



**Public Service Broadcasting in
the Internet Age**
Ofcom's Third Review of Public Service Broadcasting

Statement

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About this document

This document sets out Ofcom's conclusions on its third Review of Public Service Broadcasting (PSB). It considers the performance of the PSB system as a whole, the potential challenges it faces in the future, and ways in which the system might be maintained and strengthened.

It is published alongside a separate statement which considers the performance of the PSB system in each of the UK's Nations and their regions specifically. We have also published supporting evidence, including a data annex, consultancy and new audience research.

Contents

Section		Page
1	Introduction	1
2	Summary and conclusions of this review	3
3	The current effectiveness of the system	7
4	How the landscape is changing	17
5	Potential consequences of the changing landscape	23
6	Issues for consideration resulting from this review	27

Section 1

Introduction

- 1.1 This is the final statement of Ofcom's third review of Public Service Broadcasting (PSB). The first review was published in 2005 and set out the challenges and potential responses to the move from analogue to digital broadcasting. The second review was published in 2009 and addressed concerns arising from the transition from analogue to digital broadcasting and the reduction in advertising revenues for commercial PSBs arising from the macro-economic slowdown. This third review focuses on the opportunities and threats arising from the growth in internet use and the resulting changes we are seeing in technology innovation, media provision and audience behaviour.
- 1.2 The purpose of these periodic reviews is to address the performance of the PSB system under the terms set for Ofcom by Parliament. Our role is to review the delivery of the aims and purposes of PSB as set out in legislation and to consider options for maintaining and strengthening the system. We do not provide a view on the relative merit of, or need for, a public service broadcasting system *per se*; this is ultimately a matter for Parliament. In essence, Parliament's intention is to provide an opportunity, at regular intervals, to step back and consider how the PSB system as a whole is operating, whether it is meeting the expectations Parliament has set for it and whether it needs strengthening. That is the objective of this document.
- 1.3 The backdrop to this review is the growth of the internet. 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 younger audiences. Today, only 50% of 16-24s' audio-visual consumption and 61% of 25-34s' is through live television¹ (i.e. TV viewed at the time it is broadcast). Viewing of TV news by younger people aged 16-34 dropped by 29% between 2008 and 2014, to 39 minutes per person per week.² The emergence of new competitors such as Netflix and Amazon Prime, providing services directly over the internet, is giving consumers greater choice and making the landscape more competitive.
- 1.4 Parliament defines the broad purposes of PSB as the provision of TV programmes dealing with a wide range of subjects, of a high standard and catering for as many different audiences as possible. The legislation aims to ensure that content is broadcast which is for the public benefit, rather than for purely commercial purposes. PSB's mission, as captured in the BBC's original Reithian mission: "*to inform, educate and entertain*" remains essentially the same. Crucially, PSB content should be universally available to all citizens.
- 1.5 PSB is currently provided across the UK by a number of key institutions: the BBC, Channel 4 Corporation (C4C), the Channel 3 licensees – ITV, STV and UTV – and Channel 5. BBC Alba and S4C provide Gaelic and Welsh-language channels. All BBC services are PSB, only the main channels of the others are PSB. In return for providing PSB services, the institutions receive certain benefits, predominantly access to spectrum (the valuable radiowaves that support wireless communication) to broadcast their services; prominence on electronic programme guides on television (EPGs); and in the BBC's case, the licence fee.

¹ 2014 data, *Digital Day*

² Source: BARB. Based on total viewing hours to the National/international news genre.

- 1.6 Public service broadcasting continues to bring significant benefits to society in a number of ways. It ensures diversity in the media and plurality in news, and creates programming which reflects and examines wider society. It also plays an important economic function in supporting the wider creative industries, particularly the independent production sector. Viewing to PSB services remains high. Despite continued growth in the range of channels and internet services on offer, the main five PSB channels still account for over half of total TV viewing. When PSBs' other portfolio channels are taken into account, their total share of viewing was 72% (in 2014); consequently, these institutions remain a powerful force in society. The commercial broadcasters without a PSB remit are increasingly providing content that meets the PSB objectives, creating greater choice for audiences. However, their scale of investment remains modest when compared to the PSBs.
- 1.7 Our starting point for the review is the needs of audiences as both consumers and, more broadly, as members of society, or citizens. We have conducted significant audience research to understand their views. This research shows that there continues to be strong support for the purposes and characteristics of public service broadcasting.
- 1.8 PSB programmes are, of course, available on demand as well as on live television; the BBC iPlayer and Channel 4's All 4³, in particular, are playing an important role in extending reach to PSB programmes. However, changes in technology and audience behaviour set new challenges for PSB.
- 1.9 This statement is the result of consultation and analysis over a 12-month period. During that time we have received around 70 responses, had a significant number of meetings with stakeholders from across the industry, and conducted and commissioned analysis across the range of issues covered in this statement. The consultation document is available here:
<http://stakeholders.ofcom.org.uk/binaries/consultations/psb-review-3/summary/PSBR-3.pdf>

³ All 4 carries content from the core PSB service, Channel 4, the portfolio channels and some content commissioned specifically for online.

Section 2

Summary and conclusions of this review

Current delivery of the system

- 2.1 **The PSB system to date has been broadly working, delivering the outcomes for which Parliament has legislated.** Excluding sport, the public service broadcasters spent just over £2bn⁴ on new UK content in 2013, compared to the multichannel sector's⁵ equivalent investment of around £350m. The BBC remains the cornerstone of the PSB system and is the key driver of investment across the system. Our most recent figures for total spend (including sport), show that the public service broadcasters spent £2.5bn in 2014 on new UK original content, with the BBC accounting for just over half of this (£1.27bn). ITV, Channel 4 and Channel 5 contributed the rest (£1.25bn).
- 2.2 **Between 2008 and 2014 total levels of investment⁶ in new UK-originated content by the PSB channels fell by over £400m in real terms.** Broadcasters have addressed this through a mixture of savings in programme-making costs and changes in the types of programmes they make. These actions may be difficult to repeat in future, which could lead to difficult programming decisions if funding remained constrained. The fall in investment comes in the context of audience fragmentation through digital switchover, and the need to develop new services and distribution strategies to meet audiences' changing tastes and consumption habits.
- 2.3 **Audience satisfaction has increased, and remained high over this period.** Our annual survey shows that the importance placed on many of the PSB purposes by consumers and citizens (e.g. trustworthy news, high quality dramas and soaps, nations' and regions' news and portrayal, and showing different kinds of cultures in the UK) increased between 2008 and 2014. Satisfaction with delivery of these purposes and characteristics as a whole has risen; 69% of respondents were satisfied in 2008 while 79% were satisfied in 2014. The sense of satisfaction is reinforced by the continuing high levels of viewing to PSB channels and services.
- 2.4 **There are some immediate issues emerging from our review:** news consumption and the provision of news for young people, drama that reflects and portrays British society back to a British audience, content tailored to the specific needs of the UK Nations and their regions, religious programming, children's programming and investment in other areas such as music and arts. There are also emerging concerns about older people's satisfaction with the PSB system, and questions about how far young people distinguish public service content from other content.
- 2.5 **News remains the most important PSB genre for audiences.** Viewing of TV national and international news by adults remains broadly stable. Overall, PSBs still account for 95% of TV news viewing⁷, with multichannel providers such as Sky and CNN ensuring that a wide choice of television news remains available. Consuming news on the internet is becoming more commonplace. In 2014, 41% of adults used the internet as a source of news, up from 16% in 2007. The biggest change is in

⁴ All figures in this paragraph adjusted to 2014 prices.

⁵ Data on the multichannel sector in this review collected from the major multichannel providers in the UK are companies such as Sky, Discovery, Fox, NBC Universal, Turner, Sony and Discovery. These data also include the commercial PSB portfolio channels such as More4, ITV2, etc. Smaller broadcasters were not required to provide data for proportionality reasons.

⁶ Including sport

⁷ Source: BARB, Individuals 4+.

relation to young people: viewing hours to TV news has dropped by 29% since 2008, with nearly half now considering the internet their most important source of news about the UK.

- 2.6 **The PSB system continues to deliver high profile, big budget drama.** However, this masks substantial falls in first-run UK-originated spend by the PSBs, which has fallen by 44% since 2008. The time-shifting of over a fifth of UK drama viewing can make it more commercially challenging; in some cases this is making international markets an increasingly important commercial consideration. Although audience satisfaction with drama is stable, the drops in the levels of investment, particularly on ITV, are a concern.
- 2.7 **There is minimal provision in some genres:** following the removal of specific quotas in 2003, PSB provision in arts and classical music, religion and ethics, and formal education has significantly reduced. In children's content, there is very limited provision of non-animation programming beyond the BBC.
- 2.8 **The Nations and their regions** are the areas where there is the greatest mismatch between public expectations of PSB and how it is delivering in practice. For example, plurality remains a concern in Wales. Northern Ireland has benefited least from increases in network programme production across the UK nations since 2008, and in Scotland concerns have been raised with us about the sustainability of the production sector. There have also been reductions in viewing: for example, the amount of viewing per person per year to news for each of the four Nations and their regions has declined by over 4 hours since 2008. Given the importance of these issues and the ongoing programme of devolution in the UK, we are publishing a separate document alongside this statement considering the particular issues across the Nations and their regions.
- 2.9 **Concerns remain among a number of audience groups about how they are portrayed,** and broadcasters must continue to research, understand and address these concerns. In particular, of those people who took part in our research, over half of those from black ethnic groups felt both under-represented and unfairly portrayed, while around half of disabled people felt under-represented.

