



Public Service Content in a Connected Society

Ofcom's third review of public service broadcasting

Consultation

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About this document

Ofcom is currently carrying out its third review of public service broadcasting (PSB), looking at the period from 2008 to 2013.

Ofcom is required to report on the delivery of public service content over this period, with a view to maintaining and strengthening the PSB system. In order to do so, we have examined changes in both the broadcasting and the wider communications sectors, and their potential effect on the current PSB system.

This document first sets out the wider context in which the PSB system operates. It then assesses the extent to which the system has delivered the purposes of PSB since 2008, and looks at the contribution of other media services such as non-PSB television, radio and online services. It also examines potential future challenges to the system and explores how the system might be maintained and strengthened.

Separately, Ofcom has new duties, introduced by the Digital Economy Act 2010, to conduct a review of the extent to which Channel 4 Corporation has delivered its broader duties. This document includes a summary of our initial findings in this area: a full report is published separately for consultation alongside this review.

This consultation document seeks views on the initial findings in our review of PSB and contains details of ways for stakeholders to respond with their views. A final statement will follow in summer 2015.

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Section 1

Executive summary

Introduction

- 1.1 This is Ofcom's third review of public service broadcasting (PSB) in the UK. It takes place at an important time as our media markets rapidly evolve in response to the development of the internet, which is changing every aspect of our daily lives.
- 1.2 We are required by Parliament to undertake these reviews periodically with a view to establishing the extent to which the PSB television channels have fulfilled the purposes of public service broadcasting, as defined by the Communications Act 2003. We are also required to report with a view to maintaining and strengthening public service broadcasting in the future.
- 1.3 Our primary responsibility is to review the delivery of programmes by the public service broadcasting system. The PSB system is underpinned by a series of legislative and regulatory interventions which are contingent on the continued support of Parliament to secure the economic, social, cultural and citizen benefits derived from the PSB system. These interventions provide benefits (such as EPG prominence and access to spectrum) to certain television channels. In return, these channels make available, universally and free-to-view, certain types of programming that Parliament has determined are in the public interest (for example, original UK-made programmes, news and current affairs programmes).
- 1.4 A central function of the PSB system is ensuring the delivery of high quality, impartial news at UK-wide, nations and regional levels. Broadcast news continues to play a critical role in ensuring a plurality of news sources in the UK, to inform and support our national debates.
- 1.5 The PSB institutions (the PSBs) which deliver the PSB channels¹ are currently the BBC, Channel 4 Corporation (C4C), ITV plc, STV Group plc, UTV Media plc, S4C and Channel 5. Each channel operates under a different remit, delivered by institutions with different ownership models and funding structures. For example, while all of the BBC's television channels are PSB, the same is not true for C4C, ITV plc and Channel 5.
- 1.6 It would not be possible to fully review the public service broadcasting system without considering the role and development of the wider market. Accordingly, we also consider the role of multichannel television, the commercial PSB portfolio channels (e.g. E4 and ITV2) and non-broadcast content in delivering public service outcomes. These areas are increasingly important as multichannel television in particular gives the UK a strong mixed ecology in broadcasting. In addition, many services online increasingly provide content that meets many of the public service objectives.
- 1.7 The public service broadcasting system in the UK also helps to support investment in the UK creative economy. This includes direct investment in programmes and their distribution and indirect investment through partnerships with cultural institutions. There have been a number of notable creative partnerships between the PSBs and the wider cultural sector, such as that between the BBC and the Royal Opera House,

¹ The PSB channels are: BBC One, BBC Two, BBC Three, BBC Four, BBC News, CBBC, CBeebies, BBC Parliament, BBC HD services, ITV, STV, UTV, Channel 4, Five, S4C, BBC Alba

as well as programme collaborations such as The History of the World in 100 Objects. Such approaches allow the PSBs to maximise their delivery through strategic partnerships. This consultation sets out our initial thoughts and seeks further views on how the PSBs support the wider creative economy.

This review takes place against the backdrop of rapid evolution of our media markets, shaped by the growth of the internet

- 1.8 The UK media and communications industry has undergone radical change since 2008, driven by the completion of the switch from analogue to digital broadcasting, the rise of broadband internet as a medium for consuming television and the rapid take-up of connected and mobile devices. As connectivity has improved, the internet has become increasingly central to people's lives, including in how they select and view TV content.
- 1.9 This has led to a wide range of new services and platforms being launched, such as the BBC iPlayer, BuzzFeed and Now TV, giving audiences a much greater choice of what they watch and when and where they watch it.
- 1.10 The internet has also helped drive the rapid globalisation of media markets. In turn, we have seen large foreign players such as Netflix and Amazon enter the UK market. We are also increasingly seeing many UK media companies, including Channel 5 and All3media, acquired by global companies such as Viacom, Discovery and Liberty Global.
- 1.11 The opportunities provided by the move from analogue to digital broadcasting have led to a growth in spend on new UK content coming from the multichannel sector. While the PSBs still account for the vast majority of investment in new programming, the multichannel sector is playing a growing role, albeit from a low base. Non-PSB channels (which include the commercial PSBs' portfolio channels) now account for around 15% of the value of all UK non-sport first-run original programmes, as well as making a vitally important contribution to sports programming investment.
- 1.12 In addition, we have seen significant acquisitions and consolidation in the UK production sector. Today, seven of the biggest twelve UK independent production companies are vertically integrated with broadcaster owning companies that have significant global scale. In addition, the UK independent production sector has grown by 3.4%² on average each year since 2009, generating £2.8bn in revenue in 2013, largely as a result of increasing overseas revenues.

Audience needs and behaviours are changing

- 1.13 Audiences are increasingly diverse, with changing needs and behaviours. Despite this, patterns of TV consumption have changed much more slowly than expected – most viewing continues to be to live/linear channels, and the PSB channels still account for over half of all viewing.
- 1.14 Viewers still value the PSB purposes highly and support the PSB characteristics. However, our research shows that in a world of increasing choice, the PSBs are losing some of their distinctiveness. This is particularly true among younger and tech-savvy consumers, who no longer appear to distinguish between PSB and non-PSB channels. They believe that a wide range of organisations are producing content

² Source: Oliver & Ohlbaum Associates PACT Census (data in real terms at 2013 prices)

delivering the PSB purposes and characteristics. Rather than PSB or non-PSB content they distinguish between “good” and “bad” content.

- 1.15 Additionally, for younger people in particular, the PSB portfolio channels, which are not legally classified as PSB channels, are viewed as equally important as the main channels. For some, the ability to access content whenever, wherever and on every device is increasingly an expectation rather than a desire.
- 1.16 The generation gap between younger and older audiences appears to be getting wider, with significant differences in opinion, attitude and habits towards PSB and television more generally. While younger audiences have always watched less television than older audiences, our audience research suggests that the connected generation are watching increasingly less television, and that they may be taking these habits with them as they age.
- 1.17 People continue to want to see a combination of their favourite long-running programmes (such as the soaps and flagship entertainment shows) and original and innovative programming. One of the benefits of the PSB system is that it enables and encourages the delivery of innovative and creative programming. This is particularly the case for the BBC, which can take risks as it has guaranteed income from the licence fee, and Channel 4, which has a specific requirement to innovate, experiment and be creative.
- 1.18 Our audience research suggests that, when thinking about the balance of programming, the number of people wanting to see more original and innovative content has risen sharply in recent years. There appears to be an emerging concern among audiences about the levels of original and innovative content being produced relative to more tried and tested programmes and formats. This suggests that people feel that the PSBs are duplicating successful programme ideas and formats, potentially at the expense of more original, innovative and challenging programming.
- 1.19 The popularity of the internet as a source for all types of news has also increased; the proportion of the adult population who claim to use the internet for ‘news about the world’ and ‘news about the UK’ has nearly trebled since our last review. Younger people are three times more likely than older people to get their news online.
- 1.20 We have also conducted initial analysis across four further demographic sections: ethnicity, disability, gender and socio-economic group. Our initial analysis does not suggest fundamental issues with the PSB system’s current performance, but it does pose some questions which merit further exploration in the second phase of our work.

The PSB system remains strong, but there have been declines in programme spend, output and viewing

- 1.21 Our report uses a series of metrics to measure the performance of the PSB system. While none of these metrics individually are a perfect measure of the delivery of PSB goals, taken together they do allow us to make a judgement on the extent to which this system is delivering the purposes and characteristics.
- 1.22 The key findings of this report in relation to the performance of the PSB system are:
 - 1.22.1 **Sector revenues:** the licence fee has declined in real terms but other sector revenues, such as from advertising, have recovered well from the

recession and continue to grow, at least in nominal terms. Online revenues are also growing quickly.

- 1.22.2 **Output:** The overall amount of new UK programming remains high in absolute terms. While there has been a fall of 5% overall since 2008, the number of new hours in peak time actually increased, with programming outside of peak hours falling.
- 1.22.3 **Spend:** The PSBs continue to account for the bulk of investment in first-run non-sport UK content; around 85% in 2013. But there has been a substantial fall in spend on all programmes, and investment in new first-run UK originations is substantially down, with a 17.3% real-terms decline in programme spend by the PSBs. Spend on acquired programmes and repeats has also fallen. However, as we note below, audience satisfaction remains high and the hours of new programmes in peak-time have increased, so there is a question as to whether the decline in spend we have seen to date has affected on-screen range and quality. Non-PSB channels (the commercial PSB portfolio channels and multichannels combined) have increased their investment in non-sport first-run originations by 43% since 2008, accounting for 15% of all non-sport investment in first run programmes in 2013, up from 9% in 2008.
- 1.22.4 **Viewing:** Overall viewing of PSB channels has fallen, although from a very high base. Taken together, the PSB channels continue to account for over half of all UK television viewing. In 2013, the share of viewing to the commercial PSB portfolio channels was 15.8%, up from 10.2% in 2008. Therefore, the majority of the loss of share experienced by PSB channels appears to have been due to increased viewing to PSB portfolio channels.
- 1.22.5 **Overall audience satisfaction:** Overall audience satisfaction with the PSB system remains high, and people believe that the PSB system broadly continues to deliver the purposes and characteristics.
- 1.22.6 **News output:** Spend on national and international news by the PSB channels was £224m in 2013, down 11% from £253m in 2008. Output was steady despite the decline in funding, with a marginal increase in hours overall and a 2% increase in first-run output. Consumption hours of national and international news has remained broadly steady. However, while BBC One's share of all news has grown, ITV and Channel 4's news shares have fallen substantially.

Declining spend has not affected overall audience satisfaction, although our analysis suggests some areas of concern

- 1.23 Declining spend and output has not affected audience satisfaction, suggesting that the PSBs continue to provide programming that is highly valued by audiences. Increased satisfaction may also be due, in part, to the compensatory effect of other factors. High-definition picture quality, the ability to easily record and time-shift viewing using a DVR, and the widespread availability of on-demand services on a range of devices all allow viewers to enjoy higher-quality television in an increasingly convenient and flexible manner.
- 1.24 Other factors, such as increasing third party funding and increased efficiency (and the way we have adjusted for inflation), may have partially offset the falling levels of direct broadcaster investment in new UK programmes.

- 1.25 While the overall picture is positive, analysis of the historical data identifies a number of areas of concern, which require further examination. In particular:
- 1.25.1 **Investment in content:** The substantial fall in spend on all programmes and investment in new first-run UK originations, with a 17.3% real-terms decline in programme spend by the PSBs, would be a significant concern if that trend were to continue and result in a noticeable reduction in the volume, range or quality of output.
 - 1.25.2 **Reflecting different cultures:** There is a question about the extent to which the PSBs fully meet the needs of a range of audiences. Our PSB tracker shows that only 46% of people across the UK are satisfied that the PSB system delivers programmes that show different kinds of cultures within the UK.
 - 1.25.3 **Genre delivery:** While there remains a wide range and diversity of programmes in all genres, there has been a significant decline in the delivery of certain key genres. For example real-terms spend on first run programming by the PSBs on drama is down by 34%, current affairs is down 17%, children's is down by 15% and nations and regions programming is down 26%. In contrast, spend on first run entertainment rose by 6%.

There are some differences in Scotland, Wales and Northern Ireland and those markets have different characteristics to the UK as a whole

- 1.26 The characteristics of the media markets in each of the nations are very different. In the context of the devolution debates, understanding the differences between each of the nations is very important and this report sets out those differences in detail.
- 1.27 Our audience research suggests that older audiences in the nations feel that more could be done to ensure programmes reflect their local and national identities. This is contrasted by younger adults in the nations who say it is more important for PSB channels to represent diversity at the level of different groups and communities present throughout the UK, such as specific ethnicities, religions, socio-economic groups and sexual orientations. As the constitutional situation in the UK evolves so audience needs may also change over time.
- 1.28 In terms of output, since 2008, the volume of UK-wide network production made in the nations has been rising. Production in London has fallen: in 2013, for the first time, less than half (49.4%) of first-run network programme hours were produced within the M25. However, investment in, and hours of output of, nations and regions' news has fallen since 2008, although audience satisfaction has increased.

Projecting forward the current market trends suggests an evolutionary path for PSB

- 1.29 For the purposes of this review, we have projected forward the current trends, supplemented by our own analysis, to understand the evolutionary path of market developments, assuming no major structural changes. This approach suggests that we may see steady evolution. Other assumptions are; that the BBC continues to be the cornerstone of public service broadcasting, funded in order to provide output at a similar level to today, and that the commercially-funded PSB channels, ITV, STV,

UTV, Channel 4 and Channel 5, continue to operate under their licences which have just been renewed for ten years.

- 1.30 This market development path suggests that viewing to PSB (and television more broadly) will remain relatively high and that as a result TV advertising may remain at broadly comparable levels to those we see today.
- 1.31 Under such a scenario, the public service broadcasting system should be able to continue to provide the same or similar levels of output as today. As such, the positive audience satisfaction with the PSBs that we have seen since 2008 might be maintained. This will require careful monitoring, because any continuation of the decline in real-terms investment in first-run original UK programmes may increasingly be noticed by audiences, particularly if such a decline results in a reduction in the range or quality of programmes provided overall, or in more economically vulnerable genres.
- 1.32 Such steady evolution would seem to limit the extent to which the PSB system could improve on current levels of delivery, or fill any of the gaps that have emerged over the last few years, without the system being strengthened to support it.
- 1.33 Even if we do see only steady evolution, the changes in the market that we are already observing, such as the incremental increase in competition for viewers and the impact of technological developments such as DVRs, may already be changing the incentives for different organisations to invest in key PSB genres.
- 1.34 A further challenge for the public service broadcasters is the increasing cost of distribution in an always-on, online and mobile environment. As audiences increasingly demand their services on multiple platforms, on demand, and on mobile devices, there is a danger that these distribution costs can be met only through reducing investment in content. This is potentially a significant future challenge for the PSB system. Clearly, if demands from new technologies grow, this challenge becomes even greater. This is balanced by the fact that online provision is also creating new revenue opportunities for the commercial PSBs in particular.

There are a number of market developments which, either individually or in combination, could lead to more transformational changes and challenges

- 1.35 However, there are a number of market developments, either individually or in combination, which could lead to more transformational change. This might in turn affect the ability of the PSB system to deliver the outcomes that Parliament intended. Of course, some of these scenarios might also present new opportunities for the PSBs.
- 1.36 The key alternative risk factors that we have identified, which could lead to more transformational change, are:
 - 1.36.1 **A faster move to on-demand viewing.** A faster shift away from live/linear television viewing to on-demand viewing could lessen the reach and impact of the PSBs, if they lose share of overall viewing as a result. Alternatively if the PSBs maintain their share through on-demand viewing, a faster shift could actually help the PSBs to better meet audience needs, albeit on non-PSB services, through better targeting, personalisation, greater convenience and deeper engagement. Similarly, better targeting and

measurement of advertising around on-demand programmes might help improve advertising yields as much as it threatens commercial television business models.

- 1.36.2 **More new entrants to the UK market.** New entrants to the TV market, such as ‘over-the-top’ online-only video services, might increasingly reduce traditional broadcaster viewing levels and revenues. In an increasingly global media market place, the predominantly UK-only PSB institutions may increasingly lack the scale required to compete for viewers and revenues. Alternatively, it is possible that new entrants may help stimulate competition, contribute to the PSB purposes and characteristics and encourage the PSBs to compete through increased quality of programmes and greater investment.
- 1.36.3 **Faster fragmentation of audiences.** Demographic changes in the UK, particularly the differences between younger and older audiences, are potentially challenging for the PSB system. A failure to reflect adequately a more diverse society may result in falling viewing and satisfaction. At the same time, increasing use of on-demand and online services may allow distinct audience groups to be better targeted with public service content that more closely meets their needs.
- 1.36.4 **Threats to key sources of funding.** There are two key sources of funding for the public service broadcasting system: the BBC licence fee and television advertising. Any significant change to these two key sources of income could have an impact on the PSB system, if broadcasters are unable to maintain the volume, range or quality of output through further efficiencies or by creating new revenue streams.
- 1.36.5 **Significant cost inflation.** Any significant inflation in the underlying costs of producing or distributing television programmes could lead to a reduction in the range, volume and/or quality of PSB programmes, if funding levels do not keep pace. If funding levels keep up with cost inflation, then the result might, of course, be better quality programmes.
- 1.37 If any of the risks set out above do materialise, or indeed if any other changes negatively impact on the PSB system, it may become harder to guarantee that PSB services and specific PSB genres are well funded, widely available and easily discoverable. This could lead to a significant reduction in programming that examines and reflects UK society and culture.

Options for maintaining and strengthening the system

- 1.38 There appears to be little headroom for PSB investment growth and, given the potential for the risks outlined above to impact negatively on the PSB system, it is important to consider what could be done should any of these materialise. We have identified four key areas for further consideration in this review:
 - 1.38.1 **Modernising the availability and discoverability rules:** if Parliament continues to want to ensure that PSB content achieves universal reach and impact in a connected environment, it may be necessary to reform the current regulations on prominence and carriage, and to define what is meant by universality in a more complicated connected environment. Part of such analysis will be to understand the effect on distribution costs and

how that affects content investment. Such a consideration would also be important context in the current 'retransmission' debate.

- 1.38.2 **Providing greater institutional flexibility:** As the distinction between PSB channels and other services diminishes, the PSB institutions may need greater flexibility in choosing how they deliver public service content, including online, on demand and on mobile. Such an approach could be applied to all PSB institutions or just a subset, recognising the different roles that different PSBs play in the overall system.
- 1.38.3 **Rebalancing the relationship between PSBs and the production sector:** In many respects the relationship between the PSBs and the production sector are complementary. But given the changes to the structure of the production sector, it is appropriate to ask whether the regulatory interventions that influence the relations between the PSBs and the independent production sector need to be changed. It is likely that any change will need to be tested against a number of questions including: will it increase investment in UK content, how might it improve the delivery of the purposes and characteristics and can it be achieved without undermining the current success of the UK independent production sector?
- 1.38.4 **Considering additional sources of funding:** The risks we have identified may not be fully offset by the options above. In this event, in order to maintain and strengthen the delivery of the purposes and characteristics, it may be desirable to consider other options for increasing the direct funding available to PSBs. This could include options currently under discussion, such as retransmission fees, as well as areas that Ofcom and the Government have considered in the past, such as the possibility of relaxing television advertising rules, considering new tax breaks to encourage investment, industry levies and copyright regimes or establishing new quotas to secure provision of any at risk genres.

Next steps

- 1.39 We are now seeking views on these initial findings. This consultation will run until 26 February 2015. We will consider the responses received and publish a final statement in summer 2015.

Section 2

The context for Ofcom's review

Key findings

Public service broadcasting is delivered by a **plurality of institutions** with different remits, ownership models and funding structures. The system is based on a compact which balances **obligations and benefits**.

As well as delivering the purposes and characteristics of PSB, **the PSBs also help support the broader UK creative economy** directly, such as through investment in programmes and distribution, and indirectly, through a range of innovative partnerships with creative institutions.

The UK media and communications industry has undergone **radical change** since 2008, driven by digital switchover and the growth of broadband, connected devices and DVRs. New services and platforms have launched, such as the BBC iPlayer, Netflix and Now TV, giving audiences a much greater choice of what they watch, and when and where they watch it.

The majority of **growth in spend on new UK television programmes has come from non-PSB channels (which includes the commercial portfolio channels of the PSB institutions and multichannel services)**, although this is still dwarfed by the overall programming spend of the PSBs (other than for sport programmes). The UK independent production sector grew by 3.4% per annum (in real terms at 2013 prices), generating £2.8bn in 2013.

The **rapid globalisation** of media markets has seen large foreign players, such as Netflix and Amazon, enter the UK market and many UK media companies, including Channel 5 and All3media, acquired by global companies.

A new report, commissioned by Ofcom from Enders Analysis for this review, shows the extent that **new services on the internet** have become central to people's lives. Services such as Vice Media, BuzzFeed, and those provided by public institutions such as the Tate, the National Theatre, the National Library of Scotland and Glow are all contributing to the delivery of the public service objectives.

Audiences are **increasingly diverse**, with changing needs and behaviours. But despite this, patterns of TV consumption have changed much more slowly than expected – most viewing continues to be to live/linear channels, and the PSBs still account for over half of all viewing.

Viewers still value the **PSB purposes and characteristics** highly but a new piece of research for Ofcom by Ipsos MORI suggests that people find it increasingly difficult to understand the concept of the PSB system. PSB portfolio channels are viewed as equally important as the main channels and the ability to access content whenever, wherever and on every device is, for many, increasingly an expectation rather than a desire.

A generation gap is emerging between younger and older audiences, with significant differences in opinion, attitudes and habits towards PSB and television more generally. People are concerned that **older or more vulnerable people** might lose access to content because it is increasingly available only online.

Our audience research suggests older audiences in **Scotland, Wales and Northern Ireland** feel that more could be done to ensure that programmes reflect their local and national

identities. But the same research found that younger adults in the nations feel it is more important for PSB channels to represent diversity at the level of communities present throughout the UK, such as specific ethnicities, religions, socio-economic groups or sexual orientations.

An overview of the public service broadcasting system

- 2.1 Public service broadcasting is delivered by a plurality of institutions with different remits, ownership models and funding structures.
- 2.2 The system is based on what might be described as a 'compact'. In return for certain benefits, such as access to gifted or reserved spectrum and EPG prominence (and in the case of the BBC and S4C, public funding via the licence fee) broadcasters are required to provide a wide range of programmes, and minimum amounts of certain types of programming including UK originations, news and current affairs.
- 2.3 Currently the PSB services are: all of the BBC's television channels, ITV, STV, UTV, Channel 4, S4C, and Channel 5. ITV, Channel 4 and Channel 5 also operate commercial channels, such as E4 and ITV2, which are not designated PSB channels (although in the case of Channel 4 are subject to wider media content duties under the Digital Economy Act 2010). We refer to these as the commercial PSB portfolio channels.
- 2.4 The Communications Act 2003 (the Act) sets out the purposes and objectives of public service broadcasting.³ Based on these statutory purposes and objectives, in its first PSB Review Ofcom developed a set of PSB purposes and characteristics to provide a detailed description of public service broadcasting. The PSB purposes we developed are:

- **Purpose 1: Informing our understanding of the world** - To inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas
- **Purpose 2: Stimulating knowledge and learning** - To stimulate our interest in and knowledge of arts, science, history and other topics, through content that is accessible and can encourage informal learning
- **Purpose 3: Reflecting UK cultural identity** - To reflect and strengthen our cultural identity through original programming at UK, national and regional level; on occasion, bringing audiences together for shared experiences
- **Purpose 4: Representing diversity and alternative viewpoints** - To make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere

- 2.5 The characteristics of PSB programmes are:

- **High quality** – well-funded and well produced
- **Original** – new UK content rather than repeats or foreign acquisitions
- **Innovative** – breaking new ideas or re-inventing, rather than copying old ones
- **Challenging** – making viewers think and engaging

³ See Annexes 1 and 2 of this report

- **Widely available** – delivered on channels that have a high reach and impact
- **Trustworthy** – audience should trust PSB programmes, especially news programmes⁴

2.6 Ofcom is required to carry out periodic reviews of how well the system is performing. We assess the extent to which the PSB system has delivered these purposes and characteristics, and the statutory purposes and objectives, in Section 3.

