset by higher volumes of advertising on their main channels.

These factors are likely to affect the commercial PSBs differentially, and there is no

⁸ ITV's 'Investor Proposition'. (<https://www.itvplc.com/investors/investor-proposition>).

⁹ According to PACT's 2022 Census, "*multichannel spend increased by the highest percentage, 99% on 2020, with increased commissions from Sky largely driving this*" (<https://www.pact.co.uk/static/00da7757-3bd0-4baa-ba3ff0288e822126/Pact-Census-2022.pdf>)

¹⁰ Paragraph A2.121, *op. cit.*

certainty that all commercial PSBs would benefit from the change being considered. Sky's preliminary modelling indicates that, given its position of strength in the market, ITV would gain significantly from the change at the expense of Channel 4, Channel 5 and other UK TV broadcasters. We have included the output of our preliminary modelling with this response.

It is Sky's firm view that a regulatory change that resulted in significant additional revenue to ITV, which would likely flow straight through to its shareholders, at the expense of both television viewers and the rest of the sector, could not reasonably be justified.

The arguments put forward to support these proposals are inadequate or inappropriate

As explained above, the change in COSTA rules being considered would have a negative impact on millions of UK viewers every day, and risks driving viewers away from PSB news bulletins in particular, and public service content in general. It is most likely to benefit ITV shareholders, at the expense of other UK television broadcasters.

Accordingly, to justify a conclusion that the proposal should be taken forward to consultation there should be compelling reasons for doing so. On the contrary, however, the arguments cited in support of this proposal are flimsy or inappropriate and could not justify the proposed change.

Two key arguments are put forward in the call for evidence as to why imposing additional advertising on viewers of ITV1, Channel 4 and Channel 5 might be justified:

- (a) to improve the financial sustainability of UK commercial PSBs; and
- (b) removing a competitive distortion against other broadcasters.

We explain below why neither justifies a change in approach to the COSTA rules.

"Financial sustainability of the PSBs"

One of the reasons put forward by Ofcom for considering changes to the COSTA rules is that it *"might help the financial sustainability of the PSBs"*.¹¹

We consider that in referring to *"financial sustainability of the PSBs"* Ofcom risks confusing:

- (a) the *"financial sustainability"* of the holders of PSB licences;¹² and
- (b) the ability of the holders of PSB licences to continue to meet the requirements of those licences on a commercially sustainable basis (i.e., that the financial benefits derived from holding a PSB licence outweigh the costs of meeting the PSB obligations required by the licence).

¹¹ Paragraph 2.26.

¹² It is unclear what this term means in practice if it is applied to the overall businesses of the holders of PSB licences. For example, in Sky's view it cannot reasonably be believed that ITV Plc, Paramount Global (or Channel 5) or Channel 4 face the prospect of bankruptcy in the foreseeable future.

The latter is a legitimate concern for Ofcom; other than in limited circumstances¹³ the first is not.

In Sky's view, it would be wholly inappropriate for Ofcom to consider changing the COSTA rules to increase the revenue and profits of entities like ITV Plc, or Paramount Global (or Channel 5), and there is no reason to believe that they need any assistance from Ofcom to ensure their future profitability or "financial sustainability".¹⁴

In relation to the ability of the holders of PSB licences to continue to meet the requirements of those licences on a commercially sustainable basis, in the case of the Channel 3 and Channel 5 licences this is addressed in a recent report by Ofcom to the Secretary of State.¹⁵

For the Channel 5 licence, in view of its relatively light public service obligations, Ofcom states: "our analysis indicates that the value of Channel 5's benefits will exceed the cost of its PSB obligations over the next licence period."¹⁶ Ofcom further states that this conclusion holds in both its optimistic and pessimistic scenarios.

"We [Ofcom] think the licensees could continue to contribute to PSB purposes at a commercially sustainable cost over the next licensing period"

Ofcom's conclusions in relation to the Channel 3 licence are more nuanced. Ofcom concludes that "ITV's current obligations could be sustainable over the next licence period".¹⁷ Broadly speaking, the analysis presented by Ofcom suggests that (a) over the licence period as a whole the benefit to ITV of holding the Channel 3 licence exceeds its cost, although (b) as benefits decline, the PSB obligations impose a "small annual net cost towards the end of the licence period".¹⁸ Ofcom also emphasises that, if introduced, new prominence rules "will help strengthen the sustainable delivery of ITV's Channel 3 licence obligations in the next licence period".¹⁹ Finally, Ofcom notes (correctly in our view) that ITV may have strategic reasons for continuing to hold the Channel 3 licence even if, in some years of the licence period, it imposes a net cost on ITV.²⁰

Given (a) the significant uncertainty associated with this analysis and (b) the fact that the evidence and analysis points towards a conclusion that holding the Channel 3 licence would be commercially sustainable for ITV over the next licence period, it would be at best premature to seek to change the COSTA rules to deliver greater revenues to ITV in order to seek to ensure the commercial sustainability of holding the Channel 3 licence. In Sky's view, this question should be revisited at some point in the future once there is greater certainty about (a) whether or not changes to the prominence rules are implemented, and (b) the costs and benefits associated with holding the Channel 3 licence.