Changing viewing habits and the potential for emerging trends to accelerate

- 2.10 **The current challenges to the funding of PSB content may be heightened if some of the current market dynamics accelerate:** while consumption of TV remains high overall, despite a decline over the past two years, young people's behaviour may be an early indication of a more substantial shift across age groups to on-demand and online viewing. The widespread changes we are seeing in technology and user interfaces are affecting how people find and access content, and what content they choose to view.
- 2.11 **There are some scenarios in which the evolving trend to online viewing quickens.** If the trends towards online and on-demand viewing accelerate, and we see more rapid changes in audience behaviour over the next few years, the current PSB system is likely to struggle to deliver Parliament's intentions. Under more accelerated scenarios, it is possible that the current interventions of access to spectrum and prominence on electronic programme guides, designed to support easy access to universally available public service content, will cease to be effective.

- 2.12 **Public service broadcasters will need freedom to continue to innovate**, as audiences increasingly want content that is delivered over multiple devices and 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.
- 2.13 **The growth of the internet will continue to provide opportunities for the commercial and wider public sectors to deliver more PSB-like content.** There are already a number of examples of this; companies such as Vice Media providing news content to younger people, the provision of local news and content by hyperlocal websites, and major universities putting their lectures online.

Issues for consideration resulting from this review

- 2.14 **Increased connectivity offers exciting opportunities for the PSBs to improve delivery and engage with audiences in new and innovative ways.** The strength of the brands of the PSBs, including their portfolio channels and on-demand players, combined with their reach and impact in linear television, makes them well placed to take advantage of the opportunities provided by the internet to deliver public service outcomes in new, different and exciting ways.
- 2.15 **The combination of the issues identified in this review, and the emerging trends we have identified, suggests that the current PSB system will need to adapt further to the changing environment.** If broadcasters are to continue to deliver high levels of funding for PSB content and services, they will need to continue to adapt their models to maximise commercial revenues⁸ and efficiencies.
- 2.16 **As trends towards online and on-demand accelerate, funding challenges are likely to grow.** Given Parliament's aims, the importance of PSB to audiences, and the system's role in supporting the wider creative sector, questions are emerging about whether the current interventions will continue to be sufficient. There is a risk that if broadcasters cannot adapt their models sufficiently to maximise commercial revenues and efficiencies, they will have to make increasingly difficult choices about which public service content and services to fund. Decisions to increase funding in one area may lead to reductions in funding in other areas.
- 2.17 **Deciding the role of the BBC through the forthcoming Charter Review process will be critical**, because significant changes in the scope or nature of the output of the BBC could have a material impact on the delivery of the PSB outcomes set by Parliament. However, we have not, in the course of this review, conducted a detailed analysis of the BBC's ability to maximise its commercial revenues, realise further efficiencies or refocus its activity to provide greater value for money. That is a matter for Charter Review.
- 2.18 **Consideration should be given to updating the framework under which Channel 4 Corporation operates**, to ensure that it can meet the needs of younger audiences, whose media consumption habits are changing quickly. This might include allowing it 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.

⁸ We note that questions about the BBC maximising its commercial revenues will need to be considered in the context of the potential market impact of any such proposals.

- 2.19 **Policy-makers should give further consideration to reforming the rules that guarantee appropriate prominence and access to public service content.** The current rules on schedule prominence for the PSBs were designed for an analogue broadcasting era. They need to be reformed to match changes in technology and ensure that public service content remains available and easy to find, in whatever way it is viewed. Such reform will need to be considered in the context of new and emerging platforms provided over the internet, and changes to user interfaces, which may change how people access content and services.
- 2.20 **Reform of regulation, which may affect the flow of funds between platforms and broadcasters (the so-called ‘retransmission fees’ debate), could provide additional funding to commercial PSBs,** but this might require complicated and lengthy backstop regulatory determinations to resolve commercial disagreements. Even in the event that such disputes were resolved, there is currently no guarantee that all the money would be spent on public service content.
- 2.21 **Consolidation in the independent production sector could bring benefits as well as risks;** overseas investors might be willing to provide greater levels of risk capital to fund commissions from public service broadcasters than they do currently. Equally, consolidation could put at risk new entrants and the small and medium sized enterprises (SMEs) that have been the strength of the UK television production sector in the past decade. It is too early to assess the full impact of market consolidation, and we will keep this area under close review.
- 2.22 **Finally, it is difficult at this stage to predict the full impact of the new international players and platforms that are entering the UK market.** The UK’s creative sector, and the PSB system, are operating in an increasingly international context. The full effect of the acquisition of UK broadcasters and production companies by international companies, the increasing opportunities for the global exploitation of content and, in particular, the impact of new online players, is not at this stage clear. The market is evolving quickly and will need to be monitored carefully, given the potential risks to the success of the PSB system and the UK production sector.

Section 3

The current effectiveness of the system

The impact and value of PSB content remains high

3.1 Our analysis, and the responses to our consultation, continue to show that the impact of PSB content and its value to audiences remains high:

3.1.1 **Viewing to PSB services remains high:** despite continued growth in the range of non-PSB TV channels and internet services on offer, overall viewing to PSB channels remains high. In 1988 the main four PSB channels accounted for all viewing; by 1998 the main five channels (following the launch of Channel 5 in 1997) accounted for 86% of TV viewing as the range of non-PSB channels began to grow. By 2008 they represented a 61% share of viewing and in 2014, the main five PSB channels still accounted for over half (51%) of all TV viewing. As the share of these services has declined, their portfolio services have enjoyed an increase in share. In 2008 they represented 14%, rising to 21% in 2014. When the BBC portfolio channels and commercial PSB portfolio channels offered by ITV, C4C and Channel 5 are taken into account, the total share of viewing to the PSBs and their portfolio channels in 2014 was 72%, down marginally from 75%⁹ in 2008.

3.1.2 **Importance and satisfaction are increasing:** the purposes and characteristics of PSB are becoming increasingly important to citizens and consumers, and their satisfaction with the extent to which PSB services deliver on their objectives remains high, and in many cases is increasing. Satisfaction with delivery of the purposes and characteristics as a whole has risen from 69% of respondents in 2008 to 79% in 2014.¹⁰ However, it is notable that our audience research suggests that younger and more tech-savvy consumers find it increasingly difficult to distinguish between PSB and non-PSB channels.¹¹

Changes in output and investment

3.2 In 1998 the PSBs spent £2.5bn in real terms on first-run UK originations.¹² This rose during the period 1998 to 2004 to reach a peak of £3.3bn, partly driven by the launch of the BBC portfolio channels and increased spend by the commercial PSBs. PSB spend on new UK-originated programmes has fallen by 15% in real terms since 2008, to £2.5bn in 2014 (the same level as in 1998). Some respondents to our consultation argued that the wider market was increasing investment, mitigating any potential negative impact, while others made the case that falling investment was already having a negative effect on PSB output. We have therefore conducted further analysis.

⁹ Source: BARB

¹⁰ Source: Ofcom's PSB tracker research

¹¹ Source: Ofcom's Ipsos MORI research 2014 PSB Review

¹² Adjusted for inflation using the CPI index

- 3.3 In 2014, PSB output and spend remained at a high level, despite recent falls:
- 3.3.1 **Hours:** in 2014 the PSBs produced over 32,000 hours of first-run UK-originated programmes, a fall of 4% since 2008. Of this, just under 23,000 were broadcast by the BBC, while just under 10,000 were broadcast by ITV, Channel 4 and Channel 5 combined. In comparison, in 1998 the PSBs broadcast nearly 30,000 hours of first-run UK originations. This rose to over 37,000 in 2003 as new digital channels were launched.
 - 3.3.2 **Spend:** in 2014, the PSBs spent £2.5bn on first-run UK-originated programmes, down 15% in real terms since 2008. The BBC accounted for over half of this (£1.27bn) while ITV, Channel 4 and Channel 5 contributed the rest (£1.25bn).
- 3.4 In addition, we are beginning to see investment in original content by internet companies, such as Amazon and Netflix. Their investments so far have been for globally appealing content (e.g. *House of Cards*). These companies have made some investment in new UK programming.¹³ Whether they will increase investment in UK-specific content in the future is unknown, as is whether audiences will increasingly prefer international content to UK-focused content.
- 3.5 Non-PSB channels surveyed by Ofcom for the review increased their investment in new first-run UK-originated programmes between 2008 and 2013 from £1.38bn to £1.96bn¹⁴ in real terms, an increase of 42%. However, our analysis shows that over 80% of this investment is in sports programming, which requires payment to view. When sport is excluded, the same broadcasters spent £350m on first-run UK-originated programmes in 2013, up 43% in real terms from £245m in 2008. This accounted for around 15% of the total investment in non-sport first-run UK-originated programmes in 2013.
- 3.6 In addition to sport, the multichannel sector's new UK programming tends to be in only a few commercially-attractive or strategically-important genres (either in terms of profitability or brand enhancement), such as news, entertainment and comedy. Although the multichannel sector's investment in a number of high-end drama series has attracted attention, the volume of hours produced remains limited compared to that from the PSBs.
- 3.7 So, although it is making an increasingly important contribution, multichannel investment outside sport remains relatively modest when compared to PSB investment.