The PSB system plays a role in supporting culture in the UK more broadly

- 2.7 As well as delivering the PSB purposes and characteristics, the PSB system also plays a role in supporting the culture in the UK more broadly.
- 2.8 Direct contributions include employing and supporting creative talent from other creative disciplines, and sharing technical expertise and technical platforms. Indirect contributions include bringing audiences of greater scale to topics they might otherwise not be drawn to, and encouraging audiences to participate in creative sector activities. Stakeholders have told us that the PSBs, particularly the BBC and Channel 4, take risks on less obviously commercial subject matter, often focusing on topics related to the wider creative and craft sectors, for example baking, in *The Great British Bake Off* (BBC), and architecture and home renovation, in *Grand Designs* (Channel 4).
- 2.9 This is an area we intend to explore further in the next phase of our review. Our initial view is that there appear to be a number of specific ways in which the PSB system may be playing a role, including:
- supporting the **broader film industry**;
 - providing a reliable pipeline for the **independent production sector**; and
 - working in partnership with **cultural institutions**.

Broader film industry

- 2.10 The PSB system supports the film industry both directly, through funding of films, and indirectly, through the expertise and talent they foster.
- 2.11 BBC Films co-produces around eight films a year and has been involved in some of the most successful British releases of recent years, including *The Other Boleyn Girl* (2008), *An Education* (2009), *Made in Dagenham* (2010), *Salmon Fishing in the Yemen* (2011) and *Philomena* (2013).
- 2.12 Last year, C4C worked with 81 film production companies and gave twelve Film4 productions a UK theatrical release. Titles released across the review period include *The Lovely Bones* (2010), *The Inbetweeners Movie* (2011), *The Iron Lady* (2012), *The Stone Roses: Made of Stone* (2013), and more recently *12 Years a Slave* (2014).

⁴ Although trust was not outlined as a PSB characteristic in Ofcom's PSB Review 2004, it is considered alongside the PSB characteristics throughout this review. It was added to the PSB tracker in 2007 to monitor the extent to which people trust the main PSB channels as the digital TV environment expands.

Independent production sector

- 2.13 The PSBs continue to play a vital role in the success of the UK independent sector. They account for over 90% of all UK investment in original programming each year, and over 80% of the total external spend (i.e. spend on production with non-broadcaster producers).
- 2.14 We discuss the success of the independent production sector later in this consultation. However, in summary, since 2003 the UK has become one of the world's leading providers of reality and factual formats and most successful programme exporters; this has been underpinned by the regulation around terms of trade between PSBs and independent producers.

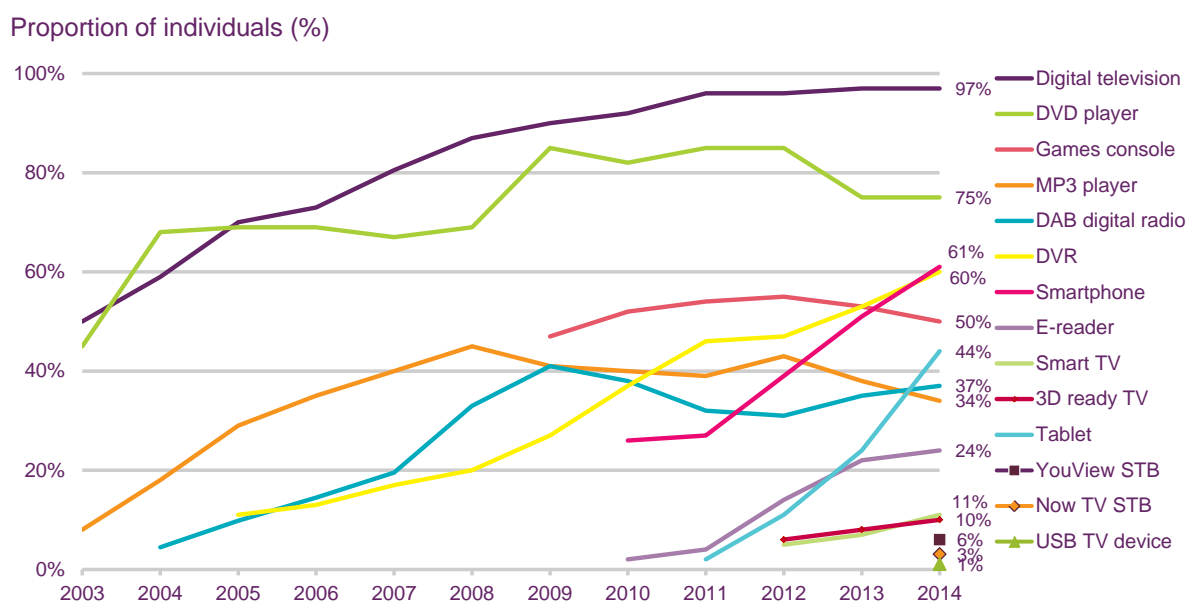
Supporting cultural institutions

- 2.15 The system's impact appears to be felt particularly in the following creative industries:
 - 2.15.1 Music: through direct investment in musical projects (e.g. BBC Orchestras) and providing exposure for less well-known composers and artists;
 - 2.15.2 Theatre: TV, particularly through drama productions, provides high value employment for the writers, directors and actors on whom theatre depends and enables them to remain simultaneously active in the profession; and
 - 2.15.3 Galleries and Museums: larger institutions benefit from ongoing relationships and the development of joint projects through the transfer of skills and exposure to a wider audience brought by a national broadcaster; at a local level, PSB archive material is readily made available.
- 2.16 As well as benefiting certain industries, the PSBs also work in partnership with specific creative sector organisations, such as the Arts Council, the British Museum, and the Tate. Such partnerships can benefit both parties by enabling fresh thinking and the development of new ideas, and share some of the skills and experience of the broadcaster, such as guaranteeing video production expertise of the highest quality, and offering compelling and credible creative brands which attract creative talent and audiences.

There has been a high degree of structural change in the communications industries

People have access to a greater range of platforms and devices than ever before, increasingly internet-connected as standard

- 2.17 When Ofcom began its second review of Public Service Broadcasting the world was a very different place. Many people still relied on analogue television, the availability and take-up of the internet was lower, and internet connectivity as standard was included in only a limited number of devices and services.
- 2.18 We have since seen rapid technical innovation and a marked increase in the range of new platforms, devices and services available to people, all increasingly internet-connected as standard.

Figure 1: Household take-up of digital communications/ AV devices: 2003-2014

Source: Ofcom technology tracker (data from Q1 of each year)

Base: All adults aged 16+ (2014 n=3740)

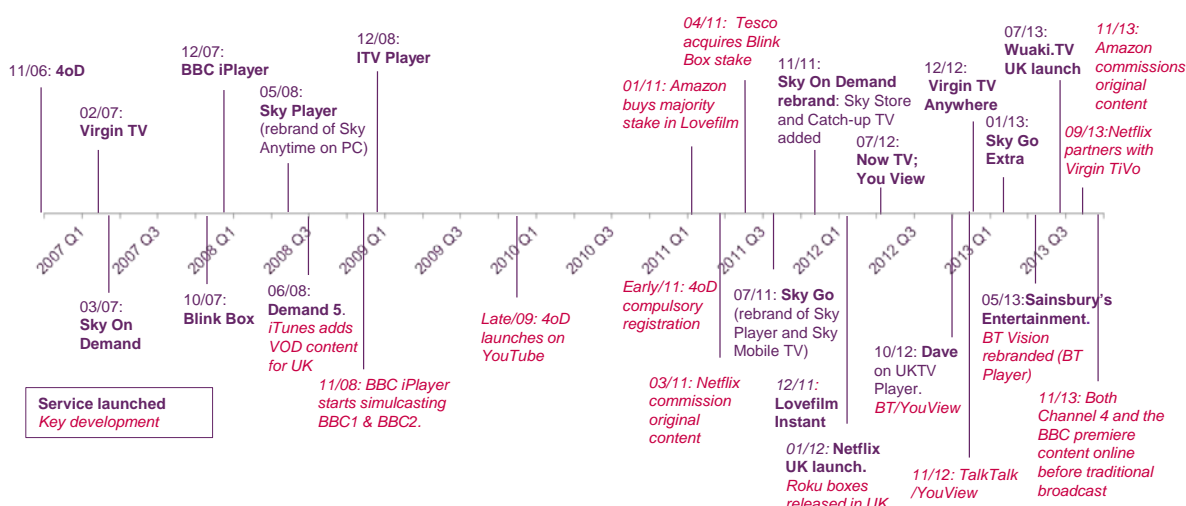
Note: question wording for DVD Player and DVR was changed in Q1 2009 so data is not directly comparable with previous years

- 2.19 In 2008, 87% of households had access to a range of digital television services rather than receiving only the five PSB analogue channels.
- 2.20 In 2014, all television platforms are digital, delivering multichannel television to anyone who wants it. Freeview now offers over 70 channels, while cable and satellite offer many hundreds. Since our last review, YouView has launched, with variants available from retail outlets or through BT and TalkTalk. As part of this, the PSBs have increased their role as platform operators through their involvement not only in Freeview but also in FreeSat and YouView. Digital video recorders (DVRs) are increasingly included as standard, while larger flat-screen televisions have helped drive the take-up of high definition (HD) TV.
- 2.21 Broadband penetration now stands at 80% of all households, and over a quarter of all fixed broadband connections are now superfast. 4G mobile services were launched in 2012 and are now available from all four national mobile network operators (MNOs), allowing faster access to internet-delivered content on the move.
- 2.22 As a result of this improvement in connectivity, new devices such as smartphones, tablets, smart TVs and broadband-connected set-top boxes have all achieved high levels of take-up.
- 2.23 Although tablets were available before, they became mainstream only with the launch of the iPad in 2010. Household take-up of tablet computers has grown rapidly since then, and has almost doubled over the past year. Smartphones, such as the Blackberry, started to become popular in the mid-2000s among business users, but it was the launch of the iPhone in 2007 which started to transform the market. Since then, take-up of smartphones has increased rapidly, with six in ten adults now claiming to own one (61%), up from 51% in 2013.

Content services available have developed in tandem

- 2.24 The changes in availability and take-up of platforms, devices and connectivity now support a wider range of content services than ever before.
- 2.25 On television, PSB portfolio channels⁵ have gained market share as more narrowly-focused packages of programmes have been broadcast on them. ITV recently launched two new channels (ITV Encore and ITV Be) to enable more efficient targeting of its audience. Digital television switchover has freed up spectrum for local TV channels. Many services are already on air (in Belfast, Brighton, Bristol, Cardiff, Glasgow, Grimsby, Leeds, London, Newcastle, Nottingham, Norwich and Sheffield) with more to follow.
- 2.26 The mass-market adoption of broadband has been the catalyst for the emergence of free online catch-up services such as BBC iPlayer, ITV Player, 4oD and Demand 5. In 2008, video-on-demand (VoD) services such as these were in their infancy. Now the VoD players from the PSBs are widely used across many different platforms, alongside similar services from platform operators like Sky, and over-the-top (OTT) providers⁶ such as Netflix.

Figure 2: Selected video-on-demand service developments: 2007-2013



Source: Ofcom desk research

- 2.27 These services offer viewers a greater opportunity to view content, and allow broadcasters to schedule programmes in new ways, including online-first or online-only models. PSBs have also begun to provide additional content that supports scheduled programming; for example, play-along applications for live shows, and online content that is available at any time.

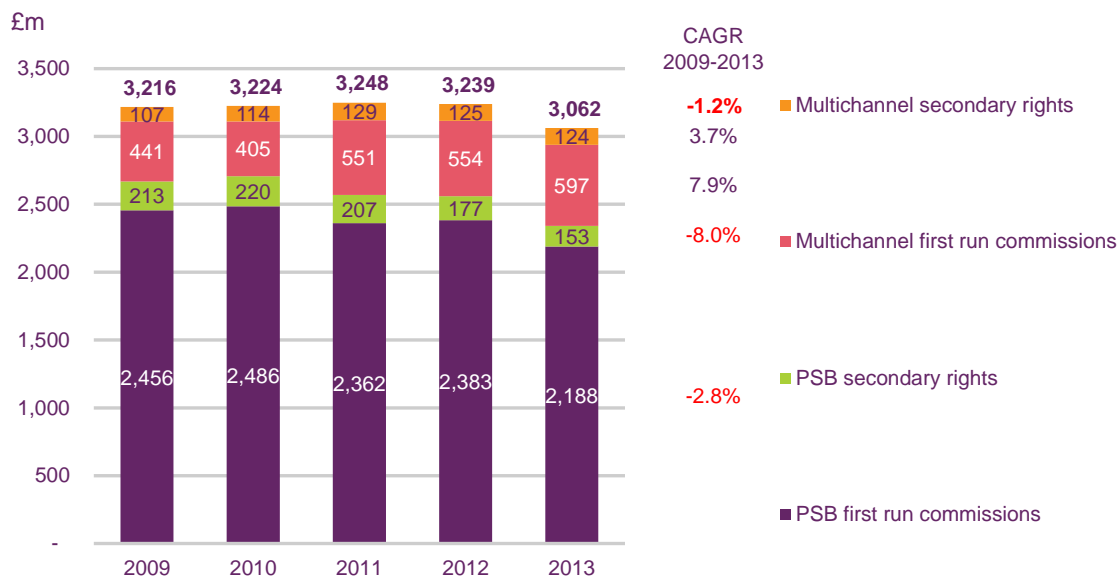
⁵ The channels operated by the PSBs but which are not designated as PSB channels: E4, More 4. Film 4, 4seven, 4Music, ITV2, ITV3, ITV4, ITV Encore, ITV Be, CITV, 5*, 5 USA and the timeshifted "+1" channels

⁶ In broadcasting, OTT providers are those who deliver content to consumers without the involvement of a traditional broadcasting platform, typically using over the internet to connected devices

The UK market for new programme commissions has experienced some challenging economic conditions over the past few years

2.28 Spending by broadcasters on all new UK TV content was broadly flat since 2009, before falling in 2013. The only growth in primary commissions during this period was from non-PSBs. First-run commissions from PSB channels have declined over this period in real terms.

Figure 3: Spend on UK content by main PSB networks and multichannel broadcasters (excluding multichannel sports rights spend): 2009-2013



Source: Ofcom broadcaster returns, COBA, Oliver & Ohlbaum Associates analysis

Notes: CAGR = compound annual growth rate; includes news and sport production but excludes sports rights; secondary rights apply to repeats of commissioned content only, not acquisitions; figures are expressed in 2013 prices.

Case study: New entrants are investing in TV-like content

Companies not normally associated with content production have entered the market. Energy drinks firm Red Bull has, in a short space of time, become one of the largest producers of sports content in the global market, particularly online, and earlier in 2014 secured carriage on the Sky TV platform with a view to launching a linear broadcast channel.

Netflix is another high-profile example. Netflix has widely advertised its original series *House of Cards*, one of the first times a TV-like series with a budget of tens of millions of dollars was not premiered on linear television. It has been widely reported to have launched its first UK commission.

Although its investment in new drama has had wide coverage, in reality its level of investment in new UK content remains small.

Estimates suggest that Netflix has around 3 million UK subscribers, with users skewing younger and more ABC1 (among the more commercially attractive demographics for advertisers), and is particularly popular in pay-TV homes. Although it is yet to publish viewing figures for its new content, it is unlikely to be achieving anywhere near the level of viewing delivered by traditional television services. More broadly, UK-made drama programmes remain more popular than US drama series with UK audiences, and attract higher audiences.

Beyond TV, the internet is increasingly central to people's lives

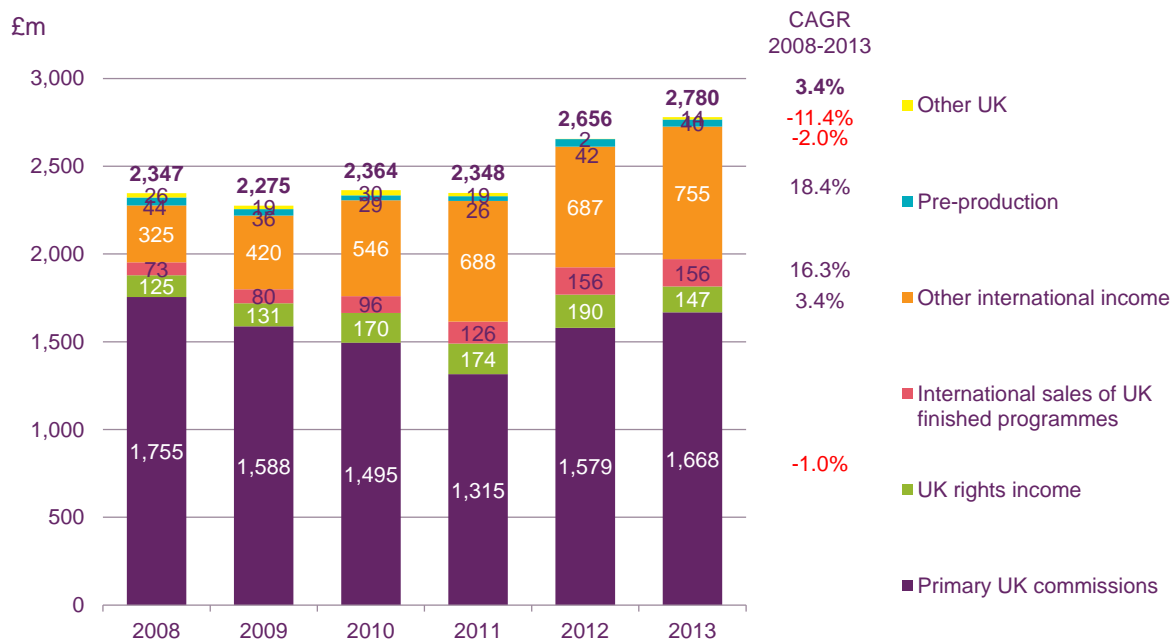
- 2.29 The internet plays a role in an ever-increasing number of areas of people's lives. In addition to the internet-delivered TV-like services outlined above, a report by Enders Analysis for Ofcom shows that online media services are providing a range of content that meets the public service objectives.⁷
- 2.30 Overall, there are now hundreds, if not thousands, of online media services contributing to the public service objectives, but most are used by relatively small audiences and virtually none have the reach and impact of the PSB system's TV channels. Providers include pure-play⁸ internet media businesses, broadcasters, traditional media, government, non-governmental organisations, and public and international institutions.
- 2.31 Notable examples, explored in more detail in Section 4, alongside more detailed findings from the Enders report, include Vice Media, BuzzFeed, and services provided by the Tate, the National Theatre, the National Library of Scotland and Glow.
- 2.32 New audio subscription services, such as Spotify, have also become popular, and more traditional radio stations are now available online, and on the move, via smartphone apps.

The independent production sector is growing

- 2.33 Overall, the UK independent production sector has grown by 3.4% on average each year (in real terms at 2013 prices) over the period 2009-2013, generating £2.8bn in revenue in 2013. International income has been the main source of growth for the sector. Although starting from a low base, international sales of finished UK programmes have grown by 16.3% CAGR over this period, while other international income has a CAGR of 18.4%.

⁷ See Annexes 1 and 2

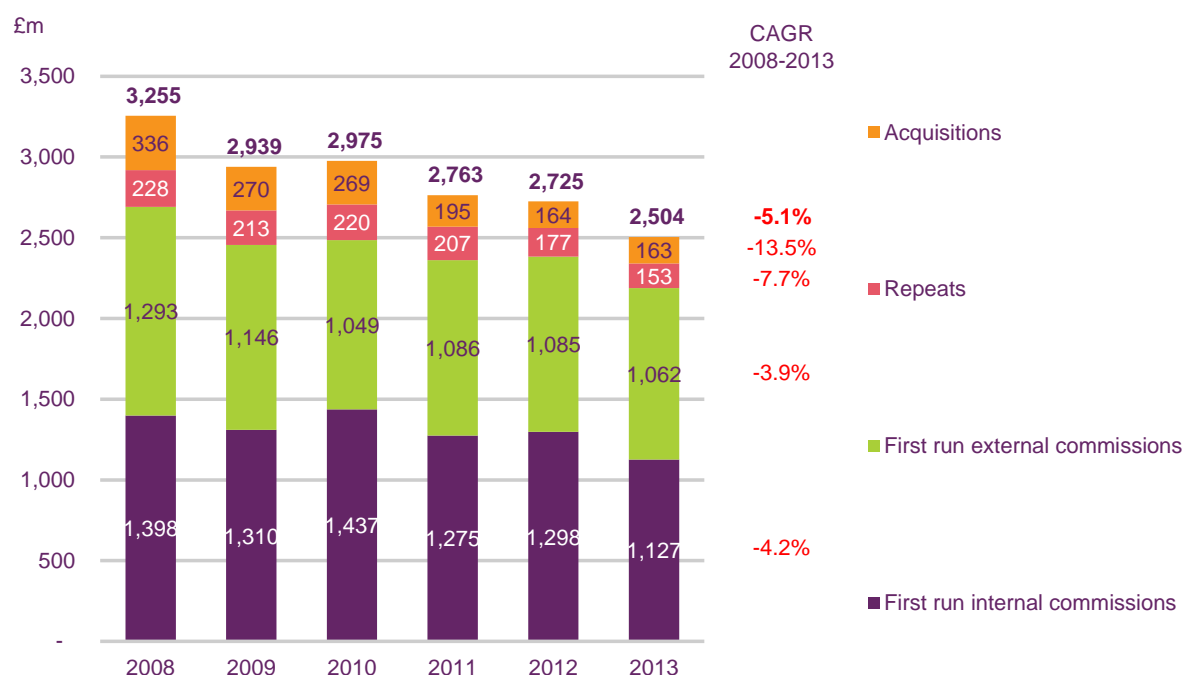
⁸ i.e. with a single business focus

Figure 4: Independent producer TV-related revenue: 2008-2013

Source: Pact census, Oliver & Ohlbaum Associates analysis

Notes: Other international income – revenue from companies' overseas operations and any primary commissions received from non-UK broadcasters; Int'l sales of UK finished programmes – sales of first run UK programming sold as finished product abroad; UK rights income – UK secondary sales, publishing, formats, DVD sales etc.; CAGR = compound annual growth rate; figures are expressed in 2013 prices.

- 2.34 But despite overall growth, the external production sector has not grown significantly as a proportion of all PSB spend on first-run commissions over the review period. The external sector accounted for 49% of investment in new first-run original programmes in 2013, compared to 48% in 2008. This performance represents a recovery over the past three years, given cuts in the proportion of all spending invested with external producers in 2009 and 2010, due to the recession.

Figure 5: Content spend by main PSB networks (including news and sport): 2008-2013

Source: Ofcom broadcaster returns, Oliver & Ohlbaum Associates analysis

Note: CAGR = compound annual growth rate; figures are expressed in 2013 prices.

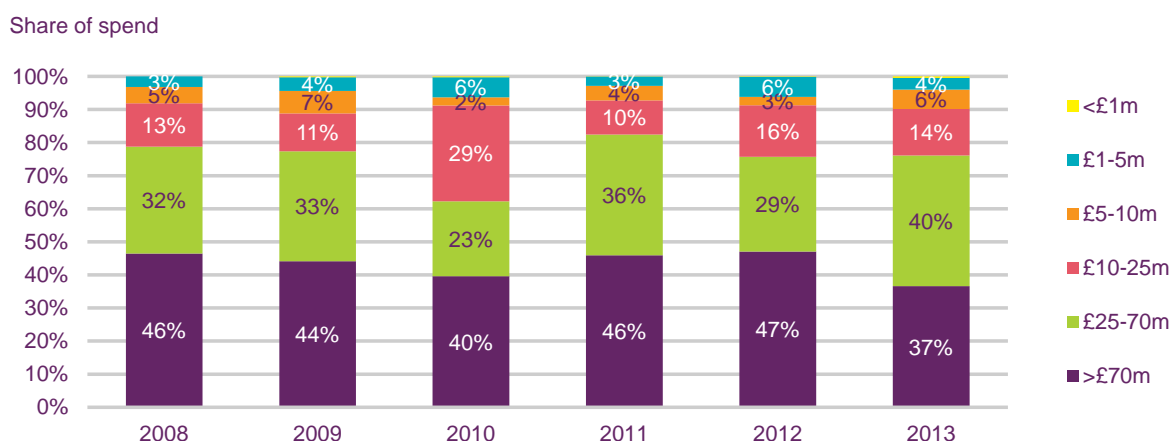
UK content businesses are attractive targets for global investment

- 2.35 There has been a significant shift in the scale and structure of the content production and distribution industries over the last ten years, culminating in a number of high-profile mergers and acquisitions. UK broadcasters appear to be attractive targets for foreign investment, with Viacom having acquired Channel 5, and ITV remaining the subject of media and analyst speculation.
- 2.36 Since 2008, the success of the super-indies has made them attractive for outside investment from both domestic and foreign sources. At the same time, broadcasters have sought to build stronger in-house production capabilities for both internal production and external sales. This has resulted in a trend towards the integration of content production and content distribution businesses, often within large global media companies. Recent examples include News Corp's acquisition of Shine in 2011 and All3Media's recent sale to Discovery and Liberty Global.