In relation to Channel 4, there is perhaps greater reason to focus on its overall financial sustainability given its unusual business and ownership model.

¹³ In renewing the Channel 3 and Channel 5 licences Ofcom may choose not to renew a licence if it is concerned that the holder will not fulfil the PSB requirements of the licence (which may include concerns about the future financial position of a licence holder). We do not consider that it could reasonably be suggested that this is a significant issue in relation to ITV Plc, Channel 5 or Channel 4. Nor could it form a reasonable basis for Ofcom taking decisions intended to increase the profitability of licence holders.

¹⁴ Whilst Sky does not accept that the "financial sustainability" of the commercial PSBs is a legitimate reason for considering changing the COSTA rules, we have included some evidence on this issue in an annex.

¹⁵ *Op. cit.*

¹⁶ Paragraph 4.78, *Ibid.*

¹⁷ Heading preceding paragraph 4.42, *Ibid.*

¹⁸ Paragraph 4.42, *Ibid.*

¹⁹ Paragraph 4.40, *Ibid.*

²⁰ Ofcom states: "Information provided by the licensees suggests that they may have strategic reasons to continue as licensed public service broadcasters even where our analysis might suggest that the PSB obligations could represent a small net cost relative to PSB benefits in some years of the next licence period." Page 3, *Ibid.*

Unsurprisingly, this question has been examined carefully as part of the recent, ongoing issue of the privatisation of Channel 4. A report prepared for Channel 4 by EY states:

“Channel 4 expects to remain sustainable under its current ownership model. It increased its digital revenue by an average of 24% per year between 2015 and 2019 and has a strategy to further diversify its revenues to support its long-term future sustainability under its current model”.²¹

In these circumstances, there is no case for changing the COSTA rules to seek to deliver greater revenues to Channel 4 in order to ensure its financial sustainability.

Moreover, it is highly uncertain whether changing the COSTA rules in the way being considered would benefit Channel 4. Sky's analysis suggests that there is a significant risk that such a change could in fact reduce Channel 4's revenue.

The COSTA rules do not result in material competitive harm

The differentiated COSTA rules as between the main PSB channels and other UK television channels create a certain amount of competitive advantage to the latter. We consider, however, that this would be a poor reason for enabling the UK commercial PSBs to carry a greater amount of advertising on their main channels.

When assessing competition issues it is necessary to distinguish between the *form* of particular rules or restrictions, and their actual *effect*. In practice, the COSTA rules have a *de minimis* impact on the ability of the commercial PSBs to compete effectively, such that the competitive distortion introduced does not result in material competitive harm.

First, it is easy to overstate the extent to which this difference advantages other UK television channels. Other types of television channels face a range of constraints, such as small audiences, viewer aversion to advertising, a desire not to interrupt programmes such as sports events and movies with advertising breaks, and so on, that reduce their ability fully to exploit the higher advertising allowances provided to them under the COSTA rules.

Second, the commercial PSBs have significant strengths, which obviate the small effect of the COSTA rules on their competitiveness.

In the first instance, the commercial PSBs are at a competitive disadvantage only in relation to their main channels. As described above, whilst these channels are important parts of their business, the commercial PSBs are today diversified into a broad range of audiovisual activities. Across all the other services that they provide, including both linear and VOD services, they operate on the same basis as their competitors.

This is particularly important in relation to VOD services, in which the PSBs are investing and via which a significant and growing amount of viewing of content occurs. As Ofcom has noted:

“On-demand streaming services now form an integral part of the PSBs’

²¹ Page 1, 'Assessing the impact of a change of ownership of Channel 4, An economic, social and cultural impact assessment of the impact of privatisation', EY, September 2021. (https://assets-corporate.channel4.com/_flysystem/s3/2021-09/September%202021%20-%20EY%20-%20Assessing%20the%20impact%20of%20a%20change%20of%20ownership%20of%20Channel%204%20-%20FINAL.pdf)

strategies. To make their services more competitive and appealing to audiences, PSBs have been including more 'box sets', thereby extending the window (or period of time) when content is available, as well as improving the functionality of these services. Consequently, there has been significant growth in viewing of the PSBs' BVoD services."