Understanding the decline in PSB content investment over the review period

- 3.8 Our consultation identified a decline in spend in real terms on new UK-originated programmes commissioned by PSBs between 2008 and 2013. The primary measure we use is spend on original UK content, which is the best proxy for the range of outcomes specified in the legislation. However, we acknowledge that this focuses on inputs rather than outputs and therefore does not address whether reduced spend is a result of increased efficiency or reduced output.

¹³ For example, Amazon Prime has commissioned season 3 of *Ripper Street*, and has produced music specials from Kaiser Chiefs and Ed Sheeran. Netflix has commissioned *The Crown*, a UK-originated multi-season series scheduled for release from 2016. In May 2015, Netflix announced that it was seeking to commission entertainment and factual entertainment programmes from UK indies, following the commissioning of the documentary *Our Planet* from Silverback Films.

¹⁴ These figures have been restated based on 2014 prices

- 3.9 Given the importance of the finding of a significant decline in spending, we have undertaken further analysis, including commissioning a report to assess the underlying factors and causes of this decline, and this is published alongside this statement.¹⁵
- 3.10 Our conclusions are that the PSB channels spent just under £440m less in real terms in 2014 than in 2008. Within this headline number there were two major trends related to the cost of making programmes.
- 3.11 The underlying costs associated with making TV programmes (such as talent, crew and technology) have risen, but by substantially less than overall inflation, as measured by the Consumer Prices Index. However, this rise in the underlying costs appears to have been largely offset by savings in the operational processes associated with making programmes, as a result of producers accepting lower profit margins and also due to greater levels of co-production and deficit financing. Therefore, the actual cost to PSBs of making like-for-like programmes does not appear to have changed significantly.
- 3.12 PSB broadcasters have shifted investment towards cheaper genres over the review period (e.g. replacing drama with relatively cheaper entertainment programmes) and they have also reduced spend outside evening peak time. It is estimated that these shifts resulted in reduced PSB spend on new UK programmes of around £101m, in cash terms, between 2007 and 2013.
- 3.13 In addition, over this period the PSBs have had to refocus some of their investment to meet the changing tastes and consumption habits of audiences. This has required investment in new services, such as catch-up TV players (e.g. iPlayer, ITV player, Demand 5, All 4) and increasing demands from consumers to be able access PSB services across multiple platforms.
- 3.14 We judge that the reduction in the total number of hours since 2008 is not a major cause for concern at this stage, when set against the high volume of new programming, continuing high output at peak times, and high audience satisfaction.
- 3.15 However, these developments will need to be monitored carefully. Analysis carried out for this review suggests that there may be challenges in replicating the level of savings in programme-making achieved over the past six years. For example, the analysis suggests that demand for production staff and studio costs is now increasing, and savings – in terms of producing the same programmes with smaller crews and fewer filming days – have largely been realised. A further reduction in real-terms funding may lead to a bigger fall in investment than we have seen in the review period, with possible implications for the volume, range and quality of output that the PSB system can deliver as a result. However, we have not undertaken a full review of the potential for further savings in programme-making.
- 3.16 Finally, given the multichannel sector's focus on a small number of key genres, it is unclear whether the wider market would fill any future gaps in provision left by the PSBs. There are already genres where PSB provision is relatively low, such as education and religion, where there has not been notable multichannel provision. For example, in children's programming the multi-channel sector has grown through animation and imports rather than through UK non-animation. There are also regulatory restrictions on the commercial funding of children's programming. In drama, the cost and risk of high quality drama, which is expensive to make, has to be

¹⁵ A report on the cost of content investment by Oliver & Ohlbaum Associates is published alongside this statement

weighed against the commercial case. For drama, our understanding is that the potential for international revenue is an increasingly important consideration in commissioning.

- 3.17 We also note that a lot of multichannel output is not universally available free-to-air, limiting its potential reach and impact, even if investment continues to grow.

The role of the independent production sector

- 3.18 Our consultation explained the importance of the independent production sector within the UK broadcast economy. The sector has grown rapidly, generating TV revenues of £2.8bn in 2013, up from £2.3bn in 2008 in real terms, an average annual growth rate of 3.4%.¹⁶ PSBs have reduced spend with external producers and so this growth was predominantly generated by rapidly increasing income from overseas markets. In doing so the sector played a vital role in securing the UK's position as a major global content creator and exporter, with UK exports of TV programmes estimated to have been worth £1.28bn in 2013.¹⁷

- 3.19 Overall, the system appears to be functioning effectively. The independent sector has helped to bring new creative ideas to broadcasters as well as providing an important source of third-party funding at a time of restricted budgets. Independent producers are supported by PSB investment and the retention of secondary rights to use abroad.

- 3.20 The consolidation of the independent production sector means there is much greater uncertainty for the PSBs about the future shape of the production market. There are emerging questions about the market's ability to supply a range of high quality original content, particularly in genres which are the least attractive commercially. There is a growing risk that the consolidated companies focus on the most commercially attractive genres, leading to a lack of innovation in the less commercially attractive genres (e.g. current affairs).

- 3.21 Further, as competition for the best and most lucrative ideas grows, there is the potential risk that greater vertical integration between broadcasters and production companies could reduce the number of companies competing for PSB commissions and so limit commissioner choice, particularly in genres which can achieve substantial international revenues.

- 3.22 There was significant concern raised during our consultation about this consolidation in the indie sector: of the top seven UK producers, accounting for around £1bn of UK revenue, six are now owned by large foreign media companies. The full effects of consolidation in the indie sector on public service broadcasters are still emerging.

- 3.23 In particular, we note that ownership by a broadcaster providing a service aimed primarily at the UK removes production companies from regulatory protection under the Communications Act 2003.¹⁸ This is because they are no longer deemed to be 'independent'. This exclusion allows broadcasters to have purely commercial negotiations with these production companies; this is now happening.

¹⁶ Independent production sector financial census and survey, 2014, produced by Oliver & Ohlbaum Associates Limited for PACT. Data adjusted into real terms by Ofcom.

¹⁷ UK Television Exports Survey, 2013/2014, produced by Television Research Partnership for PACT.

¹⁸ In our consultation we explained the way in which the current system operates by defining qualifying independent producers, which benefit from production quotas for each PSB channel, and the requirement for broadcasters to draw up Codes of Practice, approved by Ofcom, which frame their Terms of Trade.

- 3.24 The programming that these production companies make is still overwhelmingly dictated by what the PSBs want to commission and audiences want to watch. This is a crucial safeguard against the so-called 'Americanisation' of UK TV production.
- 3.25 In addition, the relative bargaining power of producers and broadcasters may be changing in this increasingly consolidated market. These issues may become more significant if there is further consolidation.
- 3.26 The market changes have been significant and will take time to bed down. Therefore, this is an area that we will keep under review.

Issues emerging from this review

- 3.27 Despite strong performance at a macro level, there are a number of areas in which the system may not be performing as strongly as Parliament intended.
- 3.28 **News remains the most important genre to PSB audiences:** between 2008 and 2013, the level of viewing to TV national and international news remained broadly steady. However, there was a 7% drop in 2014. BBC One increased its share of news viewing between 2008 and 2014, while ITV¹⁹ and Channel 4 lost share. Overall, PSBs still account for around 95% of TV news viewing. Despite a drop in first-run UK-originated spend, in real terms, on national and international news by PSBs, output went up slightly between 2008 and 2014. In addition, multichannel providers such as Sky and CNN help ensure that a wide choice of television news remains available, a point highlighted by respondents to our consultation.
- 3.29 In 2014, 41% of adults used the internet as a source of UK news, up from 16% in 2007.²⁰ The BBC is a popular source of internet news²¹, with three in five (59%) adults who use the internet for news using the BBC website or app. By comparison, 17% use the Sky News website/app, 5% use ITV's or ITN's website/app and 1% use Channel 4's. More recent providers are also popular, with 18% using Google search, 17% using Facebook, 9% using Twitter and 8% using YouTube. Some PSBs, including Channel 4, have a strong presence on social media, including Facebook.
- 3.30 **Viewing hours to TV news by young people aged 16-34 dropped by 29%²² between 2008 and 2014:** Consuming news online is becoming more commonplace. The trend towards online news consumption is even more pronounced for young people, with three-fifths accessing news online, nearly half (45%) considering the internet their most important source of news about the UK, and 50% citing the internet as their most important source for news about the world. Services such as Vice Media provide a range of news content in a style that is more appealing than traditional TV news to many young people.²³ 16-34 year-olds use the websites of the BBC, ITV and Channel 4 a similar amount to adults. But their use of online providers is higher than that of older age groups: 26% use Facebook, 22% use Google search, 14% use Twitter and 13% use YouTube.

¹⁹ From 6 September 2010, following the re-brand of the ITV Breakfast daypart from GMTV to *Daybreak* (0600-0900) and *Lorraine* (0900-0925) strands there was a change to the genre coding of these two distinct programme segments in BARB. After the re-brand, *Daybreak* was coded as *current affairs: magazine* while *Lorraine* was coded as *entertainment*. Before 6 September 2010, distinct programming elements within GMTV as a whole were coded separately. The effect of this is that news and other programming strands which were previously reported separately under GMTV became captured under a single BARB genre category of *current affairs: magazine* from the third quarter of 2010 and across 2011-2013. These changes affect comparisons of viewing to *national/international news* on ITV between 2008 and 2014.