There appears to be little evidence that consolidation has led to fewer opportunities for smaller producers to win commissions

- 2.37 Despite the trend of consolidation and increasing concentration in the market, smaller independent producers have actually increased market share. While the largest independent producers' (>£70m annual turnover) share of all UK commissioning spend has declined since 2008, the mid-tier independents in the £25-70m turnover bracket have gained the most from a shift in spend, now accounting for 40% of the market.

Figure 6: Share of spend on UK externally-produced primary commissions, by turnover band of producer: 2008-2013

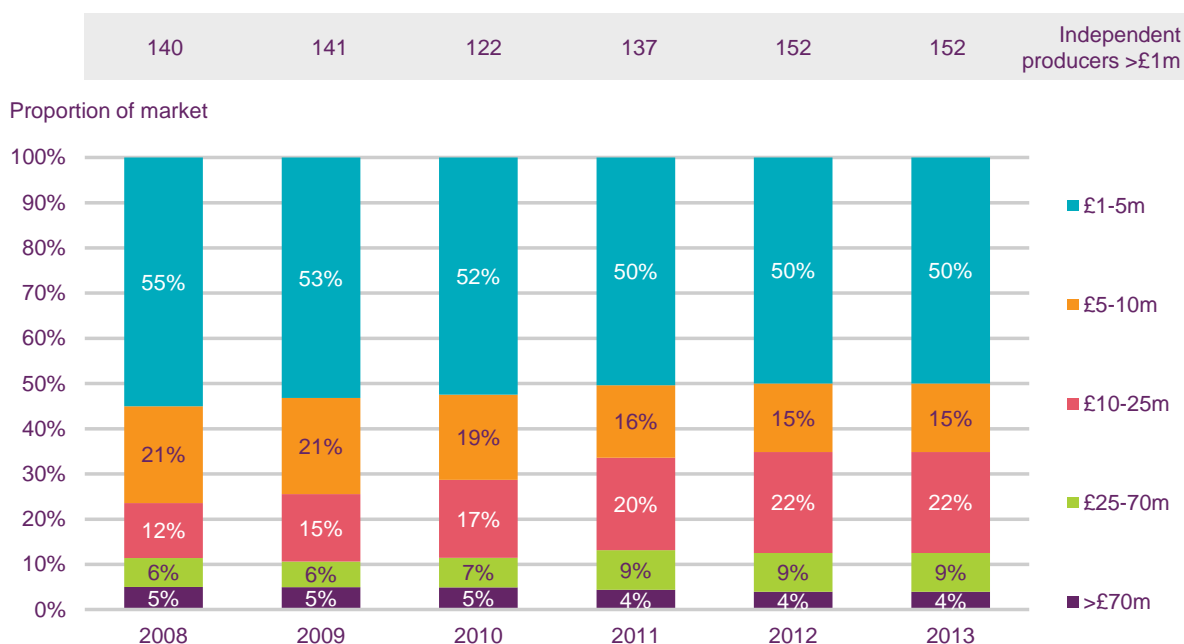


Source: Ofcom Communications Reports, BARB, Company reports, O&O / Pact Census, Oliver & Ohlbaum Associates analysis

Note: primary commissions expenditure data excludes all expenditure on news and sports programmes and rights but includes expenditure on all regional and nations and regions programmes

2.38 The number of small independent producers (annual revenue of <£1m) has also risen; in 2013 there were 152 such producers in the market, up from 140 in 2008.

Figure 7: Distribution of indie companies, by turnover band: 2008-2013



Source: Broadcast Magazine, Oliver & Ohlbaum Associates analysis

Note: where companies are multinational, figures include UK and international turnover for UK-based divisions only.

2.39 However, consolidation has, resulted in a number of large companies ceasing to qualify as independent producers for the purposes of the independent production quota and codes of practice. We explain this further later in this document.

- 2.40 For example, following their recent vertical integration via acquisition, All3Media and Endemol⁹ will gradually lose their qualifying status. Programmes 'inherit' independent status from their producer at the point of commission (provided, among other things, that they are made within two years of commission); therefore, as new commissions come through at the expense of returning series, this change will gradually take effect. The only remaining 'super-indies' whose new commissions will qualify as independent productions under the legislation are Tinopolis, Zodiak, Fremantle and IMG Sports Media.

We have also seen changes in audience needs and behaviours

Television audiences are increasingly diverse

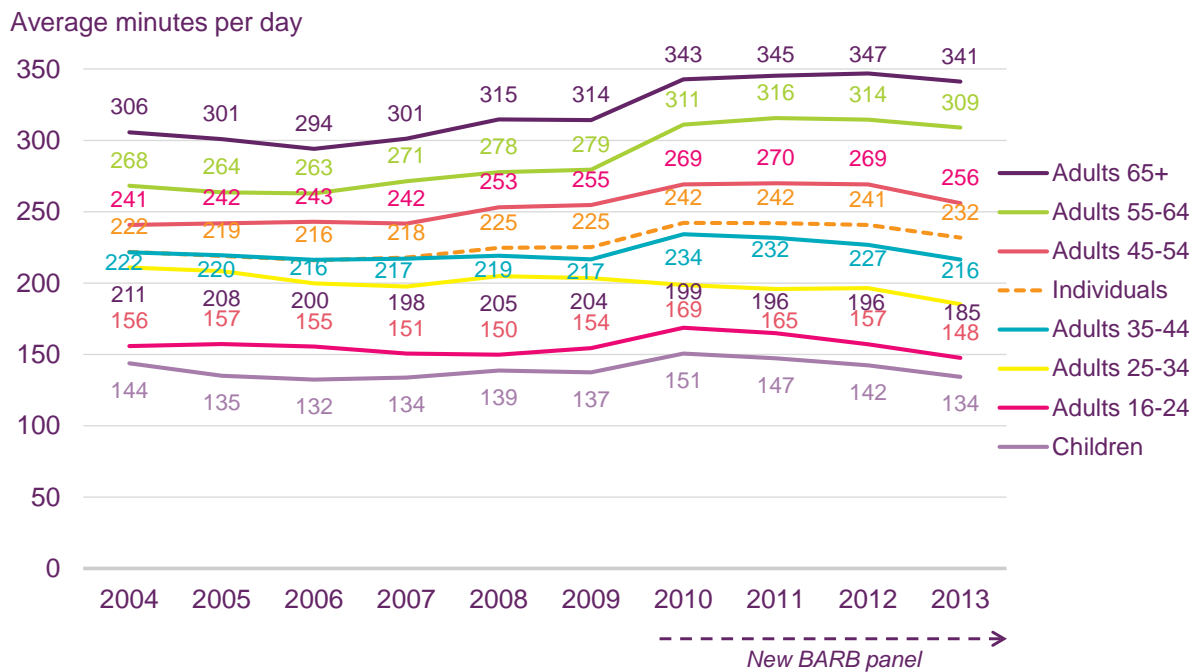
- 2.41 The distinctive identities of each of the UK's nations have come to the fore in recent years, with further constitutional change taking place (potentially also affecting the English regions) and an independence referendum in Scotland. Aside from diversity of geographic identity, the UK is becoming more diverse in terms of ethnicity, religion and behaviour by age.
- 2.42 To inform our review we commissioned Ipsos MORI to carry out a new piece of quantitative and qualitative audience research. This report is published alongside this consultation. It shows that many participants feel that UK society today is so multicultural and diverse that the task of reflecting 'UK identity' is increasingly challenging. Nonetheless, Ofcom's PSB Tracker shows that the importance to audiences of the PSBs reflecting differences in society and culture has increased.
- 2.43 It is possible that meeting these expectations will become increasingly complex, particularly if content that meets the needs of specific audience groups does not meet the needs of others.

Despite this, patterns of TV consumption have changed much more slowly than expected

- 2.44 Since 2008 TV viewing has remained resilient, though there was a slight decline in TV viewing in 2013 across all age groups. Average viewing dropped from 241 minutes in 2012 to 232 in 2013 among all individuals¹⁰, with all age groups experiencing declines.

⁹ At the time of writing the formation of a joint venture giving 21st Century Fox a stake in Endemol had been agreed but not yet formally completed

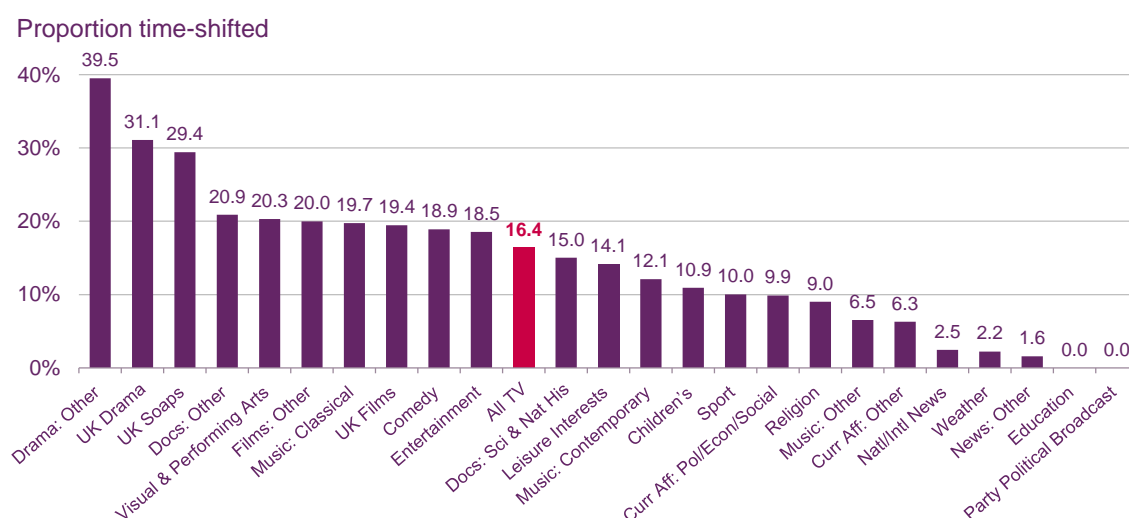
¹⁰ BARB

Figure 8: average minutes of daily TV viewing, all channels, by age, 2004-2013

Source: BARB, Network

Note: new BARB panel introduced 1 Jan 2010; as a result pre- and post-panel change data must be treated with caution

- 2.45 While this could be the beginning of a long-term trend due to changing media habits, it might also be influenced by the hotter summer in 2013 and a lack of 'event' viewing to major sports events such as the 2010 FIFA World Cup or the London Olympic and Paralympic Games in 2012.
- 2.46 Traditional schedules still serve audience needs well, with live linear viewing accounting for 84% of all viewing among individuals with a DVR, although certain genres such as drama are much more likely to be time-shifted than others.

Figure 9: Proportion viewing that is time-shifted in homes with a DVR, by genre; 2013

Source: BARB, DVR individuals 4+

Notes: based on total minutes of viewing to genres; time-shifted viewing is defined as total minutes of viewing on same day as live plus viewing 2-7 days after broadcast; all viewing (via a TV set) of broadcast content viewed within seven days after broadcast is reported by BARB, including viewing to programmes stored on recording devices and content viewed via TV player services such as BBC iPlayer, ITV Player, 4OD etc.

And the PSB purposes and characteristics remain important to all audiences

- 2.47 Each year Ofcom carries out a tracker survey to understand how important each of the PSB purposes and characteristics are to audiences, and how well people think the PSBs have delivered them. The detailed findings from these surveys over the 2008 to 2013 review period are included within the PSB Annual Report 2014.
- 2.48 The results show that audiences continue to agree generally that it is important that television delivers the PSB purposes and characteristics. Audiences still generally ascribe the highest levels of importance to the PSB purpose relating to news, and consider that *'Its news programmes are trustworthy'* is the most important of the PSB purposes. The perceived importance of all but one of the PSB characteristics has risen since 2011¹¹, with the importance of original UK, innovative and challenging content all standing at nearly 75%. The importance of high quality programming has also risen by 5% since 2011, to 83%.

¹¹ Comparisons with 2008 are not possible due to changes to some of our tracker questions.

Figure 10: Summary of the importance and delivery of PSB purposes and characteristics; 2013

Purposes	Importance	Delivery
Its news programmes are trustworthy	87%	65%
Its programmes help me understand what's going on in the world today	79%	63%
Its regional news programmes provide a wide range of good quality news about my area	81%	64%
It shows interesting programmes about history, sciences or the arts	69%	52%
It portrays my region/Scotland/Northern Ireland/Wales fairly to the rest of the UK	68%	44%
Its programmes show different kinds of cultures within the UK	65%	46%
It shows high quality soaps or dramas made in the UK	58%	51%
Characteristics	Importance	Delivery
It shows well-made, high quality programmes	83%	65%
It shows programmes I want to watch	78%	56%
It shows programmes that make me stop and think	73%	49%
It shows new programmes, made in the UK	73%	53%
It shows programmes with new ideas and different approaches	72%	47%

Source: Ofcom research

Base: for Importance – All (3028); for Delivery – All respondents who watch any PSB channels regularly or occasionally (2926)

Notes: summary % of respondents rating Importance / Delivery 10/9/8/7; slightly amended wording of some statements since 2011 – previous wording: *Its (regional) / news programmes for people in Scotland / Wales / NI provide a wide range of good quality news about my area / Scotland / Wales / NI: It portrays my region / Scotland / Northern Ireland / Wales well to the rest of the UK: It shows enough new programmes, made in the UK*

- 2.49 Ipsos MORI's research also shows that audiences still see the PSB purposes and characteristics as important. Although spontaneous awareness of the concept of public service broadcasting requirements remains low, the individual purposes and characteristics have broad appeal across all age groups.
- 2.50 The two educational purposes: '*Informing our understanding of the world*' and '*Stimulating knowledge and learning*' are viewed positively. For example, most people say the most important type of content provided by the five main channels is news, both for them personally (65% cite as most important), and for society as a whole (70% cite as most important). The purposes '*Reflecting UK cultural identity*' and '*Representing diversity and alternative viewpoints*' are explored in more detail below.

Since our last review, the PSBs have lost some of their distinctiveness, particularly for younger people

- 2.51 While the purposes and characteristics of PSB are still viewed as important, Ipsos MORI's report shows that many people find it difficult to understand the concept of the PSB system itself, believing that all television services meet (or should meet) these aims. This is particularly true among younger and tech-savvy consumers, who no longer appear to distinguish between PSB and non-PSB channels.

- 2.52 Instead, they believe that a wide range of organisations are producing content delivering the PSB purposes and characteristics. Rather than 'PSB' and 'non-PSB' content, they distinguish only between 'good' and 'bad' content, choosing what best meets their needs and satisfies their interests, regardless of the provider or platform.
- 2.53 In part, this trend may be explained by the fact that people increasingly have a stronger association with programmes than with providers. A large volume of programming first shown on PSB services is available on non-PSB channels, perhaps contributing to the impression that the PSB services are not as unique as they were once perceived to be. The increased provision by other television broadcasters, including Sky, is also highly likely to be driving this trend.

The PSB portfolio channels are viewed as equally important as the five main channels

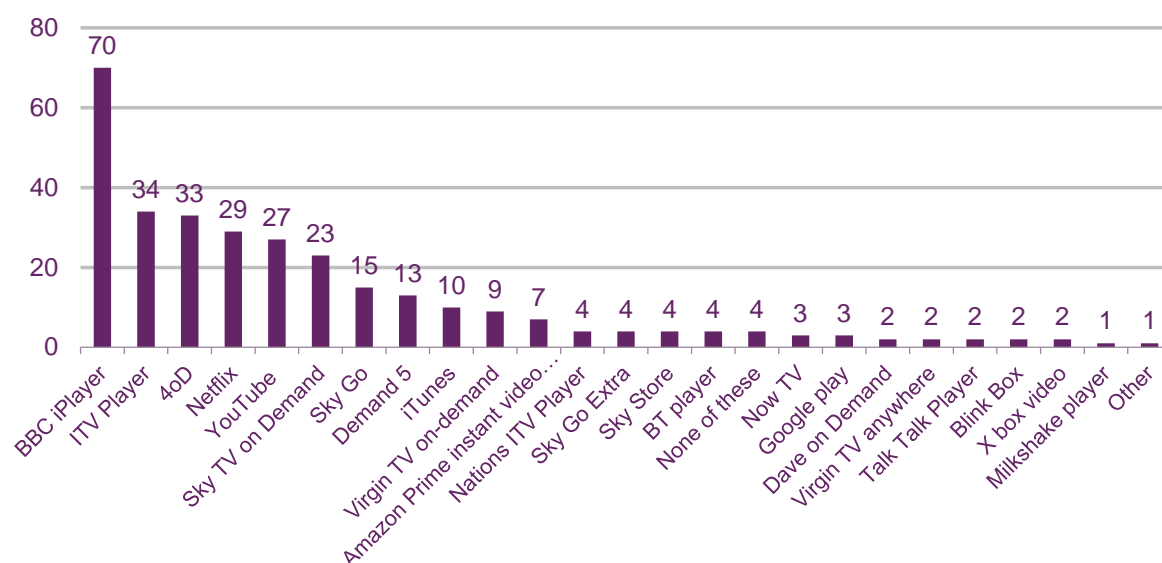
- 2.54 Ipsos MORI's report shows that people also associate the portfolio channels provided by the PSBs with the delivery of some of the PSB purposes and characteristics, and with examples of innovative, challenging and high quality content. This view was more common among the younger demographic groups.
- 2.55 Indeed, many people questioned why PSB obligations did not apply to all services and platforms, as they did not see them as different. Some respondents believed that the PSB portfolio channels met their needs better than the five main channels.
- 2.56 These findings are also apparent in the results of our new portfolio tracker survey, which found that the PSB portfolio channels scored almost as highly on some of the purposes and characteristics as did the five main channels. But the portfolio services scored lower across the full range of these goals than the respective PSB channels, suggesting that audiences are aware that they play a more targeted role.

For some people, the ability to access content whenever, wherever and on every device is increasingly an expectation rather than a desire

- 2.57 Audience research shows that the boundaries between offline and online experiences are less apparent, as people begin to access online content from a device that they are used to thinking of as offline (their television). Younger participants and the more tech-savvy discussed their behaviour in the terms of television content forming part of their overall consumption of media content, rather than online content forming a specific part of their television consumption.
- 2.58 It appears that people increasingly expect to be able to access VoD services on multiple devices and on the move. This is reflected in the growing popularity of TV and TV-like services on smartphones and tablets.
- 2.59 The VoD services provided by the PSBs are the most popular, but services such as Netflix, YouTube and Sky are also increasingly popular.

Figure 11: VoD service used at least monthly

Monthly VOD service users (%)



Source: Ofcom quant research 2014

Base: Adults 16+ that use online/on-demand TV and film services at least once a month (n = 1017)

Note: Question TO14 – Which, if any, of the following services do you use to watch television programmes or films online or on demand? Please tell me which services you use at least once a month or more often?

- 2.60 Unlike services such as Netflix, which offer a substantial back-catalogue of programming at all times and allow 'binge viewing', PSB catch-up services mainly focus on offering programming only for a specific period of time after it is first broadcast on television (although Channel 4 does offer some archive programmes). The reasons for this restricted access to content are not widely understood by audiences and the lack of access to content can be annoying for them.

Audiences claim to prioritise good programming over new forms of content from the PSBs

- 2.61 Although audiences value some additional broadcaster content, such as the BBC News website, our audience research indicates that awareness of additional content or features, such as apps, is mixed, particularly for websites not provided by the BBC, and that less than half of viewers have used a programme website or smartphone app to engage further with programme content.
- 2.62 Even among younger audiences, it appears that most people do not consider the provision of websites or smartphone apps to be part of the core PSB remit, and this is particularly the case for smartphone apps; less than a third of people thought these were important for PSBs to provide. However, as we observe later, usage of these sites is high, suggesting they are popular with audiences.
- 2.63 Our audience research also implies that audiences do not generally consider that such content meets a specific need not met by other service; for example, preferring to use search engines to find specific programme information, and that the fragmented nature of such provision (having a different app for each programme) means that programme apps are unable to compete for space in an already crowded app market.

- 2.64 While these findings suggest a preference for television from the PSBs over other types of content in the future, this may in part reflect audience attitudes to previous PSB content of this type. It is clearly difficult for people to imagine what the future might look like. Better non-TV content from the PSBs may change people's attitudes (as, it might be argued, the iPad did for tablet computing).

We are seeing the generation gap growing, with younger and older people's consumption habits increasingly differentiated across many communications media

Younger people are watching increasingly less television than older people

- 2.65 Younger people watch less television than older people; compared to 232 minutes for all viewers, 16-24s watch just 148 minutes a day, with even this level of viewing down from 169 minutes in 2010.

Figure 12: Change in TV viewing per day, by age; 2010-2013

Age	Change	
	Absolute	%
All individuals	-10 min	-4.3%
Children	-16 min	-10.8%
16-24	-21 min	-12.5%
25-34	-13 min	-6.8%
35-44	-18 min	-7.6%
45-54	-13 min	-4.9%
55-64	-2 min	-0.7%
65+	-2 min	-0.5%

Source: BARB, Network

Notes: new BARB panel introduced 1 Jan 2010, as a result pre- and post-panel change data must be treated with caution

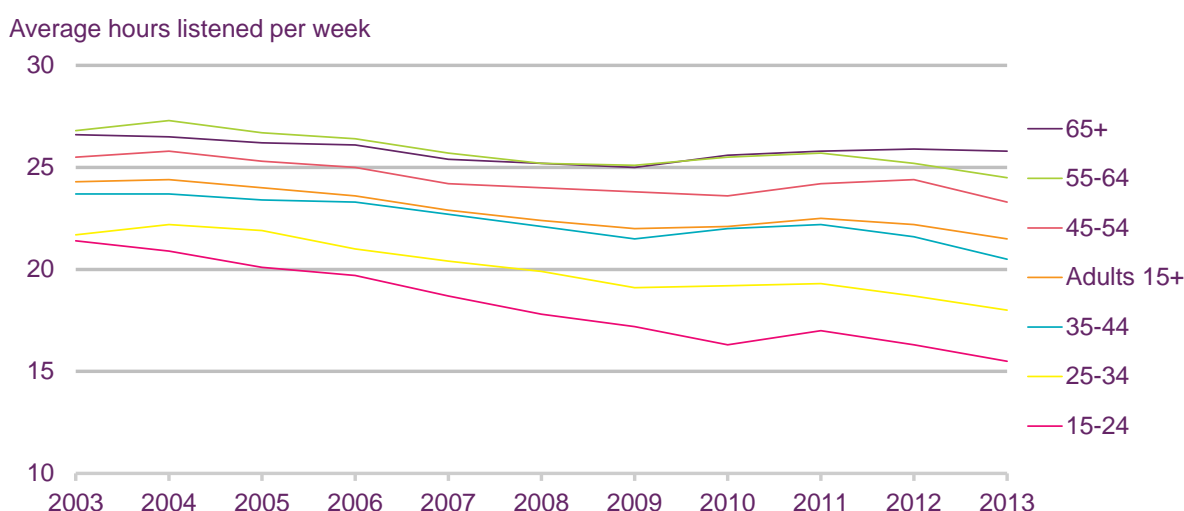
Differences between generations are not limited to television consumption

- 2.66 Smartphone ownership differs greatly by age. Almost nine in ten (88%) 16-24s own a smartphone, compared to 14% among those aged 65 and over.
- 2.67 While 82% of UK adults have internet access at home, this drops to 50% among those aged 65+. Furthermore, younger people are more likely to undertake a wider range of activities online, including social networking. Seventy-four per cent of 16-24s with internet access use social networking sites, compared to 25% of 65-74s and one-fifth of those aged 75+ with internet access.
- 2.68 As the internet becomes more central to people's lives, so their attitudes change towards the role that it plays. For instance, people are now just as likely to agree that the internet has an important social role to play as they do in relation to television, and to agree that the internet should be available to everyone. People increasingly believe that the internet is influential in shaping public opinion about political and

other important issues, and think that it has an important role to play in encouraging people to be interested in different subjects.