...ITV has made streaming one of its three critical priorities, with the objective of doubling digital revenues to at least £750m by 2026. Part of this strategy includes the launch of ITVX – a new service that will consolidate and enhance ITV's existing VoD services: ITV Hub, ITV Hub+, and BritBox, the UK version of which is now fully owned by ITV, after it bought out the BBC's minority stake in the joint-venture. Due to launch in late 2022, ITVX will use a 'freemium' model, with free and subscription tiers offered in a single service. And in a departure from its traditional approach, ITV plans to adopt a digital-first content strategy where much of its new content will be shown first on ITVX, before being broadcast, potentially months later, on ITV linear broadcast channels. The revamped service will also benefit from higher content spend, more premieres and exclusives, and a bigger library of box-sets and films."²²

There are no advertising restrictions on VOD services, whether for PSBs or otherwise.

Moreover, the PSB main channels are well placed to compete effectively – and do compete effectively – with other types of television channels, and other video services, that are able to carry more advertising under the COSTA rules. The main PSB channels attract audiences and advertising revenues that far outstrip those of competing services. This is the result of the significant (and potentially expanding) competitive advantages delivered to those channels as PSB channels, and their innate competitive strengths such as universal availability, strong brands and viewer familiarity.

Finally, it is evident that the major beneficiary of the proposal would be ITV. ITV already holds a strong position in the provision of TV advertising in the UK, for which a specific competition remedy, namely CRR regulation, is required. It would be highly unusual to seek to address putative competitive distortions by further increasing the market power of the leading provider of TV advertising.

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²² Pages 56-77, 'Media nations: UK 2022', Ofcom, 2022.
(https://www.ofcom.org.uk/_data/assets/pdf_file/0016/242701/media-nations-report-2022.pdf)

Annex

The financial health of the commercial PSBs

The PSBs have significant commercial strengths

The commercial PSBs benefit from key strengths and advantages as competitors in the UK audiovisual sector. These include:

- *A focus on UK content:* programmes produced by the UK PSBs are attractive to UK viewers and are watched by millions of viewers every day. As Ofcom has found, UK viewers have a strong preference for watching content delivered by the PSBs.²³
- *Universal free availability:* PSB channels are available for free in nearly all UK households, granting them significant advantages in terms of reach and ability to cross-promote to their other linear and on demand services, both free and pay.
- *Strong brands:* ITV, Channel 4 and Channel 5 are strong, distinctive, well-known brands to UK television viewers.
- *Production and commissioning of high-quality content in a broad range of genres:* the PSBs have deep expertise in commissioning high quality content in a broad range of genres, including key staples of the broadcast schedule such as news and current affairs, sport, light entertainment (game shows, panel shows etc.), comedy and documentaries.
- *Significant regulatory advantages:* the PSBs receive key regulatory advantages as public service broadcasters, most notably free terrestrial broadcasting spectrum, and a prominent position on traditional EPGs, which continue to be the method through which most viewing is accessed.

Channel 5 is also now part of Paramount Global (formerly ViacomCBS), one of the world's largest providers of entertainment content and services. Under Viacom / Paramount ownership, Channel 5's overall budget has grown by an average of 7% per annum²⁴.

More generally, the commercial PSBs today are increasingly diversified businesses, operating across a range of different audiovisual activities both in the UK and elsewhere. These include new online and digital services (such as Britbox and ITVX), growing content production, commissioning and distribution businesses, and the use of different modes of content exploitation.

PSBs are posting record financial results

Commercial PSBs have been posting record financial results.

In 2021 ITV delivered a strong financial and operating performance with total external revenue up 24% at £3.5 billion. For media and entertainment, total revenue

²³ 'Small Screen: Big Debate', *op. cit.*, paragraph 3.14.

²⁴ Question for Department for Digital, Culture, Media and Sport, tabled 23 May 2022. (<https://questions-statements.parliament.uk/written-questions/detail/2022-05-23/6698>).

was up 21% at £2.3 billion with total advertising revenue up 24%, the highest in ITV's history, within which video on demand advertising was up 41%.²⁵ Carolyn McCall, ITV's Chief Executive, stated that "2021 looks set to have the highest revenue in ITV's history ... by any standards ITV has had an outstanding nine months".²⁶ As discussed above, this strong financial position saw ITV return a healthy dividend to its shareholders.