²⁰ Ofcom's PSB research (2014) showed that 44% of adults used the internet as a source of news about the world, up from 16% in 2007. Similarly, 41% of adults cited the internet as a source of news about the UK in 2014, compared to 15% in 2007.

²¹ Ofcom's *News consumption in the UK 2014* report

²² BARB National/international news genre

²³ Enders Analysis: [How Online Media Services Have Fulfilled The Public Service Objectives](#)

- 3.31 The BBC and Channel 4 are innovating to appeal to younger audiences. For example, Channel 4 is creating shorter, ‘snackable,’ news content, tailored to online audiences; it now has more views of its video news content on syndicated platforms such as YouTube than on its website. However, more needs to be done to find ways of delivering news to younger audiences, considering both the type of content and the delivery of that content that will appeal to these audiences.
- 3.32 **We are seeing falling investment in drama and comedy:** the PSB system continues to deliver high-profile, big-budget dramas, such as *Sherlock*, *Doctor Who* and *Downton Abbey*. These are successful both in the UK and abroad, with audience appreciation rising. However, they mask substantial falls in first-run UK originations spend in real terms by the PSBs (down 44% since 2008²⁴); in the corresponding hours of new UK output (down 41% from 627 to 371 hours in 2014) and in viewing figures for UK drama on the main five channels (down by 27%²⁵). ITV, in particular, has taken a big step back from the genre, reducing its hours of output by 65%, while the volume of multichannel output in drama remains low, despite gaining a high profile.²⁶
- 3.33 There are potential challenges to the sustainability of investment: competition for crews and studios is raising costs; the time-shifting of around a fifth of UK drama viewing²⁷ can make it more difficult to monetise through advertising; and, for ITV in particular, competitive scheduling by rival broadcasters can limit returns. In this context, we expect pressure on the margins of high-end drama productions to remain.
- 3.34 Despite these challenges, both the BBC and ITV will continue to have incentives to invest in new UK drama. We also note that, as part of its proposals in relation to BBC Three, the BBC intends to invest a further £30m in drama on BBC One.
- 3.35 There has also been a recent decline in spend on new UK comedy, with spend falling by 30% in real terms since 2008 to £103m, driven predominantly by a fall between 2013 and 2014.
- 3.36 **There is minimal provision in some genres** – following the removal of specific quotas in 2003, PSB provision is relatively low in arts and classical music (£41m first-run UK-originated spend in 2014, down 25% on 2008), although there continues to be strong classical music provision on radio. Provision has all but ceased of religion and ethics (£13m, down 26%) and formal education²⁸ (£7m, down 77%).²⁹ Religion and education were issues raised by a handful of stakeholders. We note that this is happening at a time when matters of religious belief are prominent in public debate.
- 3.37 **There is limited provision of non-animation programming for children beyond the BBC:** In 1998 £128m (in today’s terms) was spent by the PSB channels on first-run UK-originated programmes for children, of which £59m was by the BBC and £69m by ITV, Channel 4 and Channel 5 combined. Since 2008, total PSB spend on first-run UK-originated children’s programming has fallen in real terms, from £103m

²⁴ Over the longer term, first-run UK-originated spend on drama by the PSB channels has declined by 18% since 1998, when it stood at £627m (expressed in 2014 prices)

²⁵ Based on comparison of total viewing hours per person 2009 vs 2014 among individuals aged 4+

²⁶ The multichannel sample we surveyed reported 49 hours of UK drama and soaps broadcast in 2013, with an average of 49 hours per year over the period 2007 to 2013, peaking at 78.6 hours in 2012

²⁷ Based on all individuals 4+ using the Ofcom definition of UK drama using BARB genre codings of *Drama: single plays – UK* and *Drama: series/serials – UK*

²⁸ Other content that might be considered educational in nature is not captured under ‘formal education’

²⁹ Over the longer term each of these programme genres have experienced real-terms declines since 1998, when investment stood at £60.9m for arts and classical music (-32% versus 2014); education at £22.6m (-70% versus 1998), and religion stood at £30.8m (-58%).

to £88m, predominantly as a result of a large decline in provision by the commercial PSBs. Since 2008, spend by ITV, Channel 4 and Channel 5 has dropped by 74% overall, to just £3m in 2014. The BBC in 2014 spent £84m; this now accounts for nearly 97% of total PSB spend in the genre. As a result there is little provision of UK-focused, non-animation programming for children beyond the BBC children's channels.

- 3.38 There are a number of factors behind the lack of provision by commercial channels:
- 3.38.1 the removal of children's programming quotas in the Communications Act 2003, which allowed the commercial PSBs to reduce provision;
 - 3.38.2 the restrictions on advertising around children's programming limit revenue opportunities;
 - 3.38.3 in the light of the limited profit from advertising, there is a corresponding need to exploit rights abroad, through programming with international appeal that is easy to provide in multiple languages; and
 - 3.38.4 children are increasingly engaging with a wider media environment than just television, as we discuss in detail later in this document.
- 3.39 We note that the Government has recently extended the tax relief for animation and high-end TV programmes to children's programmes.³⁰ This aims to increase overall investment activity in producing children's programmes in the UK, but it is unlikely to deliver a significant increase in the actual commissioning and broadcasting of programmes specifically aimed at, and reflecting the life of, children in the UK. The current tax reliefs are aimed at ensuring the UK is a competitive location for both domestic and international productions. They are unlikely to offset the weakened commercial case for broadcasting (as opposed to producing) UK-originated children's programming.
- 3.40 The issue is particularly noticeable in PSB programming for older children, who have a great deal of choice from global channels but for whom there is little UK-focused provision. Channel 4 Corporation has a duty to provide content that appeals to the tastes and interests of older children, which could potentially ensure some plurality in provision. However, its provision so far has been limited. Rather than providing bespoke children's programming or other content, Channel 4 plans to commission programmes for a family audience, but with particular appeal to older children, to be broadcast on the main channel in peak-time, pre-watershed slots. While we understand Channel 4's approach and understand that the majority of children's viewing is in 'adult airtime',³¹ this will not contribute to the amount of UK programming made specifically for children.
- 3.41 Overall, the declines in provision identified above, coupled with likely future challenges, present in our view a substantive risk to Parliament's objective to maintain and strengthen PSB for these genres and audiences. Changing market economics and audience expectations, and the increasingly global nature of competition in the market mean that the current regulatory settlement is struggling to deliver in certain key areas.

³⁰ High-end television, animation and children's TV programme tax relief is available on qualifying UK core production expenditure on the lower of: 80% of the total core expenditure or the actual UK core expenditure incurred.

³¹ Adult commercial airtime = all channels excluding dedicated children's programming slots on the main five PSBs (e.g. *Milkshake* on Channel 5) and dedicated children's channels

Meeting the needs of citizens and consumers in an increasingly diverse society

- 3.42 The PSBs together have a statutory responsibility to reflect the diversity of the UK in their output. Doing so ensures that they reflect the UK's cultural identity and represent alternative points of view.
- 3.43 In the second phase of our work we commissioned audience research to improve our understanding of how people view the representation and portrayal of different audience groups on television.³² We asked both the general UK population and specific audience groups about their representation on, and portrayal by, the main five PSB channels. We have considered this new research alongside the data published at the time of our consultation.
- 3.44 The key findings are:
- 3.44.1 **Ethnicity** – over half (55%) of people from black ethnic groups (such as African or Caribbean) felt under-represented, and a similar proportion felt that they were negatively portrayed. Around a third of people in Asian ethnic groups (e.g. Pakistani, Indian, Bangladeshi, Chinese or Japanese) felt under-represented, while over half of people from other minority ethnic groups felt under-represented. People from Asian and other ethnic groups were less likely to feel negatively portrayed, compared to people from black ethnic groups.
 - 3.44.2 **Age and gender** – just over a quarter of women aged 55+ felt under-represented on television; this is a higher proportion than other age/gender groups. More older women (17%) than older men (9%) felt that they were negatively portrayed on television. Similar proportions of younger men (19%) and women (17%) felt negatively portrayed. This was supported by similar views among the general population about the portrayal of younger people and women.
 - 3.44.3 **Religion** – around a fifth (19%) of all PSB viewers felt that people with religious beliefs were under-represented on television. While around 16% of Christians felt this way, a far higher proportion (39%) of those with beliefs other than Christianity felt this to be the case. Twenty-three per cent of all PSB viewers felt that people with religious beliefs were negatively portrayed. In terms of negative portrayal, there was little variation between people with different religious beliefs.
 - 3.44.4 **Lesbian, gay and bisexual people** – half of the LGB people interviewed thought that LGB people were under-represented on television nowadays. A much smaller proportion (16%) felt they were negatively portrayed.³³
 - 3.44.5 **Disability** – around half of the disabled people interviewed thought that disabled people were under-represented on television, as did a similar proportion of the general population. However, most respondents, both in the general population group and the disabled people themselves, were fairly content with how they were portrayed.

³² Ofcom, *PSB Diversity Research Summary*, June 2015. Diversity presents a number of challenges when conducting consumer research and tensions exist between breadth of coverage and depth of coverage. This research used a quantitative omnibus methodology, with questions limited to opinions towards representation and portrayal.