- 2.69 Younger people are three times more likely to get their news online. Six in ten (60%) of 16-24s say they use the internet for news, compared to 21% of those aged 55+. Ninety per cent of those over 55 say they watch news on TV, compared to 56% of 16-24s.
- 2.70 The average weekly reach of radio remains high among all ages, while the amount of time spent listening has fallen – particularly for the 15-24s and the 25-34s. Among all adults, average time spent listening has dropped from 24.3 hours per week in 2003 to 21.5 hours per week in 2013, and 15-24s have experienced the largest decrease: from 21.4 to 15.5 hours per week.

Figure 13: Weekly radio listening hours, by age group: 2003-2013



Source: RAJAR

Note: average weekly listening per listener

- 2.71 The amount of 15-24s' total audio listening time spent with radio is far lower than for the other age groups. Just 24% of listening time was spent with radio, compared to 30% with streaming audio and 30% with personally-owned digital audio. All other age groups spent at least two-thirds of their audio content listening time with radio, rising to 86% among those aged 65+.

Age and access to technology are the key drivers of attitudes to PSB content and delivery

- 2.72 Ipsos MORI's research found generational differences in opinion, attitude and habits towards PSB and content more generally, which support our own data. This research described three broad groups into which people tend to fall:
- 2.72.1 *Tech natives*: tend to be younger (typically aged 16-30) and use multiple sources of audio-visual content, often online. Less than half now think that the TV is their most important source for relaxing or entertainment. They are less likely to feel that PSB regulation is relevant to the content they watch. They expect global content and believe that market demand will continue to drive high quality content. Although they are the most likely to prefer an 'online only' world, many – particularly after deliberation – are

hesitant about PSB being online only, as they are concerned about the impact on society.

- 2.72.2 *Tech learners*: tend to be middle-aged (typically aged 30-55) and are more comfortable distinguishing between the PSB 'main five' and other channel providers. The view that TV is the most important source for relaxing and entertainment is still maintained by a small majority. They have a preference for UK content over content from around the world, but opinion is more split on this than previously. They are likely to use a range of devices and sources of content, but each has its distinctive purpose. The tech-savvy in this group can imagine an online-only world, but take an overall citizen perspective and are concerned about those who would not be able easily to access this environment.
- 2.72.3 *Traditionalists*: tend to be older (aged 55+). Most are still highly reliant on the TV listings and predominantly use a television set to access content. The concept of PSB, and a distinction between the main five and 'other' providers, is more familiar to this group. The BBC is associated with high quality content and is seen to provide balanced news and current affairs content. ITV is seen as providing a contrasting approach to news to the BBC and Channel 4, and many people believe that it is important that ITV provides impartial news. Audiences expect ITV to deliver quality programming. Channel 4 is generally valued for its breadth of programming and comedy output. In discussions this group are animated about local and UK cultural representation, preferring UK content and 'old favourites'. There is an outright preference for a world which broadcasts scheduled TV only, with some concerned about the negative impact of online services on other members of society.
- 2.73 The extent to which the behaviour of younger people will change as they get older and their lifestyles change is unclear but, as the Ipsos MORI report observes, it is unlikely that 'tech natives' will shift to being 'tech learners'. While their behaviours may change somewhat, they are likely to maintain most of their current learned behaviour.

People are concerned that those without access to new technologies may be excluded

- 2.74 Although many people feel comfortable with the idea of accessing content in new ways, such as on demand and additional online content, our audience research demonstrates that most people are particularly concerned that older or more vulnerable people should not lose access to content because it is increasingly online. This concern extends to harder-to-reach groups such as rural communities with limited access to broadband. In this context, our audience research indicates that many people consider PSB television a way of connecting with the outside world, and therefore low mobility groups and lower-income groups are specific areas of concern.
- 2.75 There is also a perception among the more technologically aware that services relying on an internet connection may be less reliable; for example, because of patchy connections, and that even those with access to an internet connection may simply not want to make use of these services because they like the routine of watching the television.

- 2.76 In this context, our audience research indicates that 74% of people consider that broadcast television has a societal value beyond simply entertainment, such as watching important events ‘as a nation’, connecting with the world outside their own experience, and discovering content (particularly factual content) that they might otherwise not choose to watch. Many people feel that these kinds of experiences are important, particularly for harder-to-reach, older and more vulnerable groups, and therefore are concerned that they should not lose access to content because of technological development, or cost.

Some of these changes vary in different parts of the UK

- 2.77 One of the main variables in people’s experience of technology and communications services is based on whether they live in a rural or an urban area. Generally, urban areas are better connected than rural areas, and offer a greater range of services. There are also differences in Northern Ireland, Scotland and Wales. Detailed overviews of the market context in each of these nations have been published alongside this consultation; the key points are set out below.

Northern Ireland

- 2.78 Three TV channels broadcast some content specifically for viewers in Northern Ireland – BBC One Northern Ireland, BBC Two Northern Ireland and UTV (the holder of the Channel 3 licence in Northern Ireland).
- 2.79 Unlike Scotland or Wales, Northern Ireland does not have a dedicated channel for indigenous language broadcasting (Irish and Ulster-Scots). But since 2005 TG4, the Republic of Ireland’s Irish-language channel, has been broadcasting in Northern Ireland. Geographic coverage of this channel was boosted through inter-governmental agreement at the time of digital switchover in 2012.
- 2.80 Northern Ireland Screen administers two funds for indigenous language broadcasting in Northern Ireland. The Irish Language Broadcast Fund (ILBF), which was established in 2005, has a budget of £3m per annum to produce at least 55 hours of Irish-language content a year. Content funded by the ILBF has been broadcast on BBC NI as well as on TG4, and, to a lesser extent, RTÉ. The Ulster-Scots Broadcast Fund was launched in 2010 and has a budget of £1m per annum to deliver at least 12 hours of content a year. Content funded by the USBF has been broadcast on BBC NI, UTV and RTÉ. Current funding for both is due to expire in 2016.
- 2.81 Digital terrestrial television (DTT) availability of the PSB multiplexes is broadly similar to the rest of the UK, but the commercial multiplex coverage is more limited than in England and Scotland, so the full range of commercial channels on DTT is not available to everyone in Northern Ireland. Take-up of paid-for satellite is higher in Northern Ireland than in Scotland and Wales.
- 2.82 In addition to UK, and Northern Ireland-targeted channels, viewers in Northern Ireland have access to TV channels from the Republic of Ireland. RTÉ1 and RTÉ2 (as well as TG4) are broadcast from three transmitters in Northern Ireland. These services have historically been partially available via overspill from transmitters in the Republic of Ireland, and are also carried on Sky and Virgin Media in Northern Ireland.
- 2.83 In terms of connectivity, broadband take-up is slightly lower than the UK average, with connected device take-up differing depending on the device, smartphones being lower and tablets being higher than the UK average. Northern Ireland has a higher

number of premises receiving speeds of less than 2Mbit/s, but also has the greatest coverage of next generation access networks (used to deliver superfast services) in the UK, which suggests that some consumers could receive faster speeds.

- 2.84 There are 11 commercial radio stations, owned among four radio groups. The number of community radio stations is growing; a further five are due to launch in 2014-15. Listeners in Northern Ireland are less likely than the UK average to listen to BBC network and UK commercial stations, preferring local stations, including BBC Radio Ulster/Foyle, which has a higher spend per head than other BBC local/nations' stations in the rest of the UK.
- 2.85 Irish language content is also provided on the Belfast-based community radio station, Ráidíó Fáilte. A further two indigenous language services in Northern Ireland have also been granted community radio licences – Ráidíó G (Irish language) will broadcast from Maghera in Mid-Ulster and fUse (Ulster-Scots) will broadcast from Ballymoney in the North Antrim area.
- 2.86 People in Northern Ireland prefer locally-produced newspapers to UK-wide papers, driven by interest in local and Northern Ireland news and political coverage. But there has been a decline in readership of all three daily Northern Ireland newspapers over the past five years; this is driven by the trend to digital which has affected the press as a whole.

Scotland

- 2.87 Scotland has four television channels broadcasting some output specifically for the people of Scotland – BBC One Scotland, BBC Two Scotland, STV and BBC Alba. STV operates two licences in Scotland, one for Central Scotland and one for Northern Scotland. The Scottish Borders and Dumfries and Galloway are not served by STV; they get their Channel 3 service from ITV Border, which is based in England. From 2009 to 2013, ITV's service in southern Scotland was also shared with the Tyne Tees region, albeit with opt-out news programming for the Border area.
- 2.88 While ITV Border covers Cumbria as well as southern Scotland, the broadcaster is required to cover southern Scotland editorially in its news programmes and, as of 2014, to provide 90 minutes a week of programming specifically for viewers in Scotland.
- 2.89 DTT availability (both PSB and commercial multiplexes) in Scotland is higher than in Wales and Northern Ireland and comparable to England. Where DTT coverage is not available, satellite take-up is high.
- 2.90 Broadband take-up is now in line with the UK average, smartphone take-up higher but tablet take-up lower than the UK average. Scotland is under-served in terms of the number of premises with broadband speeds of at least 2Mbit/s, and in the number with access to next generation broadband, due to a higher proportion of rural areas than the UK average.
- 2.91 There is a healthy radio sector in Scotland. The most listened-to commercial stations in Scotland are operated by the main UK radio operators, Global Radio, Bauer and Communicorp, performing above the UK average in terms of audience share. There is also a significant number of smaller, independently owned commercial stations in more rural areas and a thriving community radio sector. Listeners in Scotland are less likely than the UK average to listen to BBC local or network stations, preferring

local commercial stations, resulting in high radio revenue per capita for local commercial radio.

- 2.92 People in Scotland prefer Scottish newspapers to UK-wide papers, driven by interest in local and Scottish news and political coverage. However, there has been a decline in readership of the main daily Scottish newspapers over the past five years.

Wales

- 2.93 Wales has four television channels broadcasting some output specifically for the people of Wales – BBC One Wales, BBC Two Wales, ITV Wales and S4C. Unlike Scotland and Northern Ireland, the Channel 3 licence for Wales is held by ITV plc, which also operates all of the English Channel 3 licences. But from the start of 2015, ITV Wales will have a separate licence – it was previously combined with the West of England – although this will not involve any programming changes.
- 2.94 The availability of DTT commercial multiplexes is lower than in England and Scotland. Where DTT coverage is not available, people generally use satellite.
- 2.95 Wales has the lowest availability of next generation broadband services in the UK, although this is increasing. Broadband take-up is lower than the UK average, with connected device take-up differing depending on the device, smartphones being lower and tablets being higher than the UK average, with 37% of homes owning three or more tablets.
- 2.96 Radio listeners in Wales are more likely than the UK average to listen to BBC network radio (mainly Radio 2 or Radio 4), while listening to local commercial stations in Wales is the lowest across the UK.
- 2.97 People in Wales buy or read more UK tabloid newspapers than local or Wales national papers. There has been a decline in readership of the largest daily newspapers in Wales over the past five years.

Different contexts in each of the nations result in some differing expectations

- 2.98 Differences in audience expectations between the nations are evident in our tracker survey, which shows the importance of the PSB purposes to audiences in each UK nation.

Figure 14: Importance of PSB purposes, by nation: 2013

Purposes	England	Scotland	Wales	Northern Ireland
Its news programmes are trustworthy	87%	90%	90%	89%
Its programmes help me understand what's going on in the world today	79%	79%	77%	80%
Its regional news programmes provide a wide range of good quality news about my area	80%	84%	82%	87%
It shows interesting programmes about history, sciences or the arts	69%	71%	68%	66%
It portrays my region/Scotland/Northern Ireland/Wales fairly to the rest of the UK	67%	77%	71%	81%
Its programmes show different kinds of cultures within the UK	64%	69%	68%	67%
It shows high quality soaps or dramas made in the UK	59%	56%	60%	58%

Source: Ofcom research

- 2.99 The trustworthiness of news, and the provision of local news that offers good quality coverage of people's areas, are viewed as slightly more important in the nations than in England. People in the nations also rate the importance of fair portrayal of their nation more highly than do those in England of their region. People in the nations also give higher importance scores for representing cultural diversity than those in England. There was little variation in the perceived importance of the PSB characteristics among audiences in the nations and those in England.
- 2.100 The importance of the purposes and characteristics in each of the nations has remained relatively steady since 2008, with substantial changes only in Scotland and Wales:
- 2.100.1 In **Scotland** the importance of trustworthy news rose from 80% to 90%, the importance of high quality regional news from 73% to 84% and fair portrayal of the nation to the rest of the UK from 66% to 77%.
 - 2.100.2 **Wales** saw a decline in the importance of programmes '*which help me understand what's going on in the world today*' from 89% in 2008 to 77% in 2013.
- 2.101 Age and access to technology are the key drivers of attitudes to PSB content and delivery, more so than national or local differences or life-stage. However, Ipsos MORI's report on research carried out during the summer of 2014, highlighted some differences in audience needs and attitudes in the nations:
- 2.101.1 The issues of '*Reflecting UK cultural identity*' and '*Representing diversity and alternative viewpoints*' led to some debate. Overall, older participants in the nations thought it was good to have programmes that reflect their local and national identities, and felt that more could be done to ensure this; but younger participants felt it was more important for PSB channels to represent diversity at the level of communities across the UK, such as specific ethnicities, religions, socio-economic groups or sexual orientations.

- 2.101.2 Participants in the workshops in the nations – in Swansea, Glasgow and Belfast – often saw ‘*Reflecting UK cultural identity*’ as particularly important; they felt it was important that they had access to content that was either made locally, or reflected life and issues relevant to their communities.

Section 2 consultation questions

Question 1: Do you agree with our assessment of the context in which the PSB system operates, and how the trends identified might affect the PSB system? In particular, do you agree with our analysis of the independent production sector?

Question 2: Have we identified the key differences in Northern Ireland, Scotland and Wales?

Section 3

PSB performance

Key findings

The PSB system remains strong but there have been declines in spend, output and viewing. The overall amount of **new UK programmes** remains high in absolute terms and output is actually up in peak time, although there has been an overall decline of 5% since 2008 in terms of output hours. However, there has been a 17.3% real-terms **decline in investment** by the PSBs, with output in daytime falling in particular.

Overall **viewing of PSB** channels has fallen, although from a very high base. Together they continue to account for over half of all UK television viewing.

There remains a **range and diversity** of programmes in all genres, although there has been a significant decline in the amount of non-soap drama and a large drop in the spend and output of formal education programming. Programming for children by the PSB channels has fallen since 2008, with the BBC the only main provider.

Overall **audience satisfaction** with the PSB system remains high, and people believe that the PSB system broadly continues to deliver the purposes and characteristics.

There are some questions about the extent to which the PSBs fully meet the needs of a **range of audiences** across the UK as a whole, while performance also varies in each of the **nations**. Audiences want to see a combination of their favourite long-running programmes (such as the soaps and flagship entertainment shows) and original and innovative programming, but appear to feel that the PSBs are duplicating successful programme ideas and formats, potentially at the expense of more **original, innovative and challenging** programming.

Declining investment may be a cause for concern but so far does not appear to have impacted on audience satisfaction. This may be due in part to improvements such as HD picture quality, DVRs and other VoD services on a range of devices. Other factors, such as the way we have adjusted for inflation, increasing third-party funding and increased efficiency may have offset declining broadcaster investment.

In addition to playing an important role in the PSB system, **Channel 4 Corporation (C4C)** is broadly delivering against its wider media content duties. It is providing a broad range of high quality content on Channel 4 and its portfolio of channels and online services. But we have concerns about the extent to which C4C provided relevant content that appealed to the tastes and interests of older children (a specific part of its remit). Although Channel 4 news remains distinctive, its falling audience continues to be of concern, as does the decline in viewing to Channel 4.

- 3.1 A key element of this review is to assess the extent to which the PSB channels have, when taken together, fulfilled the statutory purposes and objectives of public service broadcasting.¹² This section summarises the evidence we have used in our initial assessment of PSB performance.

¹² Ofcom's duties in conducting a PSB Review are set out in Annexes 1 and 2

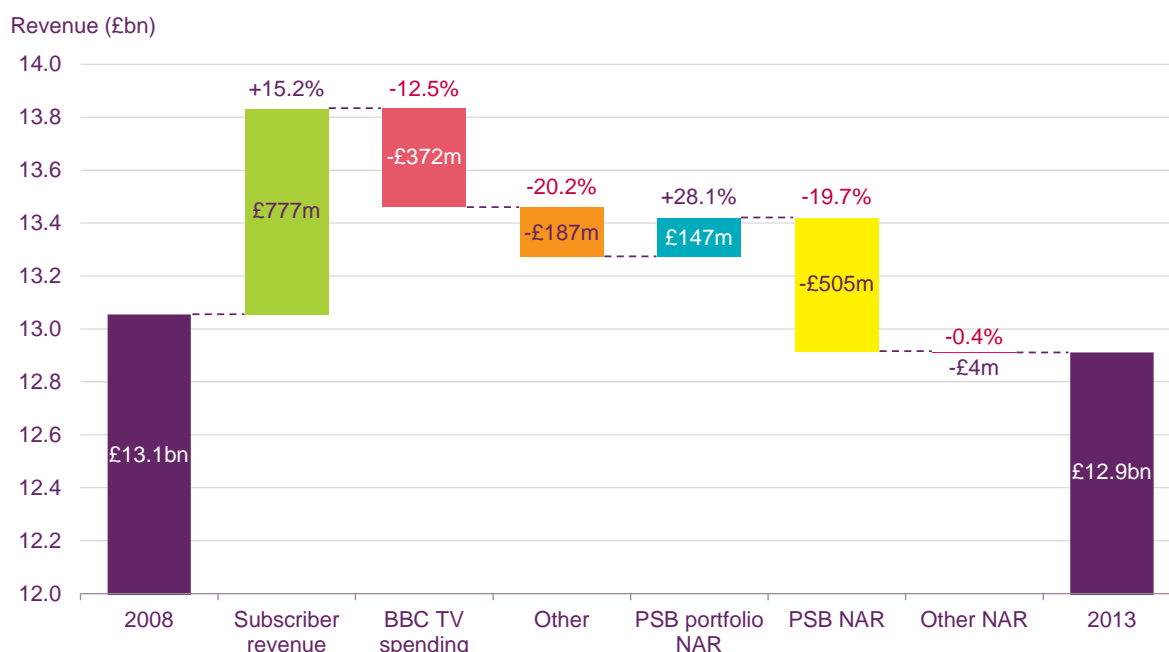
- 3.2 Our assessment consists of analysis of the following elements:
- 3.2.1 Data collected from the PSBs and elsewhere on output, revenues and spend by genre and channel.
 - 3.2.2 PSB broadcast hours of programmes, by type (first-run original commissions, repeats and acquired), day part and programme genre.
 - 3.2.3 Levels of audience viewing of different genres of programme
 - 3.2.4 Audience opinion on the importance of and quality of PSB delivery of different genres of programmes.
- 3.3 The evidence summarised in this document should be read and assessed alongside Ofcom's 2014 PSB Annual Report¹³. The PSB Annual Report supports our PSB Review, covering the whole review period and setting out in detail some of the key data sources assessed for the purposes of this review.
- 3.4 We also recognise the important and growing contribution of the non-PSB sector towards the fulfilment of the PSB purposes and objectives. This section focuses solely on the performance of the PSB channels; the valuable contribution of non-PSB services (including the multichannel sector) is set out in detail in the following section.

Sector revenues and the key sources of funding for PSB have recovered well from recession and continue to grow

- 3.5 Despite the significant pace of technological change, the key sources of funding for the TV market more broadly, and commercial PSBs in particular, have begun to recover from the recession. At the same time public funding has decreased in real terms, as the BBC licence fee has remained flat in nominal terms.
- 3.6 The UK television industry as a whole generated £12.9bn in revenue during 2013 (in nominal terms), an increase of £426m (3.4%) over the previous year. The increase was driven by growth in subscription revenues and net advertising revenues.

¹³ Ofcom's PSB Annual Report 2014 is published alongside this document

Figure 15: Total TV industry change in revenue, by source (real terms, 2013 prices); 2008-2013



Source: Ofcom / broadcasters

Notes: figures expressed in 2013 prices; PSB net advertising revenue (NAR) comprises Channel 3 licensees (including ITV Breakfast, ITV, Channel Television, STV and UTV), Channel 4, Channel 5 and S4C; PSB portfolio NAR includes commercial channels owned by the PSBs (ITV2, ITV3, ITV4, E4, More 4, Film 4, 5* and 5USA); Other NAR comprises the rest of the multichannel market; platform operator revenues do not include installation costs, equipment sales or subsidies; BBC TV spending represents the amount of BBC revenue that is allocated to TV, which is estimated by Ofcom based on Note B3 in the BBC's annual report and accounts 2013/14

- 3.7 Pay-TV subscription revenue has been the key driver of growth in total TV sector revenues. Subscription revenues increased by 15.2% in real terms to reach almost £5.9bn in value.
- 3.8 BBC licence fee income has fallen 6% in real terms over the review period from 2008 to 2013. The BBC has reduced spend on its television services by £372m in real terms, a reduction of 12.5%.
- 3.9 Overall broadcast-based TV advertising income has fallen by £362m in real terms since 2008. Most of the decline is accounted for by falls in advertising revenue generated by the three main commercial PSB channels, which saw net advertising revenues fall by £505m in real terms, although this was partially offset by growth of £147m in net advertising revenue for the commercial PSB portfolio channels.
- 3.10 Total UK online television revenues (mainly advertising, subscriptions and transactional) increased by 41% in 2013 to reach £364m¹⁴. The commercial PSBs account for a significant share of this revenue. These revenues form a fast-growing and increasingly significant source of funding for the PSB system. On the other hand, subscription models saw the steepest growth; revenue rose by 76% to £112m, a possible indication that online streaming services provided by global players (Netflix

¹⁴ Source: IHS

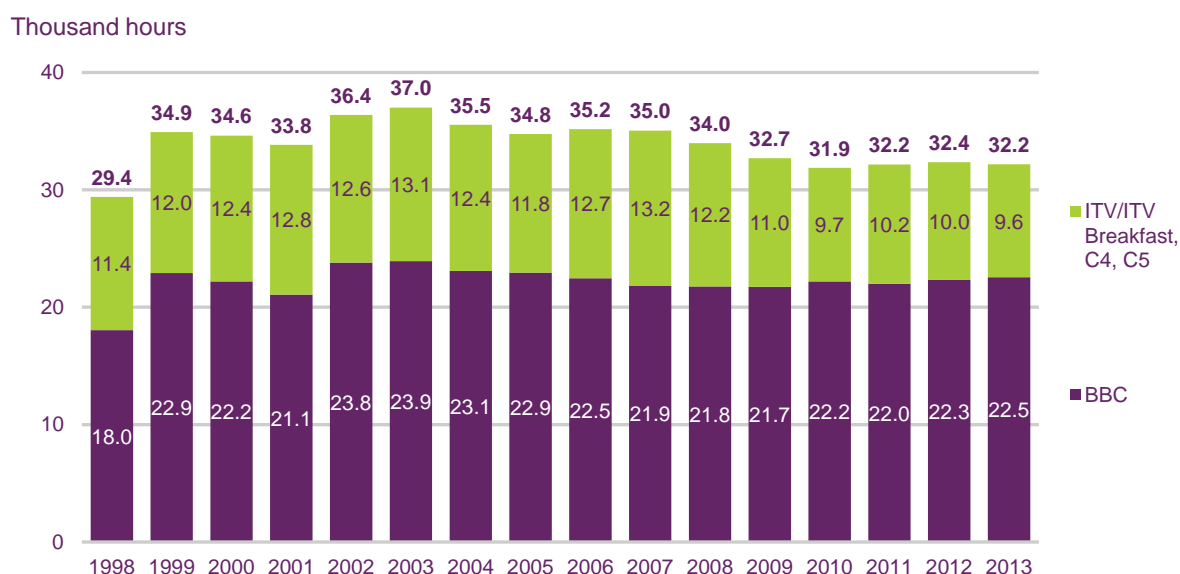
and Amazon) are gaining traction in the UK market. The entry of global players has not, so far, proved radically disruptive to the business models of incumbent players.