Simon Willis, Chief Investment Officer at GroupM, described how existing market conditions have enabled ITV to post healthy results. "ITV is witnessing a strong year and it's clear that a mix of live linear and VOD-based advertising strategies are delivering positive returns".²⁷

Channel 4 also posted its strongest ever financial performance in 2021, with revenues topping £1 billion for the first time in its history and a record-breaking pre-tax surplus of £101 million.²⁸ Channel 5 reported it expected 2021 profits to be the largest since the broadcaster launched almost twenty five years ago.²⁹

Commenting on the commercial PSBs' recent financial performance, Enders Analysis remains optimistic about their prospects. Enders highlights Channel 4's resilience - "showing record-breaking revenues, high content spend and encouraging rates of digital transition—setting a credible platform upon which the broadcaster's PSB credentials can be placed";³⁰ notes that "[t]he amalgamation of ITV's three domestic digital services, ITVX, is on track to launch in Q4, with a bulked-up library, clearer strategy, and new features: perhaps arriving right on time to take on Netflix's ad-supported tier";³¹ and describes Channel 5 as a "success story in linear television, growing overall viewing and share while beginning to shake off the perception of being the home of cheaper, exploitative programming".³²

The commercial PSBs have strategies in place to grow their businesses

The commercial PSBs all have strong plans in place to grow their businesses across a range of activities, with a particular focus on digital revenues.

ITV's most recent results statement for 2021 sets out plans to accelerate its digital strategy, with the following headline projections:

- *"ITV well positioned to more than double digital revenue by 2026 to at least £750m with the successful launch of ITVX*
- *ITV will double MAUs, double UK subscribers and double streaming hours by 2026*
- ...
- *...driven by digital first content investment of £20m in 2022 and £160m in 2023, funded by strong balance sheet and cash flows*
- *Confident incremental annual revenue will cover annual investment cost of ITVX in 2026*

²⁵ Results Centre, ITV plc. (<https://www.itvplc.com/investors/results-centre>).

²⁶ 'Pandemic bounceback puts ITV on course for record year of ad revenues', The Guardian, 10 November 2021. (<https://www.theguardian.com/business/2021/nov/10/pandemic-bounceback-puts-itv-on-course-for-record-year-of-ad-revenues>).

²⁷ *Ibid.*

²⁸ 'Channel 4 Annual Report 2021: A financial record-breaking year', Channel 4, 15 July 2022.

(<https://www.channel4.com/press/news/channel-4-annual-report-2021-financial-record-breaking-year>).

²⁹ 'Channel 5 on track to report record profits for 2021 after ads boom', The Guardian, January 2022.

(<https://www.theguardian.com/media/2022/jan/12/channel-5-record-profits-ads-boom>).

³⁰ 'Channel 4: Resilient and record-breaking', Enders Analysis, July 2022.

(<https://www.endersanalysis.com/reports/channel-4-resilient-and-record-breaking>)

³¹ 'ITV: Any headwinds not yet discernible', Enders Analysis, May 2022.

(<https://www.endersanalysis.com/reports/itv-any-headwinds-not-yet-discernible>).

³² 'Channel 5: Post Big Brother, pre-Paramount+', Enders Analysis, March 2022.

(<https://www.endersanalysis.com/reports/channel-5-post-big-brother-pre-paramount>)

- *Today announced a further £50m of permanent cost savings by 2026, starting to be delivered in 2023*.³³

Similarly, Channel 4's 'Future4' strategy sets the following key growth targets for the next five years:

- Double All 4 viewing by 2025
- Digital advertising to be at least 30% of total revenue by 2025
- Non-advertising to be at least 10% of total revenue by 2025.³⁴

In a report commissioned by Channel 4 in response to the Government's privatisation proposals, EY states: *"Looking forward, Channel 4 expects to remain sustainable under its current ownership model. It increased its digital revenue by an average of 24% per year between 2015 and 2019 and has a strategy to further diversify its revenues to support its long-term future sustainability under its current model...."*³⁵

Taken together, these factors place the PSBs in a strong position to deliver on their aspirations to grow and diversify their businesses.

³³ 'Digital Acceleration - Phase Two of our More Than TV strategy', ITV, 3rd March 2022. (<https://www.itvplc.com/~//media/Files/ITV-PLC/documents/reports-and-results/ITV%20Plc%202021%20Full-Year%20Results%20Presentation.pdf>)

³⁴ 'Future 4, our path to a digital future', Channel 4. (<https://www.channel4.com/corporate/about-4/future4>)

³⁵ Page 1, EY report, *op. cit.*