³³ Note: results of the research are indicative and not significant. LGB results from a low sample of 51 respondents

- 3.45 These results highlight the difficulty faced by broadcasters in ensuring that audiences feel represented on screen and fairly portrayed. In almost all instances, respondents as a whole felt that specific audience groups were better represented and more fairly portrayed than people within those specific groups felt about representation and portrayal of themselves.
- 3.46 This is an area that broadcasters will need to monitor closely in order to continue to meet their responsibilities and fulfil audience expectations.

Performance in the Nations of the UK, and regions within each Nation

- 3.47 Each Nation and region of the UK has its own identity. Alongside this statement, we have published a separate report looking at the performance of the PSB system in the UK's Nations and regions. The key findings of that statement are summarised below.
- 3.48 Since 2008 it has become increasingly important to people that they are provided with high quality news about their local area. Following the independence referendum in Scotland, and the subsequent announcement by the new Government of plans for further devolution, this is likely to pose a considerable challenge to the PSB system's ability to meet audience needs in the UK as a whole, and in the Nations and their regions individually.
- 3.49 Since 2008 it has also become increasingly important to people that their Nation or region is portrayed fairly to the rest of the UK.³⁴ Audience satisfaction with the portrayal of the Nations and regions has grown significantly since 2008 in the UK as a whole, and in Scotland and Northern Ireland specifically, but there remains a large gap between the importance audiences place on it, and their satisfaction with its delivery. This was a major issue for Nations' and regions' respondents to the consultation.
- 3.50 Viewing behaviours present a more complex picture. Overall viewing to nations' and regions' news has declined: by over four hours since 2008 to 24 hours per person per year. The majority of this decline has been to Channel 3 licensees' news, rather than the BBC's, which has declined by 0.6 hours. The BBC evening nations' and regions' news programmes attract a larger share than the equivalent Channel 3 programmes, except in Northern Ireland and the Border region, where UTV and ITV Border attract a greater share of viewing.
- 3.51 In our consultation we highlighted two broad trends in relation to production and programming in the nations and regions: increasing network production outside London, but falling investment in programming aimed at the UK Nations and regions. Many respondents to our consultation argued that more needed to be done to ensure that production in different areas was sustainable, genuinely based in the local area (rather than being made in the nations and regions by London-based production companies), and some concerns were expressed about the health of the independent production sector outside London.
- 3.52 Overall, there are very different sets of challenges in each Nation of the UK:
- 3.52.1 **England** – network production in London has fallen, and now makes up less than 50% of first-run network output, because production has moved

³⁴ UK sample as a whole

out of London to the devolved Nations and other English regions. The only English regions not to benefit have been the Midlands and the East of England are the exception, which have experienced the most substantial decline in the proportion of network output and spend, to 1.6% of first-run expenditure. England has seen one of the most substantial declines (31%) in regional programming, and despite increased production in the north of England, one in five people say they feel negatively portrayed, compared to 11% of people in England when thinking about the portrayal of England as a whole.

- 3.52.2 **Northern Ireland** – although production in the devolved Nations as a whole has risen, production in Northern Ireland remains low, at less than 1% of network output. Audiences in Northern Ireland are also the most likely to feel under-represented (42% of respondents) and negatively portrayed (26% of respondents), compared to respondents in the other Nations and English regions.
 - 3.52.3 **Scotland** – one of the main beneficiaries of the shift in production out of London and the only Nation to see an increase in spend on nations programming, up by 14% since 2008. Nevertheless, higher proportions of audiences here (21%) feel negatively portrayed, compared to respondents in most other areas of the UK.
 - 3.52.4 **Wales** – also a beneficiary from increased production out of London, but unlike Scotland it has seen a substantial decline (of 30%) in programming for Wales. Respondents to our consultation suggested that other issues in Wales were the lack of certainty about funding for S4C, and an over-reliance on the BBC and ITV for news about Wales, given the comparative weakness of the press in Wales.
- 3.53 The Nations and their regions are the areas where there is the largest gap between the public expectation of PSB and the operations of the PSBs. Despite the 2013/14 Channel 3 relicensing process, which resulted in better-focused English regions and a resolution of the ITV Border area across national boundaries, respondents from the UK Nations and their regions emphasised that there remains a perceived deficit in programming designed for specific parts of the UK.

Section 4

How the landscape is changing

A number of key trends are shaping the future environment

- 4.1 Today's PSB system must be assessed within a media and technology landscape that is changing very quickly. We have identified five key trends that will shape the landscape around PSB over the next five to ten years:
- 4.1.1 **Consolidation and globalisation:** we highlighted in our consultation that the broadcasting and content supply market was changing, with a number of high-profile acquisitions taking place. Channel 5 is now owned by a US broadcaster (Viacom), and many of the UK's major independent producers have been acquired by US broadcasters.
 - 4.1.2 **Changing technologies and models of distribution:** superfast broadband availability will rise to 95% by 2017, based on the Government's current plans, with the potential for a broadband universal service obligation that could allow people to stream HD channels. In addition, hybrid platforms, seamlessly combining broadcast and IP delivery, are likely to become ubiquitous over the next decade, with the potential for more and more content to be delivered over the internet.
 - 4.1.3 **Changing user interfaces are driving new consumption habits:** there is significant innovation in user interfaces across all devices, moving away from simple channel-based grid EPGs to advanced search and recommendation models, often built around programmes, content and personal viewing data. The current major platforms such as Sky, Virgin and Freeview are all likely to upgrade their current set-top boxes with improved user interfaces in the next two years. These interfaces will seek to make accessing on-demand content much easier for the viewer. In addition, new internet platforms are innovating their user interfaces across all devices to make the viewer experience as seamless as possible. Many of these interfaces focus on individual pieces of content rather than channels.
 - 4.1.4 **New international players:** access to television-like content is no longer limited to traditional TV platforms. Providers offering streaming and download services via the internet, such as Netflix and Amazon Prime, are aggressively expanding and increasingly popular. As part of their growth strategies they have started to invest in new commissions as well as acquiring third-party archive material. The evidence today is that these platforms are largely complementary to traditional TV viewing, rather than substitutional, although drama is one genre where some substitution appears to be taking place. However, these companies are evolving very quickly, using global scale to fund technology innovation and, increasingly, content investments.
 - 4.1.5 **New platforms:** as the ways in which content is distributed become more complex, and the number of firms involved in the production and distribution of content grows, it may be harder for PSBs to get access to some key platforms, or for them to get access in a manner which enables them to retain some degree of prominence and editorial control. Given the variety of content that aggregators such as Netflix and YouTube are able to

provide, relative to PSB catch-up services, and their significant investment in technology and the user experience, it may be increasingly difficult for PSB channels to maintain their current large audiences to their own platforms in the face of competition from global online platforms.

The evidence on the impact of these trends to date

- 4.2 Today, more than 80% of all homes have broadband.³⁵ More than half of all people claim that their TV sets are connected to the internet, and this may be under-reported as many people may have connected set top boxes, but not be aware that they are connected.³⁶ Two-thirds of consumers have a smartphone, and 54% of UK adults have access to a tablet. The key enablers of on-demand television are now mass-market.
- 4.3 There is currently no single industry-wide measurement for understanding the share of viewing to live, on-demand and other forms of viewing. Therefore, for the purposes of this review we have looked at a range of data sources to understand total audio-visual consumption.
- 4.4 One of the primary sources that we have considered is Ofcom's *Digital Day* Research, as it provides a measure of a wide range of audio-visual viewing, and the results can be analysed by age group. *Digital Day* provides an overview of viewing across traditional live television, recorded programmes, catch-up and other on-demand services, short-form video and DVDs. This research shows that, among all UK adults, 69% of viewing is to live TV. However, the share of viewing to live TV among 16-24s drops to 50%, and to 61% for 25-34s.
- 4.5 Other sources use different methodologies and tend to cover a subset of audio-visual services, and can provide time-series data. For example, we draw on 3Reasons estimates that show that in the first half of 2014, around 85% of viewing to legal long-form audio-visual programmes continued to be to live broadcast channels. The 10% of viewing that was time-shifted was via a digital video recorder (DVR) (e.g. Sky+) whereas 6% was watched via a video on-demand service (this includes an estimate of all viewing on Netflix, Amazon Prime and other new online subscription services as well as the PSB catch-up services). In the first half of 2010 live viewing accounted for 92%.³⁷
- 4.6 DVR viewing is still the largest form of non-live viewing, at 10% of the total in 2014, but the estimated amount of viewing by DVR has been flat since 2011.
- 4.7 This means that the key driver of future non-live growth is likely to come from video on-demand services, accessible across multiple devices. This viewing accounted for 6% of all viewing in the first half of 2014, up from 2% in 2010. Increasingly, the key driver of growth is viewing of on-demand programmes via connected TV sets. In addition, in 2014 non-live viewing via tablets increased by 90% compared to 2013.
- 4.8 We note that historical evidence, while instructive, is limited in the context of today's rapidly changing media markets and the trends that we have identified above. The rapid changes noted in the past two years, since 2013/4, may mark a fundamental shift in audience attitudes and consumption.