- 3.11 The content production sector has also grown strongly, driven by growth in the number of broadcasters commissioning new content, and greater opportunities for secondary revenue streams from overseas sales.

The number of hours of new national network programmes on the five main PSB channels¹⁵ has increased in peak time, but overall levels of new output on the PSB channels are down

- 3.12 Total hours of first-run UK PSB channel network¹⁶ originations fell from 33,981 in 2008 to 32,169 in 2013, a fall of 5%. Overall, 81% of this decline was accounted for by a significant reduction in night-time new first-run original hours¹⁷.

Figure 16: PSB hours of first-run UK network originations



Source: Ofcom / broadcasters

Notes: BBC figures include BBC One, BBC Two, BBC Three, BBC Four, CBBC, CBeebies, BBC News, BBC Parliament; the analysis does not include S4C, BBC Alba or BBC HD; figures exclude Nations / regions programming

- 3.13 In evening peak time¹⁸ the volume of first-run original programmes was actually up by 1.1%.

- 3.14 Looking more closely at output by channel, it is clear that there have been cuts in the levels of first-run output hours attributed to BBC News and BBC Parliament in peak time. In combination, the level of new output hours on these two BBC channels has fallen by 6%. Total peak-time output of new first-run original programmes on PSB channels was up by 4.1% when excluding BBC Parliament and BBC News.

¹⁵ BBC One, BBC Two, Channel 3 (ITV, STV, UTV), Channel 4 and Channel 5

¹⁶ All PSB channels, but excluding any Nations and regions output

¹⁷ 10:30pm to 6am daily

¹⁸ 6pm to 11pm daily

- 3.15 In daytime¹⁹ the overall level of first-run original programmes on all PSB channels was down by 2.6%; from 16,585 hours to 16,153. As with peak time, there has been a limited reduction in output in daytime on BBC News and BBC Parliament.
- 3.16 In aggregate, daytime output on all other PSB channels fell somewhat less, with a decline of 2.3%, but there are significant variances by channel. Output on BBC Two and Channel 5 has declined by a combined 791 hours in daytime, while BBC One, the Channel 3 licence holders and Channel 4 have all substantially increased levels of daytime output.
- 3.17 Based on this, our hypothesis is that the PSB system continues to perform well in terms of overall levels of output hours of new first-run original programmes. Absolute levels remain high, with the PSB channels delivering an average of 88 new hours of first-run programmes each day in 2013, output is up in peak time and there has been only a very slight decline in daytime output. But significant variance in levels of new first-run original output should be noted, especially from Channel 5, which has reduced output by 56%, and BBC Two, which has cut total new output by 24% (all from daytime and night-time).

PSB spend on all programmes, and investment in new first-run UK originations, have both fallen substantially in real terms

- 3.18 Overall levels of investment in programmes, especially first-run original UK-made programmes, is one of the most important measures that we have at our disposal to assess the health of the PSB sector. Over the last decade, we have used total investment levels as a proxy for the overall quality of programmes. We continue to believe that investment remains a reasonably sound proxy for the overall quality of programmes within a schedule, and it provides a consistent measure over time.
- 3.19 All of the investment data set out in this section are presented in real terms at 2013 prices²⁰ in order to factor in the changing purchasing power of each pound spent on television programmes over time. The cumulative effect of real-terms adjustments, using CPI, over the 2008-2013 review period is -14.1%.
- 3.20 The potential limitations of this approach are set out later in this report, where we invite comments on the potential impact of falling real-terms investment, and our approach to adjusting programme spend data using CPI.
- 3.21 Overall, the PSBs have reduced their total programme budgets and their budgets for first-run original programmes, in real terms. But the PSBs have also cut investment in acquired foreign programmes, and repeats, by significantly more than they have reduced spend on first-run original UK programmes. As a result, investment in first-run original UK programmes has increased; from 83% to 88% of the total investment in programmes (92% of all programme spend for the BBC, and 84% for the commercial PSBs combined).

¹⁹ 6am to 6pm daily

²⁰ Real-terms adjustment to 2013 prices is based on the annual UK Consumer Prices Index (CPI) and is sourced from the ONS.

Figure 17: PSB spend on all first-run content, by channel; 2008-2013

	Spend on all hours of output								Spend on first-run originated output								First run spend as a % of all spend		
	2008	2012	2013	£ change		% change			2008	2012	2013	£ change		% change			2008	2012	2013
				5yr	1yr	5yr	1yr					5yr	1yr	5yr	1yr				
BBC One	£1,010m	£870m	£747m	-£263m	-£123m	-26%	-14%		£876m	£817m	£696m	-£179m	-£121m	-20%	-15%		87%	94%	93%
BBC Two	£421m	£318m	£298m	-£123m	-£20m	-29%	-6%		£358m	£293m	£272m	-£87m	-£22m	-24%	-7%		85%	92%	91%
BBC Portfolio	£251m	£238m	£246m	-£5m	£7m	-2%	3%		£228m	£219m	£224m	-£4m	£5m	-2%	2%		91%	92%	91%
BBC Total	£1,682m	£1,426m	£1,291m	-£391m	-£136m	-23%	-10%		£1,462m	£1,330m	£1,192m	-£270m	-£138m	-18%	-10%		87%	93%	92%
ITV / ITV Breakfast	£996m	£836m	£794m	-£202m	-£41m	-20%	-5%		£895m	£775m	£750m	-£144m	-£25m	-16%	-3%		90%	93%	94%
Channel 4	£590m	£504m	£486m	-£105m	-£19m	-18%	-4%		£450m	£395m	£382m	-£68m	-£13m	-15%	-3%		76%	78%	79%
Channel 5	£238m	£197m	£179m	-£60m	-£18m	-25%	-9%		£112m	£102m	£88m	-£24m	-£14m	-21%	-13%		47%	52%	49%
Commercial Total	£1,824m	£1,536m	£1,459m	-£366m	-£78m	-20%	-5%		£1,457m	£1,272m	£1,221m	-£236m	-£51m	-16%	-4%		80%	83%	84%
Grand Total	£3,506m	£2,963m	£2,749m	-£757m	-£214m	-22%	-7%		£2,919m	£2,602m	£2,413m	-£506m	-£189m	-17%	-7%		83%	88%	88%

Source: Ofcom / broadcasters

Notes: figures are expressed in 2013 prices; BBC figures include BBC One, BBC Two, BBC Three, BBC Four, CBBC, CBeebies, BBC News, BBC Parliament; the analysis does not include S4C, BBC Alba or BBC HD; figures exclude nations / regions programming

- 3.22 The PSBs' spending on all UK networked²¹ programmes fell from £3.51bn in 2008 to £2.75bn in 2013, a drop of 21.7% in real terms. Spend on first-run UK original programmes also fell; from £2.818bn to £2.413bn, a drop of 17.3%. Spend on acquired programmes fell £177.2m (51.0%) while spend on repeats of UK-made programmes fell by £76.0m (31.4%).
- 3.23 The decline in overall spend on programmes (first-run, repeats and acquired) has been seen on all of the five main PSB channels²², with Channel 4 having the smallest fall in total spend (down 18%) and BBC Two the largest fall (down 29%). The BBC portfolio channels²³ spend fell by only 2% over the period, actually increasing between 2012 and 2013 by 3%.
- 3.24 In terms of first-run spend only, Channel 4's spend declined the least of the five main PSB channels (down 15%), followed by the Channel 3 licensees (down 16%), BBC One (down 20%), Channel 5 (down 21%) and BBC Two (down 24%).
- 3.25 Figures do vary from year to year in a way which is, in some respects, systematic. The total programme spend of the Channel 3 licensees and BBC One is usually high in even-numbered years (2008, 2010 and 2012 in the PSB Review period) when there are international football tournaments and, once every four years, the Olympic and Paralympic Games. As a result, the PSB Review period, from 2008 to 2013, might be expected to show a bigger decline because it started with an even year and ended with an odd year when no major sports events were shown. But even if this impact is stripped out, there was still a systemic underlying reduction in real-terms programme budgets over the period.
- 3.26 The PSBs have increasingly focused their investment on first-run original UK programmes in peak time. In combination, the PSB channels increased the

²¹ Excludes any programmes made for and broadcast to specific nations and regions of the UK

²² BBC One, BBC Two, Channel 3 licensees, Channel 4 and Channel 5

²³ BBC channels excluding BBC One, BBC Two, BBC Alba and BBC HD. All BBC channels are PSB channels

proportion of total spend on first-run UK programmes that is spent in peak from 60.5% to 65.5% between 2008 and 2013. Investment in new programmes in day time fell from 27.7% of the total to 24.2%, while spend at night (after 11pm) fell from 11.8% to 10.3% of total investment in all new first-run original UK programmes.

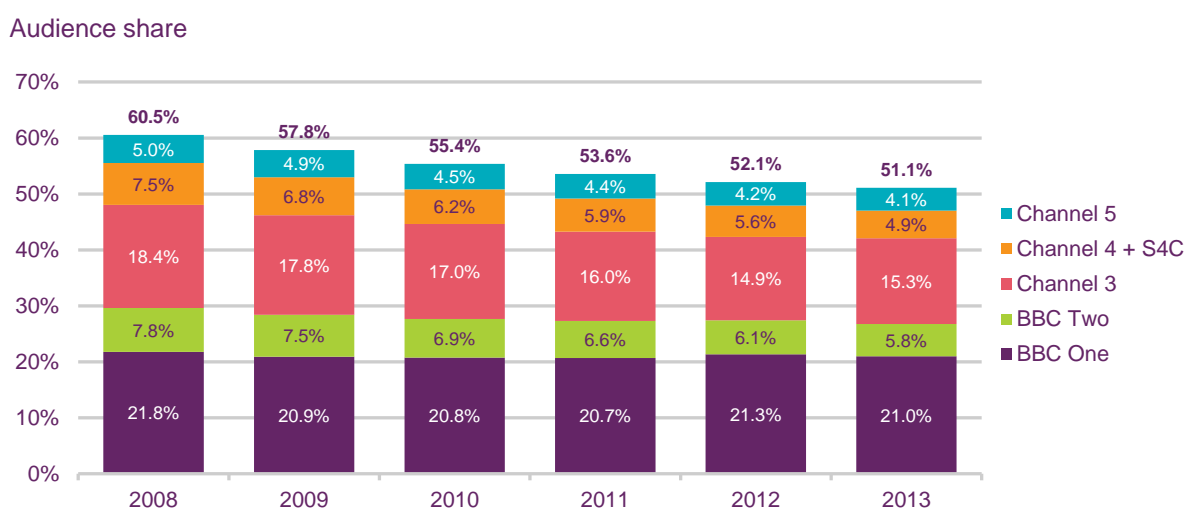
- 3.27 Overall, from 2008 to 2013, the PSB channels decreased their investment in first run programming peak time by 10% in real terms, compared to the decrease in total spend on new first-run original UK programmes, of 17.3%.
- 3.28 Our hypothesis is that that the reduction in investment in first-run original programmes could have had some detrimental impact on the quality and range of new programmes broadcast, especially in daytime, where the most significant cuts have been made. But the overall impact of the reduction in investment on the PSBs' delivery of the purposes and objectives of public service broadcasting is currently unclear. A more detailed assessment of the potential impact, and of a range of potentially mitigating factors, is set out in later in this report, and we seek views on the overall impact of reduced investment levels.

Performance in daytime appears to have fallen

- 3.29 The PSB system is expected to deliver programming that meets the needs of as many different audiences as possible, including serving people at different times of day.
- 3.30 While the amount of new programming on PSB channels in daytime has fallen slightly, investment in daytime has fallen considerably, with PSBs concentrating investment in evening peak time instead.

The overall viewing share of PSB channels has fallen

- 3.31 The output and spend supply-side factors are critical in considering the performance of the PSB system, but are not enough in themselves to enable us fully to assess the extent to which the purposes and objectives are being fulfilled. This section sets out the top-level trends relating to consumption of the PSB channels.
- 3.32 In aggregate, viewing to PSB channels remains very high; together, they continue to account for over half of all UK television viewing. However, the combined viewing share of the PSB channels has fallen over the past six years, with the completion of digital switchover and all homes having access to at least 20 channels rather than five in analogue homes.

Figure 18: Main five PSB channels' audience share, all homes: 2008-2013

Source: BARB

Notes: all individuals (4+); new BARB panel introduced in 2010, please compare pre- and post-panel change data with caution, S4C share not included after 2010

- 3.33 The amount of time people spend watching the PSB channels in aggregate remains extremely high compared to other activities, at 3.3 hours per day. Viewing to the main five PSB channels has fallen from 2.3 hours per day in 2008 to 2.0 hours per day in 2013.
- 3.34 Critically, the individual weekly reach²⁴ of each of the main five PSB channels remains high in absolute terms. There has been a decline in the number of people watching each of the main five PSB channels in recent years, but they remain by far and away the highest-reach channels available in the UK.
- 3.35 Channel 4 has seen the biggest decline in its weekly reach, to 48.0% in 2013, down from 56.7% in 2008 (a drop of over 15%). BBC One has proved the most resilient, dropping 3%.
- 3.36 Unsurprisingly, falls in the numbers of people watching each channel are also reflected in the total annual share of viewing delivered by the PSB channels. The main five PSB channels combined saw their share of viewing fall from 60.5% in 2008 to 51.1%. The BBC portfolio channels had a viewing share of 5.6%, giving a total of 56.7% viewing share to all of the PSB channels, down from 64.5% in 2008.
- 3.37 Of the main five PSB services, BBC One saw the smallest drop in audience share, down nearly 4%. Channel 4 saw the biggest decline in share, falling from 7.5% (including S4C) in 2008 to 4.9% in 2013 (excluding S4C²⁵). The other commercial PSB channels also saw declines in share - the Channel 3 licensees were down nearly 17% and Channel 5 was down 18%. BBC Two's share also dropped heavily (by nearly 26%) but the BBC portfolio channels saw an increase in share of 40%, from 4% to 5.6%.
- 3.38 However, the audience share figures set out above do not include the viewing share generated by the PSBs' '+1' channels. While not formally PSB channels, these

²⁴ The number of UK individuals aged 4+ who watch a channel once a week for at least 15 consecutive minutes

²⁵ S4C (Network) share in 2008 and 2013 was 0.1%.

channels effectively contribute to the fulfilment of the purposes and objectives of public service broadcasting, and in total contribute a further 2.1% of viewing share. If included alongside the all PSB channels, the combined total viewing share to PSB channels would have been 58.7% in 2013, down from 65.2% in 2008.

- 3.39 The portfolio channels from the commercial PSBs have also seen an increase in viewing, which we explore in the next section. In 2013 they accounted for a further 15.8% of all viewing, up from 10.2% in 2008. Therefore all of the channels produced by the PSB institutions taken together accounted for 72.5% of all viewing in 2013, down from 74.7% in 2008.

The generation gap is negatively affecting PSB consumption

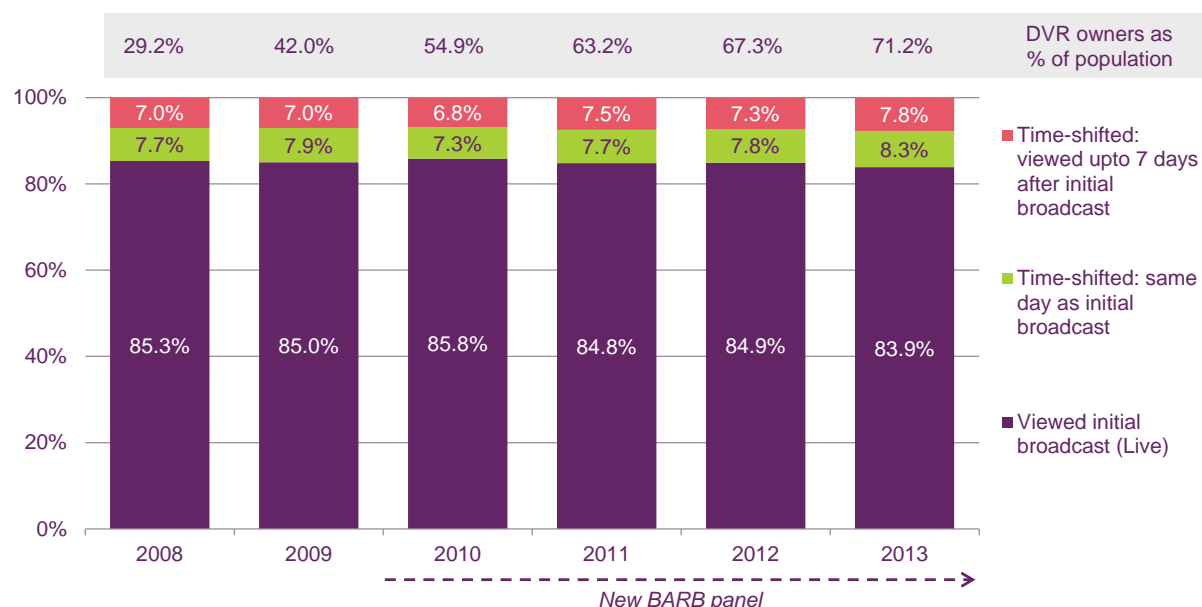
- 3.40 Older people spend more time than younger people watching PSB channels (over-65s watched 4.0 hours of PSB per day, against just 1.1 hours for 16 to 24 year olds in 2013). 16 to 45 year olds and children have seen a decline in time spent viewing over the past six years, with the fall particularly marked among 25 to 34 year olds (down 9.6% since 2008). Since 2010, when the Barb panel changed, all age groups have seen a decline, with viewing among 25 to 34 year olds down 6.8% and larger declines among 16 to 24 years olds (down 12.5%) and children (down 10.8%).
- 3.41 In 2013, while overall PSB channel share was 56.7%, share among 16 to 24 year olds was 43.9% while among the over-65s it was 69.3%.
- 3.42 Channel 4 and BBC Three viewers have the youngest age profile of the PSB channels, with a greater proportion of viewers aged under 35 than the TV average. BBC One, BBC Two, ITV, Channel 5 and BBC Four all have a greater proportion of viewers over the age of 55 than the UK TV average.

The growth of online TV viewing and digital television platforms have affected levels of PSB viewing since 2008

- 3.43 There have been a number of changes since 2008 that might go some way to explaining this drop in consumption of the PSB channels.

Increase in online and time-shifted viewing

- 3.44 The majority (83.6%) of viewing on a TV set, among DVR owners, was to live broadcasts in 2013. The remaining 16.4% was to time-shifted programmes, whether through TV catch-up services or stored on recording devices such as a DVR, within seven days of transmission. These figures are broadly similar for the main five PSB channels only, with 83.9% of viewing being live, and 16.1% viewed within seven days of transmission.
- 3.45 This may have had some limited impact on time spent viewing, and reach of the PSB channels, but does not account for the drop in share.

Figure 19: Main five PSB channels, TV-set viewing, split by live / time-shifted: 2008-2013

Source: BARB

Base: all DVR owners (2008-2009 multichannel network DVR owners, 2010-2013 network DVR owners); new BARB panel introduced in 2010; please compare pre- and post-panel change data with caution

- 3.46 There is not yet a common industry standard measure of online viewing of the catch-up and on-demand services provided by many broadcasters. However, 'programme requests' data published by the PSBs show that several billion hours of on-demand programmes are now viewed online and via connected televisions and set-top boxes.
- 3.47 So the reach and impact of PSB is probably well in excess of the measured TV viewing available from BARB, but at this stage it is not possible to say by how much. The industry continues to work towards a better way of measuring on-demand viewing, that is consistent and comparable with the way traditional TV viewing is measured.

The impact of the growth of digital television platforms

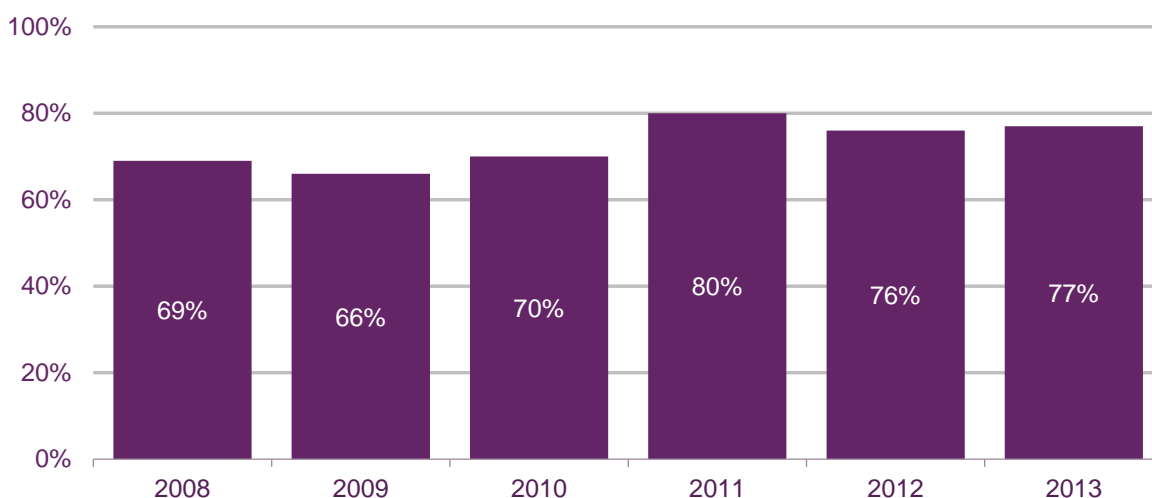
- 3.48 Digital switchover completed in 2012, resulting in the proportion of analogue-only TV homes dropping from 15% in 2008 to zero in 2013. The share of PSB viewing is lower on all multichannel platforms than used to be the case on analogue. As viewers have moved to multichannel television, so their consumption of the PSB channels has fallen. We have also seen an increase in people choosing to use satellite and cable services; here the share of viewing to the main five PSB channels (45% and 49.7% respectively) is lower than it is in DTT homes (53%)²⁶.

²⁶ Ofcom's CMR 2014, figure 2.64

Audiences believe that the PSB system broadly continues to deliver the purposes and characteristics

- 3.49 We commissioned new audience research to help us understand what audiences think about the importance and quality of delivery of the PSB purposes and characteristics, as set out in our first PSB Review.
- 3.50 Overall, just under four in five (77%) of those who ever watch any PSB channel claim to be quite, or very, satisfied with PSB channels combined. There were no significant differences in overall satisfaction between 2008 and 2013. Most ratings for the importance for all four PSB purposes increased between 2008 and 2013, as set out earlier in this document.

Figure 20: Viewer satisfaction with overall PSB service: 2008-2013



Source: Ofcom

Base: All respondents who ever watch any PSB channel (2007 = 7105, 2008 = 6798, 2009 = 6947, 2010 = 6909, 2011 = 3079, 2012 = 2983, 2013 = 2926)

Note: Question was And now, if you think about ALL THE channels combined - in other words the BBC channels, ITV, S4C (WALES ONLY) and Channels 4 and Channel 5 - how satisfied are you that combined they provide these elements that we have talked about?; figures are net satisfied

- 3.51 Most of the ratings for both PSB purposes and characteristics increased between 2008 and 2013, with some limited exceptions. This suggests that audience opinion about the performance of the PSB channels has remained relatively stable.

Ratings for delivery of the PSB purposes and characteristics vary considerably

- 3.52 Each year we carry out audience research to inform our understanding of the extent to which people feel the PSB system is delivering the PSB purposes and characteristics²⁷. In addition, the report we commissioned from Ipsos MORI explores this issue. This section sets out the key findings from this work.

²⁷ <http://stakeholders.ofcom.org.uk/broadcasting/reviews-investigations/public-service-broadcasting/annrep/>

Purpose 1: Informing our understanding of the world

- 3.53 The PSB system should provide programmes that inform people and increase their understanding of the world through news, information and analysis of current events and ideas.
- 3.54 Our tracker surveys show that the PSB system is performing marginally better in one area and worse in another in delivering this purpose than it was in 2008:
- 3.54.1 65% of people rate the PSBs highly for delivering ‘news programmes that are trustworthy’, a small increase from 64% in 2008.
 - 3.54.2 63% rate the PSBs highly for providing ‘programmes that help people understand what is going on in the world today’, slightly down from 67% in 2008.
- 3.55 There has been a noticeable improvement in the extent to which people rate the system highly for delivering local news programmes that provide a wide range of good quality news about my area, with 64% now rating the PSBs highly compared to 53% in 2008.
- 3.56 Ipsos MORI’s report notes the significance of news and current affairs programmes like *Panorama* and *Question Time* for meeting this purpose. The following section of the report uses a series of diagrams²⁸ to illustrate the programmes which audiences think of when prompted to name programmes that meet each of the PSB purposes.

Figure 21: TV programmes’ importance in delivering PSB purpose on quality of news about the local area



Source: Ipsos MORI research

Purpose 2: Stimulating knowledge and learning

- 3.57 The PSB system should stimulate our interest in and knowledge of arts, science, history and other topics, through content that is accessible and can encourage informal learning.

²⁸ During the workshops, participants were asked to write the names of programmes or other types of content which they felt related to each of the PSB purposes on sticky notes. These were later collected and used to produce the diagrams. The higher the number of mentions, the larger the word appears.

- 3.58 Our tracker shows that people believe PSB performance in this area is improving, with 52% of people scoring the system highly for showing interesting programmes about history, sciences and the arts, up from 48% in 2008.
- 3.59 Ipsos MORI's report notes that there was a general consensus among participants in the deliberative workshops that it was a good thing for individuals and society to have programmes available that stimulated knowledge and learning.
- 3.60 Participants in the audience research associated the following programmes with the delivery of this purpose.

Figure 22: TV programmes' importance in delivering PSB purpose on stimulating knowledge and learning



Source: Ipsos MORI research

Purpose 3: Reflecting UK cultural identity

- 3.61 PSB programming should reflect and strengthen our cultural identity through original programming at UK, national and local levels; on occasion, bringing audiences together for shared experiences.
- 3.62 Our tracker demonstrates that audiences believe that the PSB system continues to perform consistently in delivering high quality soaps and dramas made in the UK, with 51% scoring the PSBs highly, compared to 49% in 2008.
- 3.63 There has been a marked increase in satisfaction with the 'fair' portrayal of the nations and regions. A total of 44% of people in the nations now score the PSBs highly, compared to 34% in 2008.
- 3.64 This purpose sparked more debate than did the first two purposes during the deliberative workshops conducted by Ipsos MORI: some participants found it harder to generate examples of programmes that related to it. Some of the debate centred on the wider question 'what is Britishness?' – many participants felt that UK society today is so multicultural and diverse that the task of reflecting 'UK identity' was fraught with problems.

- 3.65 Participants in the audience research associated the following programmes with the delivery of this purpose.

Figure 23: TV programmes' importance in delivering PSB purpose on reflecting UK cultural identity



Source: Ipsos MORI research

Purpose 4: Representing diversity and alternative viewpoints

- 3.66 The PSBs should make us aware of different cultures and alternative viewpoints, through programmes that reflect the lives of other people and other communities, both within the UK and elsewhere.
- 3.67 Our tracker shows that 46% of people believe the PSB system delivers programmes that show different kinds of cultures within the UK, up slightly from 44% in 2008.
- 3.68 Ipsos MORI notes that many people struggled to find examples of programmes they watched that represented diversity and alternative viewpoints. Reflecting diversity was seen as important, especially among younger groups. But there were mixed views on how well this purpose was achieved. Those who could think of examples associated the following programmes with the delivery of this purpose.

Figure 24: TV programmes' importance in delivering PSB purpose on representing diversity and alternative viewpoints



Source: Ipsos MORI research

- 3.69 The Ipsos MORI report drew out some differences in opinion by location. For instance, some of those living in English regions and in the nations (reported in the workshops held in Bristol, Glasgow, Belfast and Swansea) felt that their areas were under-represented and that this was an important purpose to achieve.
- 3.70 In Wales, some (usually older) participants thought that there should be more representation of Welsh people on TV, while others were less concerned, or thought that good quality programmes, like *Hinterland*, reflected their identity.
- 3.71 In Belfast, many participants wanted to see more programmes based in Northern Ireland, featuring familiar settings and people speaking in Northern Irish accents, and which reflected relevant local issues.
- 3.72 In Glasgow many were satisfied with the amount and quality of locally-produced content, although some felt that these programmes were clearly lower budget than those shown across the UK. But it was also felt that it was hard to make programmes that would appeal to people across all of Scotland, and they were keen to see programmes tailored to those living rurally as well as those living in the cities. Some said that negative stereotypes, particularly relating to Glasgow, are too often found in content, while others thought that Scotland was well represented in comedy and drama.
- 3.73 Overall there was acknowledgement that it is becoming increasingly hard for a single provider to fully document events or cover the whole range of relevant viewpoints.

PSB characteristics

- 3.74 The highest rating for the delivery of PSB characteristics was *“it shows well made, high quality programmes”* (65%). This finding was mirrored in Ipsos MORI’s research, where many respondents spontaneously associated good, high quality programmes with four of the PSB channels (BBC One, BBC Two, ITV and Channel 4).
- 3.75 The lowest rating for delivery was for *‘it shows programmes with new ideas and different approaches’* (47%). Again, the Ipsos MORI research appears to reinforce this finding. The quantitative survey indicated that there is an increasing preference for original and experimental content (up from 42% in 2007 to 60% in 2014) rather than greater provision of tried and tested favourites (which just over a quarter of people supported). However, some people were frustrated in that they felt different providers were duplicating programme ideas, rather than coming up with ideas that were truly original. Older people are less likely to support original content over old favourites, with just 36% of those aged 75+ favouring original content, compared with 65% of 16-34s and 36-54s.

Performance gaps

- 3.76 The largest gaps between the scores for importance and delivery of purposes and characteristics related to the most ‘challenging’ and ‘engaging’ elements: *‘it shows programmes I want to watch’* (79% importance vs. 56% delivery), *‘it shows programmes that make me stop and think’* (74% importance compared to 49% for delivery) and *‘it shows programmes with new ideas and different approaches’* (73% compared to 47%).
- 3.77 The purpose relating to nations and regions: *‘it portrays my region fairly to the rest of the UK’* (68% importance vs. 44% delivery) also had a notable difference between perceived importance and delivery.

The performance of the PSB system differs by genre

- 3.78 The above sections have assessed the performance of the PSB system as whole, in terms of output, investment, consumption and audience attitudes. But in order to assess the extent to which the specific 'objectives'²⁹ of public service broadcasting might have been fulfilled, we must look at performance on a genre-by-genre basis.
- 3.79 Between 2008 and 2013 each genre that relates closely to a specific PSB objective saw a real-terms decrease in first-run investment, with the exception of feature films. The following section summarises our key findings relating to the PSB objectives that most closely map to specific genres. A full review of the performance of the PSB system by genre can be found in our *PSB Annual Report 2014* published alongside this consultation.

Figure 25: PSB spend, first-run and all hours, by genre: 2008-2013

	Spend on all hours of output								Spend on first-run originated output								First run spend as a % of all spend		
	2008	2012	2013	£ change		% change			2008	2012	2013	£ change		% change			2008	2012	2013
				5yr	1yr	5yr	1yr					5yr	1yr	5yr	1yr				
News & current affairs	£348m	£319m	£304m	-£44m	-£16m	-13%	-5%		£348m	£319m	£303m	-£44m	-£16m	-13%	-5%		100%	100%	100%
Arts & classical music	£56m	£41m	£41m	-£15m	£0m	-27%	0%		£54m	£39m	£38m	-£16m	£0m	-29%	-1%		97%	94%	94%
Religion & ethics	£18m	£14m	£14m	-£3m	£1m	-18%	4%		£17m	£14m	£14m	-£3m	£1m	-16%	5%		97%	99%	100%
Education	£29m	£20m	£10m	-£19m	-£10m	-65%	-48%		£29m	£20m	£10m	-£19m	-£10m	-65%	-49%		100%	99%	97%
Factual	£561m	£483m	£480m	-£80m	-£2m	-14%	0%		£546m	£467m	£466m	-£80m	-£1m	-15%	0%		97%	97%	97%
Drama & soaps	£958m	£652m	£662m	-£295m	£11m	-31%	2%		£739m	£539m	£565m	-£174m	£26m	-24%	5%		77%	83%	85%
Entertainment & comedy	£591m	£583m	£588m	-£3m	£5m	-1%	1%		£526m	£522m	£512m	-£13m	-£10m	-3%	-2%		89%	90%	87%
Feature films	£232m	£179m	£156m	-£76m	-£23m	-33%	-13%		£13m	£19m	£23m	£10m	£4m	75%	21%		6%	11%	15%
Sports	£593m	£578m	£395m	-£198m	-£182m	-33%	-32%		£546m	£578m	£393m	-£152m	-£184m	-28%	-32%		92%	100%	99%
Children's	£121m	£95m	£98m	-£23m	£3m	-19%	3%		£102m	£85m	£87m	-£15m	£2m	-15%	2%		84%	90%	89%
Total	£3,506m	£2,963m	£2,749m	-£757m	-£214m	-22%	-7%		£2,919m	£2,602m	£2,413m	-£506m	-£189m	-17%	-7%		83%	88%	88%

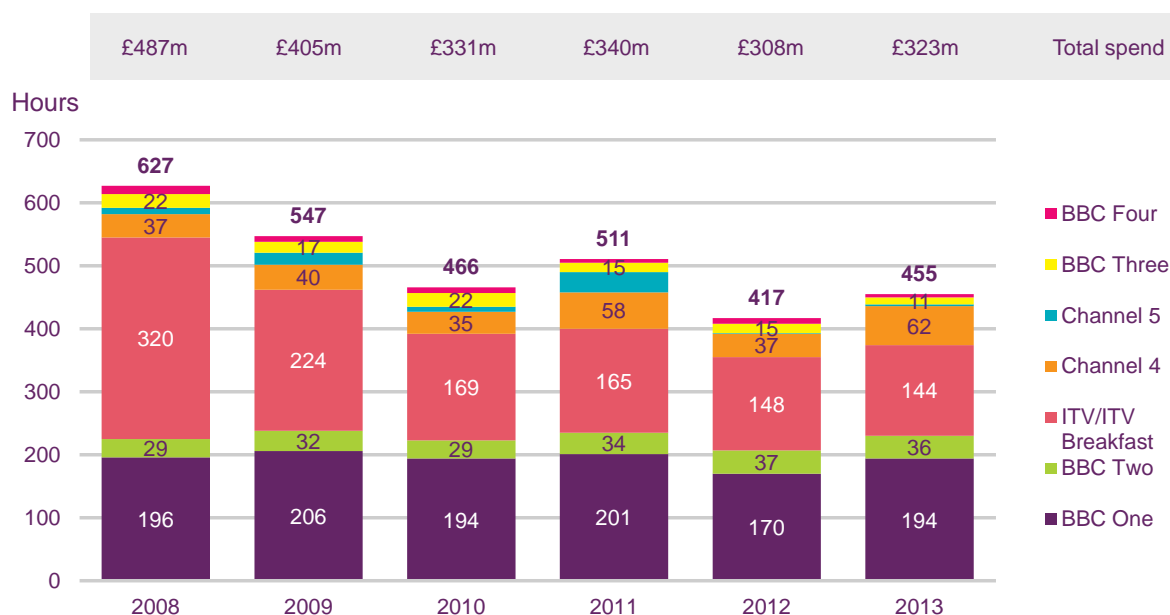
Source: Ofcom / broadcasters

Notes: figures are expressed in 2013 prices; BBC figures include BBC One, BBC Two, BBC Three, BBC Four, CBBC, CBeebies, BBC News, BBC Parliament; the analysis does not include S4C, BBC Alba or BBC HD; figures exclude nations / regions programming

UK drama (excluding soaps)

- 3.80 PSB spend on new first-run original UK drama was down 34% over the period, falling from £487m in 2008 to £323m in 2013, in real terms. Hours of output fell by 27% overall.

²⁹ The objectives relate primarily to the delivery of specific genres of programmes: see Annexes 1 and 2

Figure 26: Volume of first-run original hours of drama, all day: 2008-2013

Source: Ofcom / broadcasters

Note: spend is given in 2013 prices

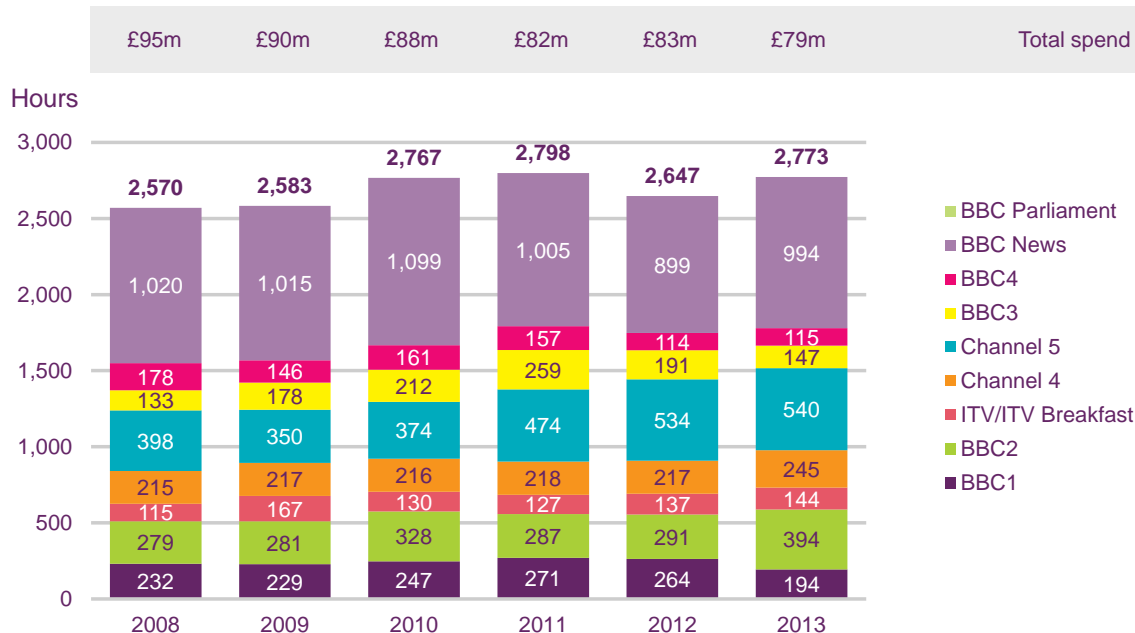
- 3.81 Most of the decline in output of new UK drama was the result of ITV substantially reducing its output of new national network first-run original drama; from 320 hours in 2008 to 144 hours in 2013, a decline of 55%. New original UK drama output from the BBC was also down; from 260 to 246 hours (-5%). However, Channel 4 increased its drama output from 37 to 62 hours over the period, an increase of 68%. Channel 5 produced ten hours of new UK drama in 2008 and three hours in 2013.
- 3.82 Viewing of UK drama on all television channels fell from just under 100 hours per individual per year in 2008 to just under 84 hours in 2013. Of this, viewing to UK drama on the five main PSB channels dropped from 74.4 hours in 2008 (just under 75% of total viewing to the genre) to 50.5 hours in 2013 (around 60% of total viewing). This was driven particularly by declines in viewing to BBC One and ITV.
- 3.83 BBC One's share of overall viewing of UK drama was actually up slightly, but the share of viewing to all genres on BBC One that was contributed by UK drama was down; from 13.6% to 11.8% over the six years, a fall of over 13%. ITV's share of total viewing to UK drama fell from 33.2% to 18.4%, a drop of just under 45%. Viewing to UK drama as a proportion of ITV's schedule dropped by nearly 40%. The proportion of viewing to BBC Two and Channel 4 that was to UK drama was up (by 13% and nearly 18% respectively).
- 3.84 This decline in consumption may be explained in part by the high degree of time-shifting of the genre, with 31.1% of viewing taking place after broadcast, versus 16.1% for all programmes³⁰.
- 3.85 The results from our audience tracker show that, overall, 51% of respondents felt that the PSBs showed high quality soaps and dramas, with that figure higher for BBC One (59%) and ITV (68%) but lower for BBC Two (45%), Channel 4 (40%) and Channel 5 (37%).

³⁰ It should be noted that only time-shifted viewing via DVRs could be measured by BARB, and only viewing that occurred in the first seven days after original broadcast

Current affairs

- 3.86 Spend on all new first-run original current affairs by the PSB channels fell by 17% over the period, down from £95m in 2008 to £79m in 2013.

Figure 27: Total volume of hours of current affairs, all day: 2008-2013



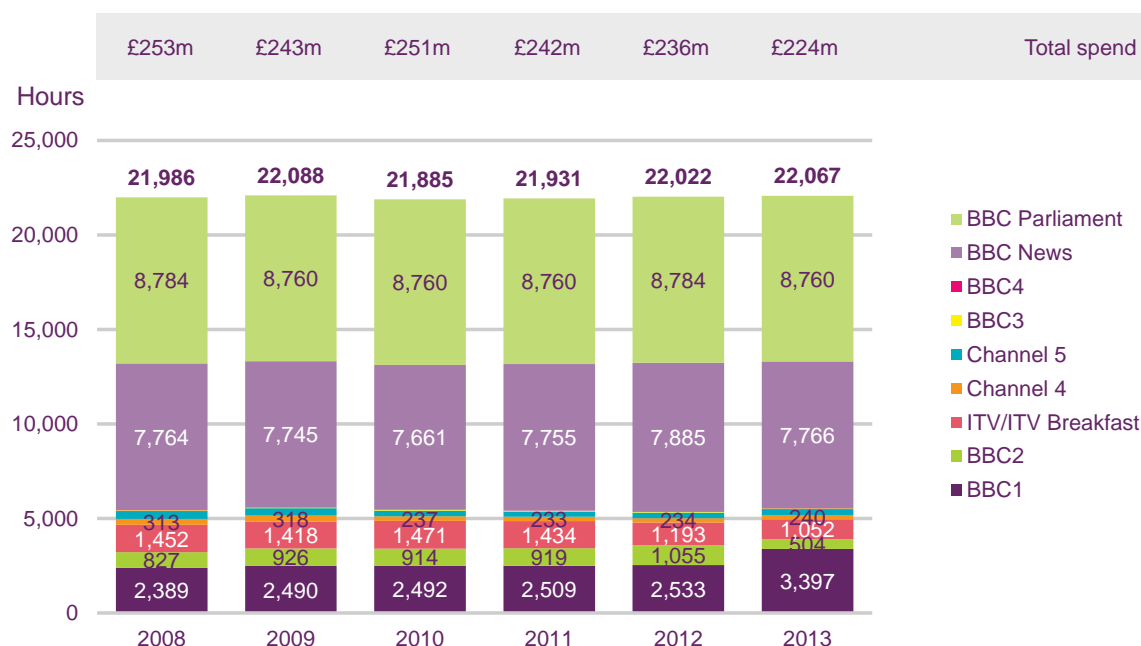
Source: Ofcom / broadcasters

Notes: UK / national news refers to network news and excludes non-network news; spend is given in 2013 prices

- 3.87 Output actually grew, despite a decline in funding; up by 8% overall, including a 5% increase in first-run output (mainly due to a 28% increase in the amount of current affairs commissioned by Channel 5).
- 3.88 Consumption of current affairs covering political, economic and social issues, on all channels, fell from 21.3 hours per individual per year in 2008 to under 17 hours in 2013. Of this, PSB viewing fell from 20.8 hours (97.7% of viewing) to 15.6 hours (93.0%). This was driven by large declines in consumption on ITV (share down 32%) and Channel 4 (share down over 50%).
- 3.89 Our tracker survey shows that 63% of respondents score the PSB services highly for helping them understand what's going on in the world. BBC One and BBC Two outperform this average (at 76% and 68% respectively) while all other PSB channels score below the average.

National and international news

- 3.90 Spend on national and international news by the PSB channels was £224m in 2013, down 11% from £253m in 2008.

Figure 28: Total volume of hours of UK / national news, all day: 2008-2013

Source: Ofcom / broadcasters

Notes: UK / national news refers to network news and excludes non-network news; spend is given in 2013 prices

- 3.91 Output was steady despite the decline in funding, with a marginal increase in hours overall and a 2% increase in first-run output.
- 3.92 Consumption of national and international news has remained broadly steady since 2008, currently standing at just over 100 hours per individual per year. BBC One's share has grown from over 55% in 2008 to over 60% in 2013, with large falls on ITV (22.1% to 13%) and Channel 4 (4.1% to 2.6%).
- 3.93 Time-shifting of news appears to be very low, at just 2.5%, so this has little impact on overall levels of consumption.
- 3.94 Sixty-five per cent of people interviewed felt that PSB news was trustworthy, with BBC One (77%), BBC Two (71%) and ITV (71%) performing well. Channel 4 was felt to be about average (62%), while Channel 5 was the lowest-scoring of the five main channels (55%).

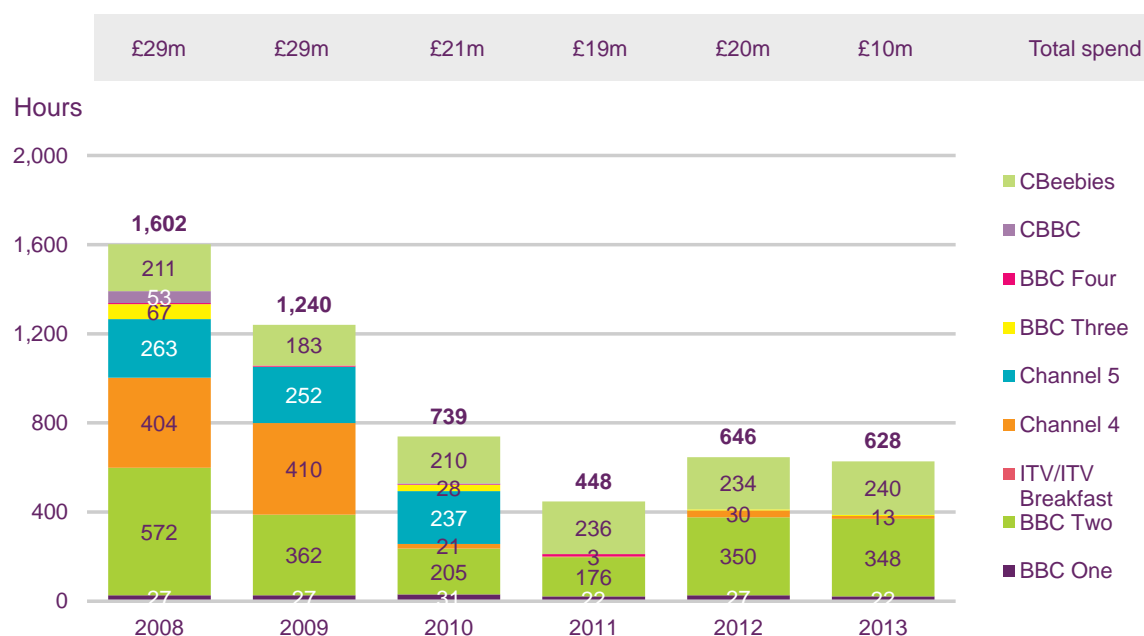
Formal education

- 3.95 Spend on first-run formal education³¹ content (a sub-set of programmes with educative value or of an educational nature) by the PSBs fell from £29m in 2008 to £10m in 2013, a drop of 65%. This was driven by the complete withdrawal from the genre of Channel 5 and BBC Three, and a near-complete withdrawal by Channel 4 (findings in Ofcom's second PSB Review led to a reduction in the Channel 4 schools

³¹ Ofcom definition for purpose of annual broadcaster returns: Programmes with a clear educational purpose, usually backed by specially prepared literature publicised on screen and in other appropriate ways. Includes programmes for Schools, BBC Learning Zone and Open University programmes. Programmes reflecting social needs and promoting individual or community action. Also includes Campaign weeks on particular subjects, e.g. bullying, drugs.

quota, to 0.5 hours per year in 2010). Large increases in spend by BBC One and BBC Two offset some of this decrease.