³⁵ Ofcom's *Technology Tracker* 2015

³⁶ Ofcom's *Media Tracker* 2015

³⁷ 3Reasons estimates

The needs and behaviour of young people may be an indicator of future patterns of consumption

- 4.9 Younger audiences watch and consume content in a markedly different way to previous generations. Young adults (aged 16-24 and 25-34) are earlier adopters of new technologies and services than older groups. They have grown up in a very different media landscape to older audiences, with digital television, broadband internet and easier access to paid-for content. In doing so, they have developed and maintain different attitudes to media services.
- 4.10 **Consumption of TV content:** although younger adults are still regularly watching PSB channels³⁸ their patterns of consumption of TV content have changed significantly. Among all adults, TV viewing has declined most. Those aged 16-24 now watch 138 minutes of total TV per day, down 17.9% from 2010; this is double the 9% decrease in viewing seen across all individuals.³⁹ This is because of the wide variety of media, including social media, that they interact with.
- 4.11 **Devices:** Younger adults and older consumers use different types of device. Ninety per cent of 16-24s, and 87% of 25-34s own a smartphone, compared to 66% of all adults, and young adults are most likely to say that they would miss their mobile phone more than any other device, compared to television, which is chosen by all age groups older than 45.⁴⁰ In the first quarter of 2015, 54% of UK adults had access to a tablet. This rises to 60% among 16-24s and 61% among 25-34s. Ofcom's *Technology Tracker* research (2015) shows that for a third of people, the most important device for accessing the internet is their smartphone, for 30% a laptop and for 19% their tablet.
- 4.12 **A shift towards non-linear:** Younger audiences consume less of their audio-visual content through linear methods than do other age groups. Our *Digital Day* research showed that only 50% of 16-24s' total audio-visual consumption (including DVDs, short-form, recorded TV, catch-up and other on-demand services, and traditional linear TV)⁴¹ and 61% of 25-34s' total consumption, is through linear television, compared to 69%⁴² for all adults.

³⁸ 92% of 16-24s and 87% of 25-34s watch the five main PSB channels regularly (compared to 92% of all adults), and more 16-24 years olds are more likely to regularly watch PSB portfolio channels than any other age group (Source: Ipsos MORI 2014 PSB Review, November 2014, Page 30)

³⁹ Source: BARB

⁴⁰ *Media Literacy* 2015, P 78 [Link](#)

⁴¹ This includes DVDs, short form, recorded TV, catch-up and other on-demand services and traditional linear TV. Source Ofcom's *Digital Day* research 2014

⁴² Source: Ofcom *Digital Day* 2014

PROPORTION OF WATCHING TIME



- 4.13 **New viewing patterns on VoD services:** Ofcom research suggests that 16-24 year olds are more likely than all adults to have an on-demand subscription in their home (47% vs. 26%).⁴³ Films and US series are the most-watched content type for OTT on-demand subscribers in the UK.⁴⁴ In terms of their time spent watching, content owned by BBC and ITV studios makes up around 10% of their total viewing on Netflix and Amazon services.⁴⁵ Ipsos MORI research for Ofcom in 2014 found that younger adults were more likely than older audiences to want variety and a mix of global content,⁴⁶ with American programming and comedy in particular being seen as high quality.⁴⁷
- 4.14 There is also a question about the way in which PSB on-demand content is made available to users. Ipsos MORI research found that the design of services such as YouTube and Netflix encouraged consumption by younger audiences, with features such as recommendations, continuous viewing and large back catalogues encouraging 'binge' viewing of content and keeping viewers on a single platform.
- 4.15 **Growth in the use of short-form video:** Short-form video (such as on YouTube) represents a significant area of consumption for young adults, taking an estimated 8% of all audio-visual viewing by 16-24 year-olds (compared to 2% for those aged 25-34).⁴⁸ Consumption has grown significantly since 2007 among young internet

⁴³ Ofcom GfK omnibus research July 2015

⁴⁴ Ofcom GfK omnibus research July 2015

⁴⁵ GfK OTT SVoD Content Consumption Tracker, Pilot Wave, Q1 2014

⁴⁶ Ipsos MORI 2014 PSB Review, December 2014, Page 81

⁴⁷ Ipsos MORI 2014 PSB Review, December 2014, Page 67

⁴⁸ Source: Ofcom *Digital Day* research 2014

users: 65% of 16-24s and 52% of 25-34s now watch short-form video at least weekly, compared to 43% and 28% in 2007.⁴⁹

- 4.16 At present it is unclear how far this content serves as a substitute for traditional TV and film content. There is some evidence that YouTube video is becoming more TV-like, with scheduling and longer videos in the 10-20 minute bracket⁵⁰ growing in importance, and these may be seen more as a substitute for long-form viewing in the future. Young people also use YouTube as a key source of education⁵¹, with 46% of 16-24 year old internet users citing it as a *very or fairly* important source of information. Short-form video or online-first content could potentially be a powerful way of delivering key PSB purposes such as informing understanding of the world and stimulating knowledge and learning.
- 4.17 **Use of non-AV content:** Young people are also moving towards alternative forms of media consumption, other than TV, film and short-form video content. Although 16-24s consume more total media each day than any other age group,⁵² only 32% of their media consumption is spent on AV content, compared to 39% for all adults and 49% for those aged over 65.⁵³ Research suggests that for 16-34s the internet is already replacing the TV as their main source for news, sport and other information.⁵⁴

There is some evidence that over-35s are also changing their habits

- 4.18 A range of research suggests that some age groups over 35, notably the 35-44 age group, are also beginning to adopt some of the behaviours commonly found among to younger people.
- 4.19 Viewing to broadcast TV,⁵⁵ among those aged 35 and over, remained stable between 2010 and 2012, but declined every year between 2012 and 2014. This was notable among 35-44s where there was an 8% decline between 2013 and 2014, compared to 5% for all individuals.⁵⁶ By comparison there was a 6% decline among 16-24s.
- 4.20 We estimate that among 35-44s around two-thirds of total AV time was spent watching TV, 16% watching recorded content using a DVR and 10% on on-demand or catch-up services. While they spend more time on traditional TV than younger age groups, the overall distribution is similar to those aged 16-24 (50%/16%/12%).⁵⁷
- 4.21 Just under 7 in 10 people aged 35-44 claimed to have used on-demand or catch-up services in the past 12 months.⁵⁸ This compares to 57% of adults overall. Ofcom's recent media literacy research shows that the use of online TV or on-demand services on a weekly basis has grown most among 35-44s since 2007 (up 25 percentage points to 30% of internet users) compared to an increase of 18% among 16-24s, to 39%, and stands at 27% for UK adults as a whole.
- 4.22 Take-up of connected devices has also grown recently at a greater rate among this age group. Smartphone ownership grew from 72% in 2014 to 80% in 2015 for 35-

⁴⁹ *Media Literacy* 2015, P 36 [Link](#)

⁵⁰ From July 2010 YouTube increased the length of videos that could be uploaded by users from 10 to 15 minutes. From December 2010 this limited was extended to allow users in good standing who had verified their accounts to upload videos longer than 15 minutes. See <http://youtube-global.blogspot.co.uk/2010/12/up-up-and-away-long-videos-for-more.html>

⁵¹ *Media Literacy* 2015, P 36 [Link](#)

⁵² Source: Ofcom *Digital Day* 2014

⁵³ Source: *ibid*

⁵⁴ Source: Ofcom Ipsos MORI PSB research 2014

⁵⁵ including DVR and catch-up within 7 days

⁵⁶ BARB

⁵⁷ Ofcom *Digital Day* research 2014

⁵⁸ Kantar Media: TGI GB H2 (July – December) 2014

54s, showing the greatest year-on-year growth of all age groups (compared to 88% to 90% among 16-24s). Tablet take-up grew from 53% to 64% among 35-54s over the same period (compared to 49% to 60% for 16-24s⁵⁹).

- 4.23 This indicates that among 35-44s, AV behaviour is changing, with potentially significant implications for the future of television in general and for PSB in particular.

Predicting the speed of change will be impossible, being prepared for it is necessary

- 4.24 The trends and indicators we have highlighted in this section are sufficient to show that there is significant potential for changes in the landscape. In the next section we consider the potential consequences of this changing landscape.

⁵⁹ Ofcom *Technology Tracker* wave 12014, wave 1 2015

Section 5

Potential consequences of the changing landscape

Considering scenarios for change

- 5.1 To test the opportunities, threats and implications of more radical change for the PSB system, we have considered three broad directions in which the market might develop. Our intention in doing so is not to predict the future precisely, but to identify the likely drivers of change and their implications for the PSB system.
- 5.2 Predicting the exact timing and the nature of change will not be possible. But these scenarios help us to understand the changes we might see, allowing us to consider whether different policy responses are required under different scenarios. The scenarios we have considered for the next five years are:

Scenario	Description	Impact on PSB
1. Substantial evolution – broadcast endures, but VoD/non-linear viewing grows rapidly	Linear TV endures while VoD grows rapidly, with all current PSBs continuing to play an important role in the PSB system.	As outlined in Section 3, we have already seen an overall decline in investment as well as a number of more specific areas of concern emerge. This scenario raises questions about whether current funding models are sufficient to deliver the outcomes Parliament intends, particularly if PSBs do not maintain high visibility in the VoD environment.
2. Radical change – rapid shift to VoD/non-linear viewing and online content, with PSBs at the centre of that change.	A rapid shift to VoD and other non-AV online content, away from linear TV, but with the PSBs at the centre of that change, due to the strength of, and trust in, their brands.	The licence fee model, if amended to apply to non-linear consumption, could preserve the BBC's position at the centre of the PSB system. The value of regulatory benefits for the commercial PSBs, which are traded for PSB obligations, would reduce. C4C's public ownership would ensure that its intent to meet PSB goals remained but its model might need adapting to help it meet the challenges of a changing landscape, so that it could deliver more of its obligations outside the main channel.
3. Revolutionary change – rapid shift to VoD and online, with PSBs increasingly marginalised	A rapid shift to VoD and other non-AV online content, away from linear TV, led by non-UK companies, with PSBs increasingly irrelevant.	Delivery of Parliament's intended PSB outcomes would be highly compromised. Serious questions would be raised about the continuing role of PSBs. There might be a need for a wholesale re-evaluation of how to deliver the public service outcomes Parliament has specified.