Figure 29: Total volume of hours of formal education, all day: 2008-2013



Source: Ofcom / broadcasters

Notes: Formal Education programmes include Schools and the BBC Learning Zone; other programmes from all broadcasters across a variety of genres include Learning Support materials; spend is given in 2013 prices

- 3.96 Output fell in line with the fall in spend, from 1,602 in 2008 to 628 hours in 2013, a fall of 61%. A total of 71 hours were first-run in 2013, a fall of 78% from the 319 hours broadcast in 2008.
- 3.97 Viewing of education programming³² fell from 0.8 hours per individual in 2008 to 0.1 hours in 2013.
- 3.98 The proportion of viewing represented by Channel 4 fell away over the analysis period. In 2008 the channel contributed 31.1% of viewing to education programming, peaking at almost half (48.4%) of all viewing to the genre in 2009. This share declined sharply to 8.3% in 2010, when Channel 4's schools programming quota was reduced. Since 2011 all viewing (100%) to this genre has taken place on BBC Two.

Entertainment and comedy

- 3.99 Spend on all entertainment programming rose by 9% over the period, from £405m to £442m, including a 6% rise in first-run spend, from £379m to £401m.

³² The BARB Education category covers formal education programming. The categories included are schools, tertiary education, adult and further education and other education programming.

Figure 30: Total spend on first-run original hours of entertainment and comedy, all day: 2008-2013

	Spend on all hours of output							Spend on first-run originated output							First run spend as a % of all spend		
	2008	2012	2013	£ change		% change		2008	2012	2013	£ change		% change		2008	2012	2013
				5yr	1yr	5yr	1yr				5yr	1yr	5yr	1yr			
Entertainment	£405m	£438m	£442m	£37m	£4m	9%	1%	£379m	£413m	£401m	£22m	-£11m	6%	-3%	94%	94%	91%
Comedy	£186m	£145m	£146m	-£40m	£1m	-22%	1%	£146m	£110m	£111m	-£35m	£1m	-24%	1%	79%	76%	76%
Total	£591m	£583m	£588m	-£3m	£5m	-1%	1%	£526m	£522m	£512m	-£13m	-£10m	-3%	-2%	89%	90%	87%

Source: Ofcom / broadcasters

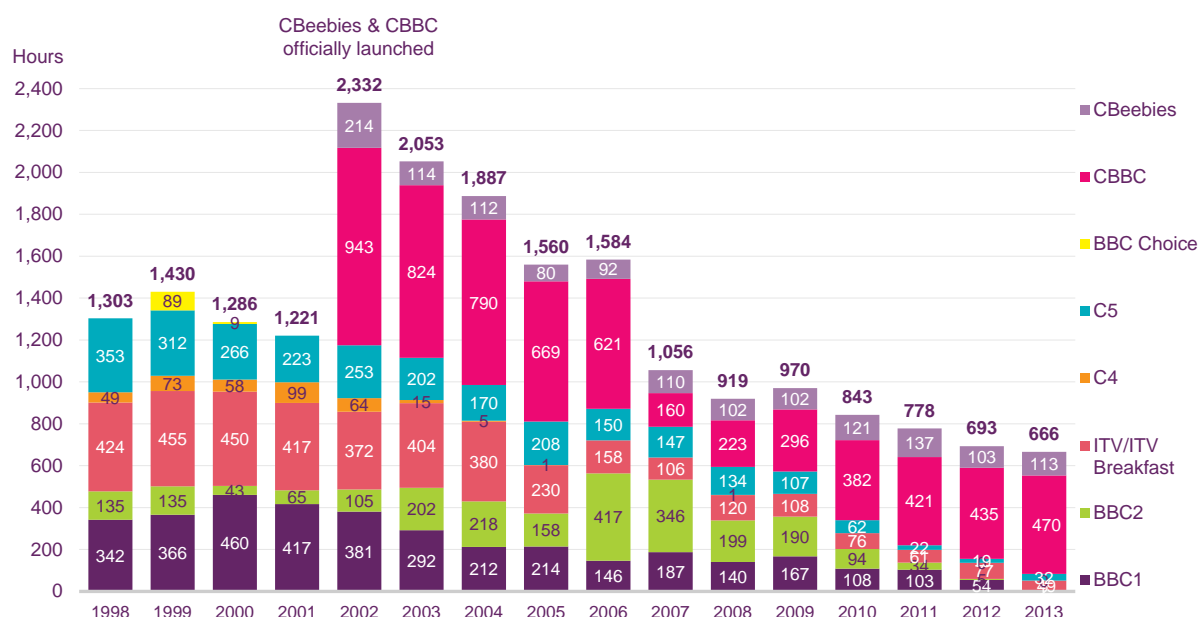
Notes: figures are expressed in 2013 prices; BBC figures include BBC One, BBC Two, BBC Three, BBC Four, CBBC, CBeebies, BBC News, BBC Parliament; the analysis does not include S4C, BBC Alba or BBC HD; figures exclude nations / regions programming

- 3.100 However, spend on comedy fell by 22%, from £186m to £146m, with a greater decline in peak time, down by 29% from £136m to £97m. Spend on first-run original comedy was down 24% over the review period; from £146m to £111m.
- 3.101 Entertainment output hours grew by 12% overall, although first-run hours were down by 14%. Comedy output grew by 34% overall, but first-run output was down by 6%.
- 3.102 Ipsos MORI's research showed that while the PSBs go some way to satisfying people's need for good quality comedy content, many do not see PSBs as the core providers of this genre.

Programming for children by the PSB channels has fallen since 2008

Output

- 3.103 Overall, first-run UK children's originations on the PSB channels declined from 919 hours in 2008 to 666 hours in 2013, a drop of 253 hours or 28%.
- 3.104 This was driven in large part by the reduction in output by ITV (down by half between 2008 and 2013, from 120 hours to 49) and Channel 5 (a reduction of over 100 hours, from 134 to 32).

Figure 31: Volume of hours of first-run original children's programming, all day: 2008-2013

Source: Ofcom / broadcasters

Note: excludes CITV channel output

- 3.105 With Channel 4 not providing any new first-run original UK children's programming in the past five years, the primary creator of new UK children's programming is the BBC. But even the BBC reduced its first-run output, with BBC One and BBC Two ceasing to broadcast children's programming. Instead, the BBC focused its children's output on CBeebies and CBBC. This contributed to a decline in first-run original output across all of the BBC's channels from 664 hours to 585 hours, a decline of 79 hours or 12%.
- 3.106 The overall number of hours of children's content on the PSB channels (including repeats and acquisitions) remained relatively stable across the majority of the period under review, at around 12,500. But, again driven by scheduling changes on BBC One and BBC Two, this dropped by over 2000 hours in 2013 (around 17%) to 10,532.
- 3.107 The BBC is key to UK-originated content provision, broadcasting an increasing proportion of the PSBs' total first run UK originations (88% in 2013, up from 72% in 2008). In three genres (drama, factual and news) the BBC is now the only provider of new first-run original children's content among the PSB channels.

Spend

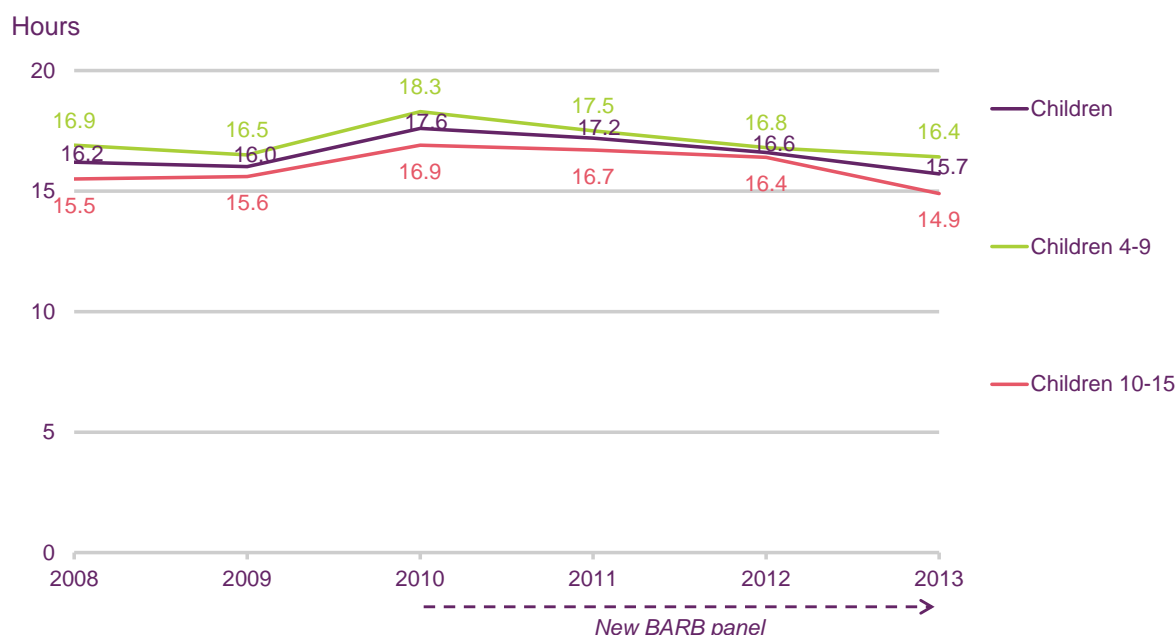
- 3.108 Overall, spend fell by 19% over the period, from £121m to £98m. In line with output trends, the BBC accounts for the majority of PSB channels' spend (95% of total spend in 2013, compared to 84% in 2008).

Consumption

- 3.109 Children are watching less television now, around 15.7 hours per week, than they did in 2008, when they watched around 16.2 hours. Within this trend of steady decline there has actually been a sharper decline in recent years, from a peak in 2010 of

17.6 hours. This appears to be driven by the drop in the hours of viewing by older children (10-15s), from 16.4 hours per week in 2012 to 14.9 hours in 2013; the sharpest drop in viewing among older children at any time since 2008. Younger children's viewing, by contrast, declined only marginally.

Figure 32: Average hours of weekly viewing of children's programming, by age: 2008-2013



Source: BARB

Note: new BARB panel introduced 1 Jan 2010, as a result pre- and post-panel change data must be treated with caution

3.110 However, the proportion of children's content that children are watching is rising, and has risen year on year since 2010. This increase is primarily the result of increased viewing to non-PSB commercial children's channels (such as CITV, and channels from Disney, Turner Broadcasting and Viacom), and there has been a decline in viewing to the main five PSB channels, both in adult and children's airtime. But CBBC and CBeebies still accounted for around a third of all children's viewing to children's programmes in 2013.

3.111 Some elements of viewing have remained constant, and family viewing in particular has remained important: two-thirds of the television children watch is in adult airtime while, in both 2008 and 2013, the most-watched programme among children was *Doctor Who*.

Audience satisfaction

3.112 Among parents, satisfaction with delivery has also remained consistently high (at over 80%), and increased in 2013. The Ipsos MORI report showed that among parents and those with children regularly visiting, it is considered important to have plurality in the provision of children's content.

There are some questions about the extent to which the PSBs fully meet the needs of a range of audiences across the UK as a whole

- 3.113 The performance of the PSBs in meeting the PSB purposes of reflecting UK cultural identity, and representing diversity and alternative viewpoints, as set out above, suggests that there are questions about the extent to which these purposes are being delivered by the PSB system.
- 3.114 There has also been some debate in recent months about the extent to which television in the UK fully reflects the diverse cultures and audiences it serves. That is rightly a question for the UK's broadcasting industry as a whole.
- 3.115 The PSB system has, as one of its statutory purposes, meeting the needs and satisfying the interests of as many different audiences as practicable. It is important that we consider the extent to which this has been fulfilled. Many of the public service objectives are relevant to this purpose, including that the PSB channels, taken together, include what appears to Ofcom to be a sufficient quantity of programmes that reflect the lives and concerns of different communities and cultural interests and traditions within the UK, and locally in different parts of the UK. In addition, the public service remit of Channel 4 includes the provision of programming which 'appeals to the tastes and interests of a culturally diverse society'.³³
- 3.116 To help assess whether the needs of a range of audiences are met by the PSBs, in this section we set out a summary of the evidence available on audience viewing and opinion. We describe our findings in the following sections, arranged into four distinct audience demographic segmentations: ethnicity, disability, gender and socio-economic group.
- 3.117 But our initial analysis is limited by the data available so far. We intend to conduct more granular research in the second phase of this review, in order to have a more detailed picture that can be set out in the final statement in summer 2015.

Ethnicity

- 3.118 In 2013 we published a report into the use of communications services by ethnic minority groups (EMGs)³⁴. The report demonstrates that on average most (but not all) individuals in ethnic minority groups claim to watch less television than the average for the UK population. This can partly be explained by the younger-than-average age profile of ethnic minority groups. But age differences do not completely explain the differences in the amount of time ethnic minority groups spend watching television. Among 16-34 year olds, a quarter of EMGs say that they spend seven hours a week or less watching television, compared to 16% of 16-34 year olds in the UK as a whole.
- 3.119 We also conducted some analysis³⁵ on a data set that combined four years' survey data, in order to be able to examine audience opinion at the more granular level of different ethnic groups (Black, White and Asian³⁶).

³³ Section 265(3) of the Act.

³⁴ <http://stakeholders.ofcom.org.uk/binaries/research/cmr/ethnic-minority-groups/ethnic-minority-groups.pdf>

³⁵ PSB Annual Report 2014

³⁶ Our data did not allow more granular splits due to sample size

- 3.120 Our audience research found that nearly half (46%) of PSB viewers rated the PSB channels highly³⁷ for showing programmes that show different kinds of cultures within the UK. This was one the lowest-scoring purposes overall, although it is interesting to note that there were no significant differences in these delivery scores by ethnic group in our combined PSB tracker data set³⁸. While 'different kinds of cultures' does not directly correspond to 'ethnicity', it is possible, although not by any means certain, that responses to this question may be related to audience opinion about representation of different ethnic groups on screen.
- 3.121 There were no significant differences in overall satisfaction with PSB delivery, and the proportion who rated elements of PSB delivery highly was fairly similar for most of the PSB purposes and characteristics we measured. But people from Black ethnic groups were less likely to rate news programmes as trustworthy (55% compared to 65% among the UK adult population).
- 3.122 The Ipsos MORI research report that Ofcom commissioned³⁹ found that some participants from ethnic minorities felt that on-screen representation of their ethnic group could be 'tokenistic'.

Disability

- 3.123 We have no information about the amount of television viewed by disabled people in the UK, due to the limitations of the BARB measurement system.
- 3.124 Based on data collected by our PSB tracker survey, rolled together from 2010 to 2013⁴⁰, overall satisfaction with the PSB channels among those with a disability was around three-quarters (74%), broadly in line with satisfaction levels among all UK adults (76%). Satisfaction with PSB among those with a disability was similar when considered by type of disability (mobility disability 74%, sight disability 71%, and hearing disability 73%).
- 3.125 The proportion who rated elements of PSB delivery highly was fairly similar for most of the PSB purposes and characteristics we measured. But there were some significant differences in the delivery scores among those with a mobility disability; individuals in this group were less likely to rate news programmes as trustworthy (58% compared to 65% among the UK adult population) and were also less likely to rate the PSB channels highly on whether *its programmes help me understand what's going on in the world today* (56% vs. 63% UK average).

Gender

- 3.126 BARB viewing data shows that in 2013, on average, women spent slightly more time than men watching the PSB channels (2.7 hours per day compared to 2.1).
- 3.127 Broadly speaking, our research into audience attitudes⁴¹ suggests that men and women give similar ratings to the PSB channels as a whole on most aspects of delivery. There are no significant differences between the proportion of men and women who give a high score to the PSBs on the overall satisfaction rating.

³⁷ 7 or more out of 10

³⁸ PSB Annual Report 2014

³⁹ Ipsos MORI: An investigation into changing audience needs in a connected world

⁴⁰ PSB Annual Report 2014

⁴¹

- 3.128 There are a couple of specific areas where women are significantly more likely than men to give higher ratings. For example, 57% of women gave the PSBs as whole a high rating on *showing high quality soaps or drama made in the UK*, compared to 45% of men. But across the audience opinion data we have collected, significant differences in opinion ratings between men and women are few and far between.

Socio-economic group

- 3.129 The *PSB Annual Report 2014* shows that the PSB channels attract audiences from across socio-economic groups (SEGs). The audiences of some of the main five PSB channels skew slightly towards ABC1 socio-economic groups, while others skew towards C2DE groups.
- 3.130 Our survey data on audience opinion in the *PSB Annual Report 2014* show that there are no significant differences by SEG on overall levels of satisfaction with the PSBs. There are relatively few significant differences between the proportions of each SEG who rate the PSBs highly on their delivery of specific purposes and characteristics. The most notable differences in ratings are for showing programmes that *help me understand what's going on in the world today* (66% of C1C2s rate the PSBs highly for delivery compared to 58% of ABs) and on *showing the programmes I want to watch* (59% of C1C2s rate the PSBs highly for delivery, compared to 51% of ABs).

Further work is needed to fully understand PSB performance in this area

- 3.131 The key results above, and the more detailed data in our *PSB Annual Report 2014*, do not suggest fundamental issues with the PSB system's current performance. But the results do pose some questions which merit further exploration. In the second phase of our work, after this consultation has been published, we intend to explore further the extent to which the PSB system is meeting the needs and satisfying the interests of as many different audiences as practicable.

Performance also varies in the nations

- 3.132 As set out in Section 2, the media landscape varies around the UK, and each nation has particular characteristics. In the audience section, we considered the views of audiences in each nation. Here we consider the structure, output and spend of the television market in Northern Ireland, Scotland and Wales. A specific consideration of the contribution of radio and other media towards the public service objectives in the nations is set out in the following section.

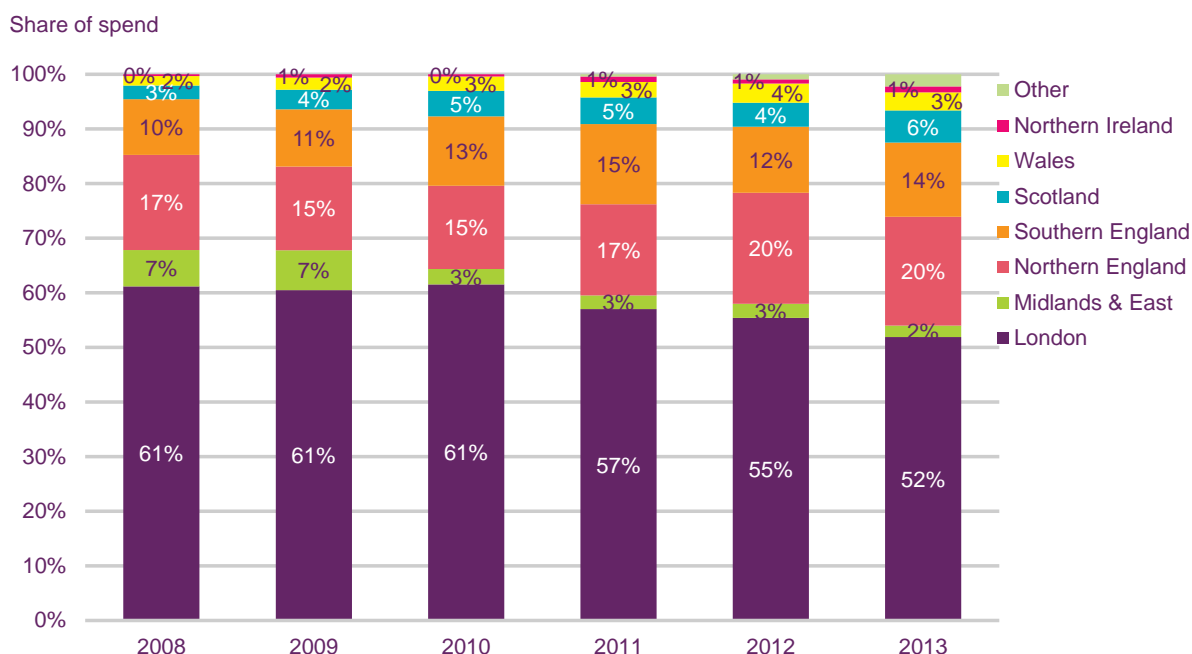
Production outside London

- 3.133 As part of the last Charter review process, the BBC made a commitment to produce 17% of its network programming in the UK nations and a total of 50% out of London by 2018. The BBC subsequently made an informal commitment to commission from Northern Ireland, Scotland and Wales broadly in line with their population. In addition, the renewed ten-year Channel 4 licence, which will take effect from 1 January 2015, requires that 9% by volume and spend of Channel 4's programmes is produced in the nations from 2020 onwards, which must include spend referable to production centres in Scotland, Wales and Northern Ireland.
- 3.134 Since 2008, the volume of network production in the nations has been rising. In 2013, for the first time, less than half (49.4%) of first-run network programme hours were produced within the M25. A further 21.1% was produced in northern England, and

11.9% in southern England. In the nations, 8.4% was produced in Scotland, 1.4% in Wales and 0.9% in Northern Ireland.

3.135 The increase in volume of production is also reflected in the proportion of spend outside London, as shown by the figure below.

Figure 33: Network production expenditure, by nation / region: 2008-2013



Source: Ofcom / broadcasters

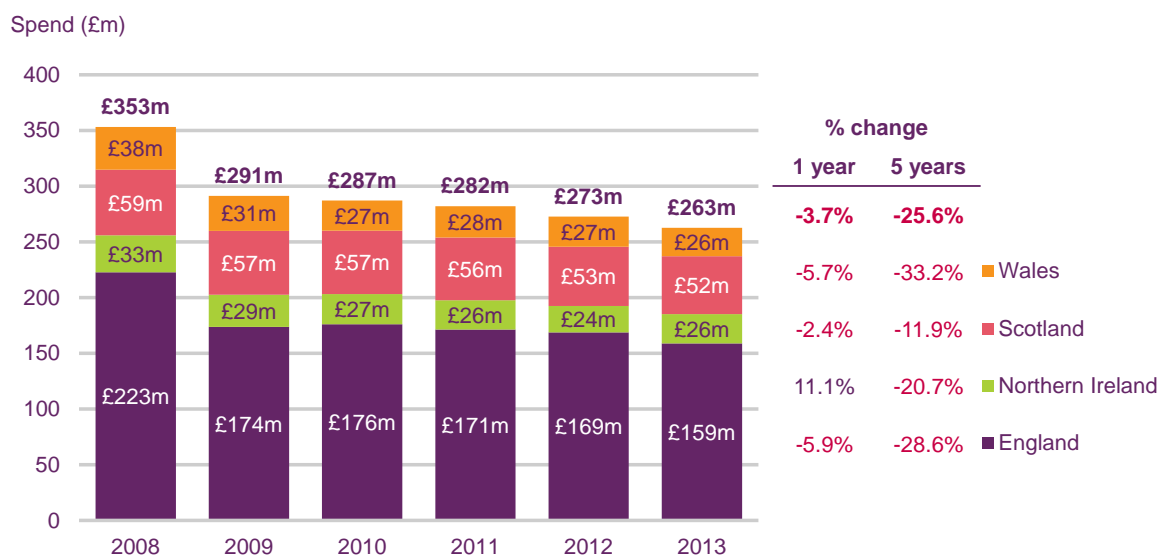
Notes: a new category 'Multi nation / region production' has been created for regional productions from London producers which do not meet both 70% of spend and 50% of talent in any one particular macro region' (see http://stakeholders.ofcom.org.uk/broadcasting/guidance/programme-guidance/reg_prod/ on Ofcom website for further details)

- 3.136 Production for the UK PSB networks in Wales has risen slightly since 2008, helped by investment by the BBC in Cardiff as a production hub. The volume of network production increased from 0.9% in 2008 to 1.4% in 2013, while spend increased from 1.7% in 2008 to 3.3% in 2013.
- 3.137 In Scotland network output increased significantly, from 1.8% to 8.4% of volume and from 2.5% to 5.9% of spend. This was almost entirely driven by Scottish-made commissions from the BBC.
- 3.138 Northern Ireland saw its share of spend on network production increase from 0.3% in 2008 to 1.1% in 2013, while volume increased from 0.1% to 0.9%.
- 3.139 Our tracker shows that 43% of people in Wales scored the PSBs highly for portraying their nation fairly to the rest of the UK, up marginally from 40% in 2008. Forty-nine per cent of people in Scotland felt the PSB system portrayed their nation fairly, a marked increase from 31% in 2008, with a similar trend in Northern Ireland, where satisfaction rose from 32% to 46%. Satisfaction with this purpose is still low relative to scores for the other purposes.