Opportunities arising from the changing landscape

- 5.3 Increased connectivity offers exciting opportunities for the PSBs to improve delivery and engage with audiences in new and innovative ways. The PSBs are already adapting:
 - 5.3.1 The BBC iPlayer leads the VoD market and the PSB players collectively represent a large amount of total VoD consumption, despite the arrival of competitors such as Netflix.
 - 5.3.2 The BBC is experimenting with onward journeys and digital public spaces online, as well as projects such as the Space, a partnership with Arts Council England to nurture digital art and technology.
 - 5.3.3 Channel 4 has recently launched the 4newswall, targeting young audiences, and hyper-local websites offer content of direct interest to specific communities.
 - 5.3.4 Channel 4 has been innovative with its business model, signing up millions of users, allowing them to personalise their experience, and selling both TV and more targeted digital advertising.
- 5.4 The strength of the brands of the PSBs, including their portfolio channels, combined with their reach and impact in linear television, means that they are well placed to take advantage of the opportunities provided by the internet to deliver public service outcomes in new, different and exciting ways.
- 5.5 Connectivity also gives new opportunities for others to deliver public service content. For example, hyper-local websites increasingly provide news and information about their areas, and cultural institutions can engage directly with audiences. These provide valuable contributions to our social and cultural landscape, but often suffer from two key, interlinked challenges:
 - 5.5.1 achieving reach and impact; and
 - 5.5.2 building business models that can create sustained investment in high quality content.

Threats arising from the changing landscape

- 5.6 In the scenarios above there is a common challenge: further audience fragmentation. This has three direct implications for the PSB system:
 - 5.6.1 **Decreasing broadcast TV advertising revenues** – the majority of revenue for commercial PSBs continues to come from linear TV advertising. Despite the decline in audience numbers to the main channels, as competition from multichannel and internet services increases, TV has remained a compelling platform for advertising as its scale, in relation to the alternatives, has remained large. If fragmentation makes TV advertising less attractive, PSB revenues would fall considerably. While Channel 4 in particular has made efforts to diversify into digital advertising, this may only partly mitigate the risks.

- 5.6.2 **Increasing costs of distribution** – work commissioned for this report⁶⁰ suggests that were we to see a rapid rise in the amount of PSB viewing taking place online rather than via broadcast, to around 25% of all PSB video consumption, then IP delivery costs may more than double over the next ten years. However, the ‘per stream’ cost of delivering video online should continue to fall as volumes rise and the cost of DTT may fall, so that overall distribution costs could actually fall in nominal terms over the next decade. However, under more radical scenarios, where nearer 50% of viewing shifts to online/IP platforms, we could see total distribution costs rise by around £100m by 2024.
- 5.6.3 **Reach, impact and universal availability of PSB content** – PSB services are currently available on all major TV platforms and interfaces. They are universally available and provided on free-to-air platforms as well as pay platforms, ensuring everyone has access to them. The ‘must-have’ nature of PSB content, supported by regulation, has also ensured that in the majority of cases, these services are prominently positioned. As competition for viewers increases, the incentives on platform and technology providers may increasingly result in PSB content being less widely available, or less prominent on interfaces (or particular elements of interfaces) which fall outside regulation: for example, at the expense of programmes produced by platforms themselves, or those willing to pay for prominence.

Effect on different institutions of rapid change

- 5.7 The PSB system is built on a range of institutions delivering the intended outcomes. Each of these institutions has a different remit, governance and funding model. The consequences of change are therefore different for each of them.

BBC

- 5.8 The stability offered by the licence fee, if changed so that catch-up users also paid, could preserve the BBC’s position at the fulcrum of the PSB system.
- 5.9 Given its scale and security of funding, the BBC is likely to be the most proactive in driving changes in audience behaviour through the services that it offers and the most robust in the face of unforeseen shocks, depending on the level, nature and terms of the next Charter Review.

ITV and Channel 5

- 5.10 The current deal for the commercially-owned PSBs, ITV and Channel 5, is built on trading regulatory assets (mostly spectrum and EPG prominence) which have value in the linear environment, in return for PSB obligations. The greater the decline in linear viewing, the lower the value of these benefits. A decline may lead to requests for the PSB obligations to be reduced, raising questions about these PSBs’ continuing role as PSB providers.

Channel 4 Corporation

- 5.11 Channel 4 Corporation’s core PSB obligations currently sit on its main TV channel, Channel 4. There are already some concerns about the declining reach and impact

⁶⁰ Redshift, *PSB Distribution Costs*, 2015

of this channel. The core channel share has declined over time, with share falling from 7.5% in 2008 to 4.9% in 2013, and to 4.8% in 2014.⁶¹ The core channel's share in peak time⁶² was 5.3% in 2014, down from 7.6% in 2008.

- 5.12 Channel 4's young target audience and its focus on diversity and distinctiveness make it uniquely important in the PSB system. Its audience is also the most likely to change its viewing behaviour over the next decade.
- 5.13 In relicensing the core Channel 4 service for ten years in 2014, we made it clear that we believed that the current funding model for that channel was sustainable. The Channel 4 channel is currently the only service which Channel 4 Corporation provides that benefits from regulatory assets in return for a set of PSB obligations on that channel.
- 5.14 However, as the analysis in this review shows, the potential for more significant change cannot be discounted. Under these circumstances, there may be a case for updating the framework under which Channel 4 Corporation operates across the full range of the services it offers, and considering whether and how its legislative and regulatory model might be improved to maintain and strengthen its public service delivery.

⁶¹ Channel 4+1 added a further 0.8% share in 2014, with 4Seven contributing an additional 0.3%. S4C share is included in 2008 shares.

⁶² Ofcom defines peak as 6pm to 10:30pm

Section 6

Issues for consideration resulting from this review

Addressing emerging issues resulting from this review

- 6.1 Our analysis during this review shows that the PSB system, is at this moment, broadly healthy. However, we have highlighted some significant issues and some potential medium to long-term challenges to the PSB system resulting from changing technologies and changing audience consumption patterns.
- 6.2 Our review has highlighted a number of areas in which we recognise that increased delivery would be desirable, including news, with the need to improve reach and impact for young people, drama (particularly on ITV), programming for Scotland, Wales and Northern Ireland and the English regions, and children's programming beyond the BBC.
- 6.3 Many respondents to our consultation called on Ofcom to require the commercial PSBs to deliver such outcomes, often suggesting the introduction (or reintroduction) of quotas. But it is clear to us that increased provision in any of these areas, whether as a result of voluntary changes by the PSBs or some form of quota system, is likely to come at the expense of investment in other forms of content, because:
 - 6.3.1 The regulatory assets supporting PSB delivery (predominantly EPG prominence and access to spectrum) have only limited value in the digital environment.
 - 6.3.2 Any use of the licence fee beyond the BBC could reduce BBC investment in areas of concern.
 - 6.3.3 Channel 4 is dependent on delivering sufficient audience scale overall to cross-subsidise lower-audience output. Any requirement resulting in an increase in the volume of lower-audience genres would reduce its overall investment.
- 6.4 Addressing issues of under-provision is likely to involve difficult decisions about trade-offs between different public service genres and investment in other services. Broadcasters may have to make careful choices about which public service content to fund. For example, a decision to fund children's content may lead to a consequential reduction in drama or news investment.
- 6.5 In this final section, we look at options for maintaining and strengthening the PSB system, should that be considered desirable.

The approach to the BBC in the forthcoming Charter Review will be critical to the future of the PSB system overall

- 6.6 The BBC remains the single most important driver of the PSB system's overall health. It is the largest investor in new UK programmes, and the only major commissioner in certain genres, such as children's. It supports the wider creative

economy both directly (e.g. through commissioning from the independent production sector) and indirectly (e.g. through investment in skills and training).

- 6.7 But as licence fee income has fallen in real terms, the last few years have seen the BBC reduce its investment in programmes in some key PSB genres such as drama, current affairs, specialist factual and education. Charter Review will need to balance the need for the BBC to produce a range of high quality content and innovate across all major platforms against preventing it from crowding out commercial innovation.
- 6.8 We have not, in the course of this review, conducted a detailed analysis of the BBC's ability to maximise its commercial revenues, realise further efficiencies or refocus its activity to provide greater value for money. That is a matter for the forthcoming Charter Review process. Consideration of the BBC's future shape and scope should, we believe, be done in the light of the wider challenges to the PSB system set out in this report.

Options for support for PSBs, to address emerging issues and meet the challenges of a changing landscape

Reform of the rules relating to platform access and prominence

- 6.9 The core principles that underpin public service content and delivery endure; that public service content should be universally available, easily accessible on systems that viewers use, and prominent for ease of selection, if the system is to continue to have reach and impact in the future. Audiences continue to tell us that they want PSB services available in all the places where they would expect it, and that they should be easy to find. Appropriate prominence continues to be one of the few key sources of regulatory benefit to PSB providers. We believe that in an increasingly complicated and fragmented digital world, the importance of these principles grows.
- 6.10 The PSBs will need protection to ensure that their channels and on-demand services are widely available and easily discoverable in all of the places audiences expect. At the same time, PSBs should be required to provide their services to all major devices and platforms.
- 6.11 These principles are largely still upheld by the current rules, which were designed for the analogue age when linear channels were broadcast over traditional broadcast platforms.
- 6.12 At a minimum, if PSB is to be 'maintained and strengthened' as set out in the statutory duty, catch-up players for all PSB channels should benefit from appropriate prominence and access to all major platforms. In updating the rules, a number of areas should be considered, including:
- 6.12.1 whether the existing 'must offer' and 'must carry' regimes remain fit for purpose in the light of changing technologies;
 - 6.12.2 whether the PSBs need some protection in relation to carriage arrangements for services carried over the internet, as they currently have for services carried over broadcast networks; and
 - 6.12.3 whether the rules can be designed to capture significant platforms only, given the likely proliferation of platforms in the future.

The current debate on ‘retransmission’ could result in extra funding, but implementing a new regime to govern it will be complicated and might involve more regulation, not less

- 6.13 Ofcom recognises the value that PSB channels bring to pay-TV platforms. While it is difficult to calculate precisely what value these channels bring, it is likely to be considerable. Our understanding is that in many cases the market has already negotiated a ‘zero net fees’ outcome without recourse to regulation.
- 6.14 Government could go further should it wish to see a transfer of value from platforms into the PSB system. But there are a number of challenges in doing this, which would depend on the precise nature of any legislative change. In particular, we are concerned about:
- 6.14.1 the nature of any regulatory backstops that might be required to avoid the risk of channels being withheld and going off air. Such backstops could involve significant regulation and result in lengthy analysis by the regulator; and
- 6.14.2 how any new system would ensure that resulting funds were invested in programme budgets or into specific PSB genres, rather than simply passed on to shareholders. This is a particular concern in relation to ITV plc and Channel 5.

More radical options for increasing funding to the PSB system

- 6.15 There are a number of other options for more radical intervention, if the case for such action becomes more urgent:
- 6.15.1 **Administered Incentive Pricing for spectrum:** Ofcom has made it clear that, in relation to national digital terrestrial television (DTT) we will not (for now) introduce charges based on the opportunity cost of using the spectrum (AIP). Instead, we will apply a pricing mechanism to reflect our spectrum management costs (cost-based fees). This position will be kept under review, acknowledging the balance between our duties to ensure efficient use of spectrum and our responsibilities towards public service broadcasting.
- 6.15.2 **Restrictions on advertising minutage on PSB channels:** We have previously concluded that given our existing legislative duties, the purpose of regulation in this area and the evidence gathered, we believe that there continues to be a strong case for UK-specific restrictions on advertising minutage on PSB channels, over and above the hourly limit set at a European level in the AVMS Directive. We remain open to reviewing this position if strong new evidence emerges that provides greater certainty that the outcome of any changes to the rules could materially benefit public service broadcasting.
- 6.15.3 **Commercial references:** We recognise the increasing imbalance between the regulation of television commercial references and unregulated competition such as Netflix. The review of the AVMS Directive provides an opportunity to consider the case for deregulation, balanced against the ongoing need to ensure adequate consumer protection.

- 6.15.4 **Contestable funding:** There remains a strong clarity of purpose which is achieved through institutional funding. Although contestable funding remains an option, it would require detailed consideration, in particular addressing the dangers of uncertainty of funding, undue bureaucracy in implementation, reducing the actual funding of PSB content and the introduction of conflicting incentives into the commercial business models and focus of the broadcasters which compete with, and complement, directly funded services.
- 6.15.5 **Levies and copyright:** systems such as levies on the revenues of pay-TV or distribution platforms, and copyright regimes, have been introduced in other developed markets as a more direct way of ensuring successful PSB outcomes than any retransmission fee regime through negotiation underpinned by a new and potentially complicated regulatory system. This would be a matter for Parliament and such proposals would be highly controversial.

Changes in the independent production sector should be kept under review

- 6.16 Concerns have been raised about the emergence of a few very large ‘super-indies’, now often owned by overseas global media companies. In particular, there are concerns about whether the PSBs can access enough new ideas from a range of producers across different genres. There are also concerns that there might be a reduction in the UK cultural characteristic of programmes, especially in drama.
- 6.17 These concerns need to be offset by new benefits arising from consolidation. For instance, large producers are often able to fund the development of new shows in a way that smaller indie cannot. The production sector also increasingly contributes significant funding to the production of new programmes through deficit finance and co-production.
- 6.18 The cultural characteristics of programmes can to an extent be safeguarded through the commissioning process. Ultimately, producers will need to bring forward ideas that broadcasters want to commission and the public service broadcasters remain the biggest commissioners of content in the UK.
- 6.19 We therefore do not, at this point, see a strong enough case at this stage for reform of either the current level of the programming quota for independent production (25%) or the definition of a ‘qualifying indie’. We remain open to further views about the more detailed operation of the regime.
- 6.20 However, we acknowledge that the production sector is continuing to change and adapt and may consolidate further. There is a risk that broadcasters and super-indies together may not want to commission non-profitable PSB genres. In addition, the BBC’s proposals to reform its approach to production are outside the scope of this review. For these reasons, we will continue to monitor developments and engage with stakeholders on these issues.

A more flexible model for C4C might be required to maximise its potential

- 6.21 Channel 4 occupies a unique place in the 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 does this by providing content across its main channel, Channel 4, its portfolio of channels, including E4 and More4, as well as online, through the newly-launched All 4 and other online services.

- 6.22 Channel 4 Corporation currently operates under a complex system of regulation, with a set of obligations for its main channel and an additional, slightly different remit for its full range of TV and internet services as a whole. Only the main channel (Channel 4) is a PSB service, meaning that it is the only Channel 4 service given benefits such as EPG prominence.
- 6.23 If C4C is to maximise its potential, a simplified framework for Channel 4 might better support the delivery of its challenging but crucial role. This might include:
- 6.23.1 giving it a single remit across all its services;
 - 6.23.2 applying obligations to C4C as a whole rather than to Channel 4 specifically;
 - 6.23.3 giving appropriate prominence to its portfolio services (e.g. E4, More4) and VoD player; and
 - 6.23.4 reviewing its current remit, to better focus the organisation on delivering in those areas of PSB where it can make the most distinctive contribution.
- 6.24 This increased flexibility would allow C4C more easily to adapt to the changing media habits and needs of its core audience, ensuring that its PSB output remains relevant.

Acknowledging the importance and limits of the current regulatory system

- 6.25 The values, purposes and rationale of a system with universal access, which provides public service content focused on reflecting our society and culture, providing news and information and building shared understanding and social cohesion, are enduring, and are recognised as important and valuable by consumers and citizens.
- 6.26 Today, that system is predominantly built around TV broadcasting. The ways in which we measure and judge output, provide benefits and enforce obligations were not designed for an online and on-demand environment. If we see significant change in the coming years, the PSB system and the funding models underpinning it are likely to be sufficiently stretched to bring its continuation in its current form into question.
- 6.27 While the system continues to operate effectively today, it has become clear over the course of this review that there are limited levers in place in the current system to address identified and future concerns. In the case of the concerns we have identified in this review, reversing the trends will mostly involve difficult trade-offs for the public service broadcasters.
- 6.28 Looking further forward, if there is a more significant move away from linear viewing, a fundamental reassessment may be required to consider:

- 6.28.1 whether the current public service purposes and objectives remain achievable, and how far the market is already delivering them and meeting social goals;
 - 6.28.2 who is best placed to address any areas of under-provision; and
 - 6.28.3 how any such new interventions would be funded.
- 6.29 It is likely, in this scenario, that new approaches would be needed to deliver a robust PSB system that continued to support high levels of investment in UK-originated content, made universally available to viewers.
- 6.30 Finally, in conducting this review, we have been reminded of the detailed legislation governing the PSB system and Ofcom's periodic reviews. The Communications Act 2003 sets out a large number of purposes for the PSB system, and a significant number of areas that Ofcom must have regard to in relation to these purposes. This includes a very wide range of outcomes that are expected of the PSB system.
- 6.31 Today, the commercial sector is providing an increasingly wide range of content and services, making some useful contributions to the purposes and characteristics of public service broadcasting, as set out in the legislation. At the same time, as this report shows, there are significant areas, including notably news and original UK drama, which sit at the centre of the purposes of the PSB system, but where changing patterns of consumption and funding may indicate cause for concern. Going forward, there may be opportunities for Government and Parliament to review priorities for the system in the light of changes in the commercial sector. The forthcoming Charter Review will be the first of those opportunities, giving an opportunity to renew the BBC priorities within this changing market.