Programming for the nations and regions

- 3.140 Spend on first-run originated nations' and regions' programming by the BBC, ITV, STV and UTV fell, in real terms, from £353m in 2008 to £263m in 2013, a decline of around 26%.

Figure 34: Non-network first-run originations spend, by nation / region: 2008-2013



Source: Ofcom / broadcasters

Notes: figures are expressed in real 2013 prices; spend data for first-run originations only; spend excludes Gaelic and Welsh language programming but includes some spend on Irish language programming by the BBC; this does not account for total spend on BBC Alba or BBC spend on S4C output

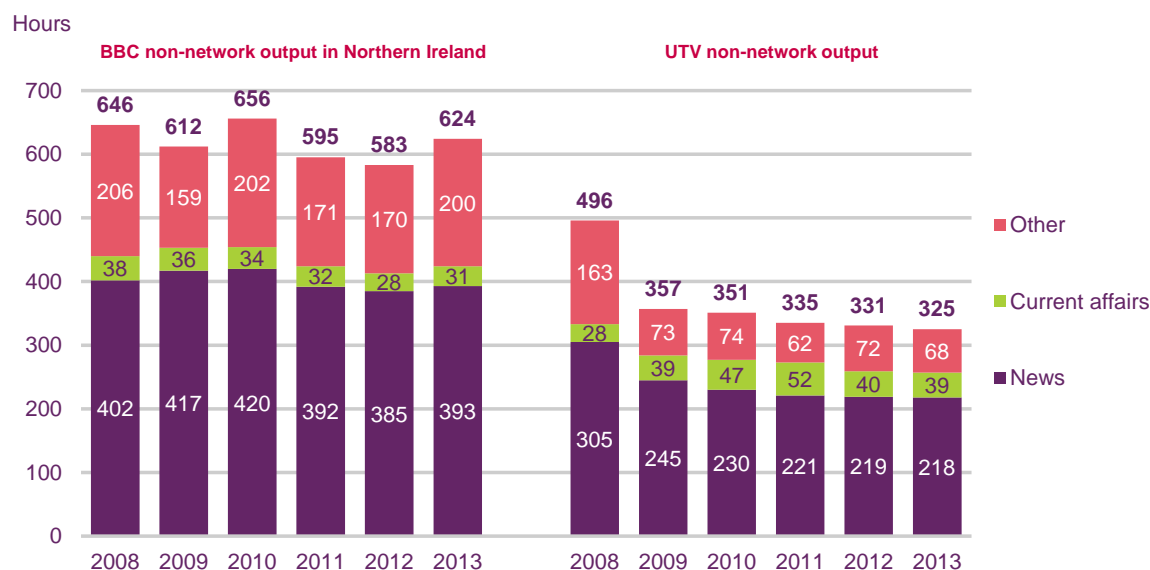
- 3.141 In line with population, the English regions account for the highest amount of output and spend, while Northern Ireland has the lowest. Wales has a somewhat higher level of spend than Scotland, despite having a lower population, due to the level of funding for S4C.

Northern Ireland

- 3.142 The BBC produces more content than UTV for viewers in Northern Ireland. In 2013 the BBC produced 624 hours of programming specifically for audiences in Northern Ireland, lower than in 2008 (646 hours). UTV produced 325 hours of nations' programming in 2013. Following our second PSB Review, in 2009 UTV was not required to produce as many hours of regional content, and subsequently, UTV's hours of local content reduced; from 496 in 2008 to an average of 340 hours each year between 2009 and 2013. UTV is required to produce four hours of regional news and two hours of non-news (including current affairs) per week⁴². Its non-news requirement is 30 minutes more than that for STV in Scotland or ITV Wales. This is due to the popularity and success of regional programming in Northern Ireland and a number of other factors⁴³.

⁴² UTV's non-news quota was reviewed as part of the Channel 3 relicensing process but was kept at two hours per week

⁴³ As set out in paragraph 2.18 of Ofcom's 2009 statement on short-term regulatory decisions

Figure 35: Non-network first-run originations hours, Northern Ireland, by genre and broadcaster: 2008-2013

Source: Ofcom / broadcasters

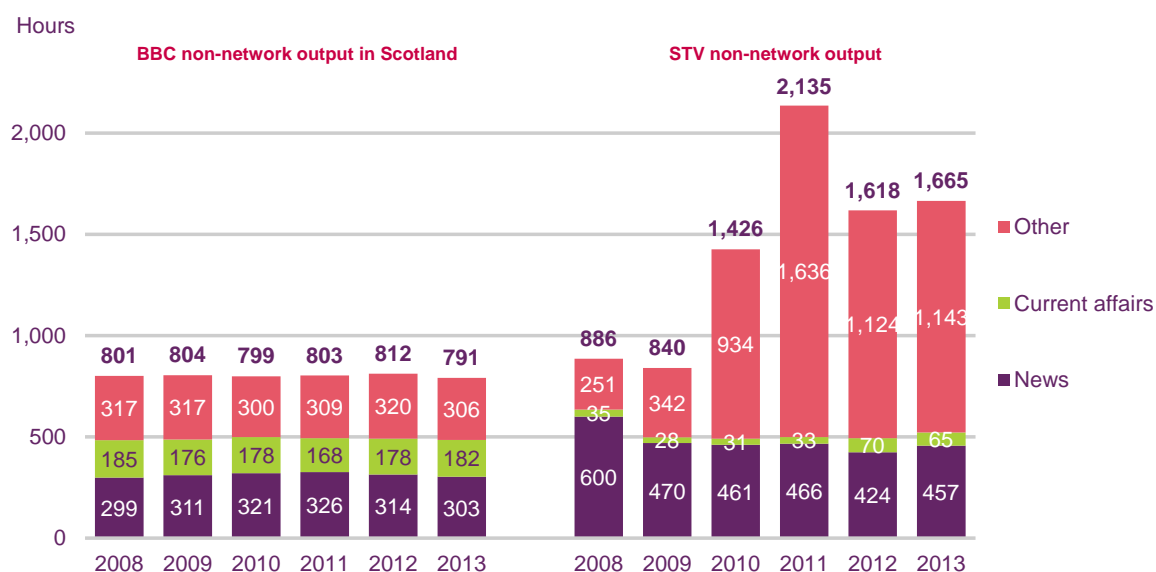
Notes: figures exclude repeats

- 3.143 In real terms, investment in programmes specifically for local audiences, made by the BBC and by UTV, in Northern Ireland has declined by 20.7%, from £33m in 2008 to £26m in 2013, although this is a 11.1% increase from 2012.

Scotland

- 3.144 STV produces considerably more programming than the BBC that is specifically for Scotland; and this was significantly higher in 2013 (1,665 hours) than in 2008 (886 hours) although lower than the peak in 2011 (2,135 hours). Much of the increase in STV's hours between 2008 and 2013 is due to the broadcaster commissioning its night-time programme, Nightshift, in 2010. STV's news output reduced from 600 hours in 2008 to 470 hours the following year as a result of a change in the licence quota, but has remained broadly constant since then. STV provides separate news programming for each licensed area, with opt-out programming for sub-areas, whereas the BBC produces a single news service for the whole of Scotland. This explains why the BBC's total hours of news output at 303 in 2013 are lower than STV's. The BBC's output for Scotland, for each of news, current affairs and other, has remained broadly stable over the period.
- 3.145 In real terms, spend on programming specifically for Scotland by the BBC (excluding BBC Alba) and STV in Scotland was £52m in 2013, down from £59m in 2008, and the highest of any of the nations.

Figure 36: Non-network first-run originations hours, Scotland, by genre and broadcaster: 2008-2013



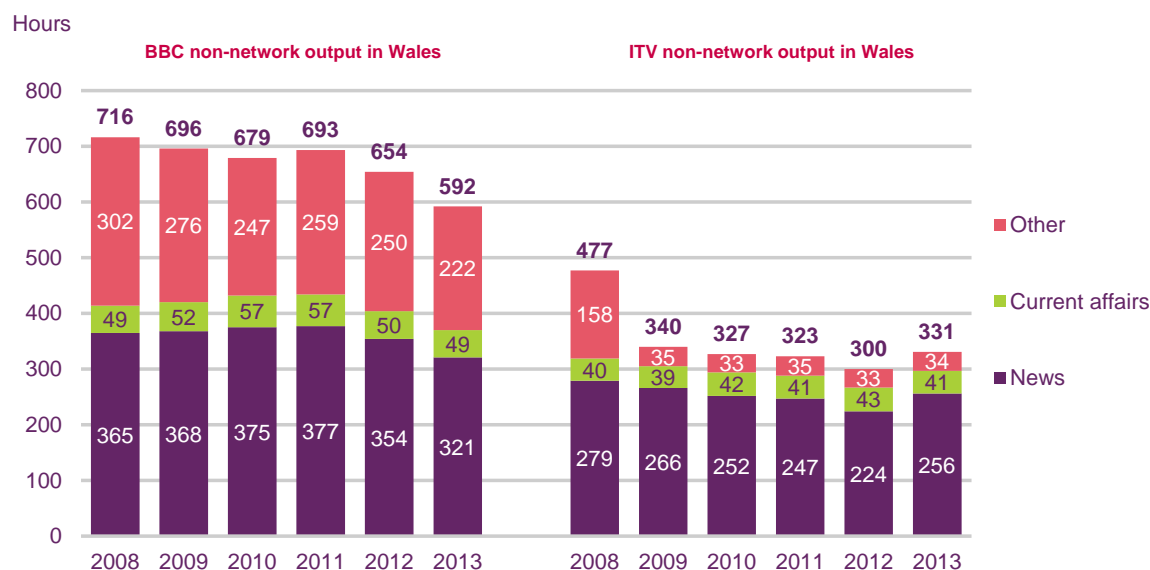
Source: Ofcom / broadcasters

Notes: figures exclude Gaelic programming; increase in 'other' hours in 2011 due to STV opting out of some networked content on Channel 3, namely increased output of *The Nightshift*

- 3.146 BBC Alba broadcasts programmes in Gaelic, most of which are subtitled in English. The channel broadcast 2,626 hours in total in 2013, one hour more than in 2012 and similar to levels since 2009. In 2013, 643 hours were originations, up by 8% on the 595 origination hours broadcast in 2012.

Wales

- 3.147 The BBC dominates English-language programmes made specifically for Wales, producing 592 hours in 2013, compared to ITV Wales' 331 hours. Both broadcasters produced significantly less in 2013 than in 2008 – a 17% reduction on the BBC (down from 716 hours) and a 31% reduction on ITV (down from 477 in 2008). While there has been a reduction in both broadcasters' output of news for Wales (with current affairs output remaining constant across the period), the greatest decline has been in non-news/non current affairs programming, with a decline of 80 hours on the BBC and 124 hours on ITV Wales. Most of the decline on ITV Wales occurred in 2009, following a reduction in the licence quota.

Figure 37: Non-network first-run originations hours, Wales, by genre and broadcaster: 2008-2013

Source: Ofcom / broadcasters

Notes: figures exclude S4C hours

- 3.148 Non-network spend by the BBC and ITV Wales stood at £26m in 2013. Wales had the biggest percentage decline in spend (33.2%) since 2008 (from £38m) of any nation.
- 3.149 S4C has a remit to provide Welsh-language programming. Before digital switchover, S4C broadcast different services on analogue and digital. The analogue service also carried Channel 4 output (as Channel 4 was not available in Wales) while the digital service, S4C Digidol, broadcast an entirely Welsh-language schedule. Since switchover in Wales, all programmes on S4C are in Welsh but all have English subtitles available. S4C broadcast a total of 6,720 hours of programming during 2013 which included 3,737 hours of repeats and 470 hours of acquisitions. This is up from 5,659 hours in 2008.
- 3.150 In the 15 months to March 2014, S4C commissioned 672 hours of children's programming.⁴⁴
- 3.151 In addition, S4C operated a sister channel, S4C2, until 2010. This channel broadcast coverage of the National Assembly for Wales, when in session. The programme content was provided by the BBC which, since January 2010, has made it available online and via BBC Parliament.
- 3.152 Until recently S4C was financed by an annual grant from the UK Department for Culture, Media and Sport (DCMS), receiving £101m of funding in 2009. It was also able to raise commercial revenue through advertising and sponsorship, although this has typically only contributed about 2% of its total income. But following the recasting of the BBC licence fee settlement in 2010, responsibility for the bulk of S4C's funding has transferred to the BBC Trust through the licence fee, with a reduction in funding equivalent to 36% in real terms. From 1 April 2013, 90% of S4C's funding (£76m) derives from the licence fee, with 8% (£6.7m) continuing to come from DCMS until March 2016. The allocations from the licence fee for 2013/14 and 2014/15 have been

⁴⁴ S4C annual report 2013 – p.101

set at £76.3m and £76m respectively; for 2015/16 it will be £75.25m, and in 2016/17 £74.5m.

Nations and regions news

- 3.153 Audience ratings of the importance of nations news has increased in Scotland, Wales and Northern Ireland since 2008, most notably in Scotland. At the same time, spend on nations and regions news has fallen from £227m in 2008 to £176m in 2013, a reduction of over 20%.
- 3.154 Output has also fallen, although to a lesser extent, with 8,470 hours broadcast in 2013 compared to 9,100 in 2008, a reduction of just under 7%. This is in part due to Ofcom's reduction in the regional news quotas for Channel 3 licensees, and the merging of some regions following the last PSB Review, which have been reversed to some extent as a result of the recent relicensing process.

Figure 38: Total spend on first-run original hours of nations / regions news, all day: 2008-2013



Source: Ofcom / broadcasters

Notes: spend is given in 2013 prices; first-run originations only, excluding BBC Alba

- 3.155 Viewing of nations news fell from 28.3 hours per individual in 2008 to 25.3 hours in 2013. The majority of this viewing took place on BBC One (17.0 hours) with the rest on ITV (8.3 hours)
- 3.156 Time spent viewing was higher in Northern Ireland than in the other nations, with individuals watching 36.7 hours in 2013. It was lowest in the English regions, with consumption at 27.2 hours in 2013. Compared to 2008, hours per individual increased most in Wales (up by 3.0 hours, from 26.7 hours in 2008 to 29.7 hours in 2013) while viewing levels fell by 2.3 hours in both Scotland and Northern Ireland.
- 3.157 Our tracker shows that 64% of people scored the PSBs highly for delivering regional news programmes that 'provide a wide range of good quality news about my area', a

20% increase from 53% in 2008. Viewers scored the PSBs above the average of 64% in Northern Ireland (74%), Wales (69%) and Scotland (66%). Other interesting trends in the nations include:

- 3.157.1 Scotland – a particularly notable improvement in audience satisfaction with nations news on STV (81% rate it highly compared to 54% in 2008)
 - 3.157.2 Wales – a large increase in satisfaction with nations news since 2008, from 57% scoring it highly to 69%
 - 3.157.3 Northern Ireland – a large increase in satisfaction with nations news, with 74% scoring it highly compared to 56% in 2008
- 3.158 The story here is therefore rather mixed, with spend down substantially, hours of output down to a lesser extent, and audience satisfaction increasing.

Adapting to an evolving constitutional settlement

- 3.159 Of the PSB channels, only the BBC and Channel 3 licensees provide content, in English, dedicated to the needs and interests of specific nations and regions. At the same time, the societal importance of nations and regional news and current affairs may be increasing.
- 3.160 The limited number of options for audiences to consume this type of PSB content may be of particular concern to the elderly and of those on low incomes; these groups are less likely to use online news.
- 3.161 There may be a policy concern regarding the provision of high quality television news for nations and regions. It is secured in terms of hours on Channel 3 services, through licence quotas⁴⁵. However, there are no legislative or regulatory levers to guarantee specific levels of funding of news for the nations and regions.

Channel 4 Corporation's performance against its media content duties

- 3.162 In addition to the important role Channel 4 plays in the PSB system, Channel 4 Corporation (C4C) has broader duties, introduced by the Digital Economy Act 2010⁴⁶ (the DEA), which apply not only to Channel 4 but to its full range of services⁴⁷, comprising its TV channels⁴⁸, on-demand services, online services⁴⁹, and Film4 Productions.
- 3.163 These duties span a number of areas including (but not limited to) content-focused obligations, such as requirements to deliver certain content genres, including news; more societal-focused objectives, for example, to support and stimulate well-informed

⁴⁵ BBC hours are secured under the BBC Agreement

⁴⁶ As part of the then government's response to the changes in media content supply and consumption, the Digital Economy Act 2010 (the DEA) extended C4C's obligations beyond the main channel by introducing a range of new media content duties for Channel 4 Corporation (C4C) to be delivered across its full range of services.

⁴⁷ C4C is not restricted to delivery of its media content duties on C4C services. However, in the interests of proportionality, this review does not attempt to measure the impact of the wider distribution of existing C4C content via third party platforms such as Netflix, DVD releases and TV channels not provided by C4C.

⁴⁸ Currently Channel 4, E4, More4, Film4, 4Music, 4Seven, and HD and +1 versions of these channels

⁴⁹ Channel 4.com: including Channel 4 News and channel specific sites, micro sites, games and apps

debate; a duty to make high quality films for cinema release; the delivery of a range of off-screen obligations covering such things as the distribution of media content; supporting the development of creative talent; and working with cultural organisations.

- 3.164 Our review of C4C's performance in delivering these duties from 2010 to 2013 (a slightly different period of review to the PSB Review) has been published alongside this consultation⁵⁰. Our provisional view is that C4C has broadly delivered against its media content duties. We are consulting on our provisional findings.
- 3.165 The majority of C4C's content-based duties have been fulfilled primarily through the main channel, Channel 4. This is to be expected, given that the vast majority of C4C's UK originations spend was allocated to Channel 4 over the review period (89.7% in 2013). But the portfolio channels (E4, More4, Film4, 4Music, 4Seven, and HD and +1 channels), and the on-demand and online services also played an important role in delivering the duties. They did this by: providing some original content; serving specific demographics or interest groups (for example, comedy, lifestyle and film audiences were particularly well served by E4, More4 and Film4 respectively); and importantly, extending the reach of Channel 4's original PSB programming through repeats or catch-up opportunities on these additional services.

C4C's performance was strong in a number of areas

C4C increased its investment in first-run originated content on the main channel

- 3.166 C4C continued to invest heavily in first-run originated content for the main channel (Channel 4), spending £382m on the service in 2013, up more than 8% in real terms between 2010 and 2013, in contrast to falls elsewhere.
- 3.167 The volume of first-run originated content on the main channel was broadly stable, down by 0.1 hours per day, to 8.1 hours in 2013. Excluding the 2010 streamed Big Brother output from the figures shows that the volume of all other originated output on the main channel increased by an average of 0.7 hours per day.
- 3.168 In 2013 first-run originations accounted for 70% of peak-time output⁵¹ on the main channel – Channel 4, level with 2010. On average, across the entire day, 34% of the 2013 Channel 4 schedule consisted of first-run UK-originated content. When repeats of these new UK programmes are also taken into account, the figure for total UK originations on Channel 4 rises to 78% of peak-time output and 61% of output across the entire day.

Spend on content rose for the portfolio channels

- 3.169 While new TV programmes predominantly appeared first on the main channel, a small amount of new content was premiered on the portfolio channels, on demand and online.
- 3.170 Total originations spend (including repeats) for the portfolio channels as a whole increased from £30m in 2010 to £36m in 2013 (up 20% in real terms at 2013 prices). However, spend on original content for digital services beyond TV fell over the same period from £13m to £8m (a decline of just under 40%).

⁵⁰ <http://stakeholders.ofcom.org.uk/consultations/c4-media-content/>

⁵¹ 6pm-10:30pm

- 3.171 Our audience research suggests that viewers consider the output of each of the C4C channels to be of high quality. C4C's online content also won a range of awards over the period.

The wider C4C group contributed towards the fulfilment of public service objectives

- 3.172 Beyond the main channel, C4C's services contributed to the delivery of the public service objectives in two key ways:
- 3.173 First, through the provision of limited amounts of new UK-originated content shown solely (or first) on the portfolio channels, on demand or online. This helps to fulfil the public service objectives by increasing the volume of content that meets these criteria.
- 3.174 Second, through provision of repeats or re-packaged Channel 4 content delivered via all of C4C's services. The portfolio channels extended C4C's reach by 16.6% in 2013 (higher for younger audiences) and so provided additional opportunities for viewers who watch little or no Channel 4 to view the main channels' PSB output, thereby potentially extending the overall impact of Channel 4's PSB content. On demand and online offer further opportunities to increase the reach and impact of PSB content.

Positive audience response to diversity⁵² output

- 3.175 The duties introduced by the DEA do not place any specific obligations on C4C to deliver particular diversity outcomes. For this reason we have not explored issues such as the scale of diversity representation either on-screen or off-screen in this review. Nevertheless, we welcome C4C's recent announcement of plans to introduce a new in-house diversity initiative, as well as the creation of the new Diversity Monitoring System from the Creative Diversity Network (of which C4C is a part) which will gather standardised real-time data on on-screen and off-screen diversity representation. We await its findings, due in 2015/16, with interest.
- 3.176 With regard to the diversity aspect of the more general duty: *to participate in the making of a broad range of relevant media content of high quality that, taken as a whole, appeals to the tastes and interests of a culturally diverse society*, we consider that the findings are largely very positive.
- 3.177 With high-profile shows such as *The Undateables*, C4C's channel reputations research suggests that its output is highly rated for tackling diversity issues, both by its audience as a whole and by the different minority groups within it. While we are unable to verify independently the detail of all of C4C's findings, audience research studies conducted for Ofcom also suggest that, overall, Channel 4 has a strong reputation for content that shows diversity, particularly through its documentaries, which are also well-regarded for showing alternative lives⁵³.
- 3.178 In the run-up to the London 2012 Paralympic Games C4C substantially increased the volume of its first-run originated diversity output from 120 hours in 2010 to 305 hours in 2012 (an increase of 154.2%). The Games coverage itself consisted of over 500 hours of content in total across all platforms, and attracted the biggest UK audience in the event's history, and *The Last Leg*, originally part of the Paralympics season, continues to be commissioned two years on. While we would not expect C4C to sustain the volume of new diversity output associated with the Paralympics in a non-

⁵² Defined by C4C as output covering multiculturalism, disability, religion and sexuality

⁵³ Ipsos MORI: [An investigation into changing audience needs in a connected world](#)

Games year, we note that in 2013 first-run originated diversity output levels fell to 14.2% below those of 2010.

- 3.179 Despite the recent fall in output levels, there were sizeable increases in C4C's own channel reputations survey scores in the area of diversity in 2013. It is unclear whether this was due to the provision of a smaller number of higher-profile programmes (e.g. *The Last Leg*) which may have resonated strongly with viewers, or whether it reflects a lag in public opinion generated by the Paralympics. It is of course possible that it represents a combination of the two factors. We are also aware that the provision of diversity content beyond the main channel is not captured by C4C's existing metrics. Although this is unlikely to account for the disparity between recent output levels on the main channel and the channel reputation scores, it underlines that the limited reporting of diversity content delivered beyond the main channel may result in C4C's output across all of its services not receiving the full recognition it deserves. It is possible that this issue will be rectified by C4C's new in-house diversity initiative, scheduled for implementation in 2015.

Increased investment in current affairs with high volumes of programming in peak-time

- 3.180 C4C increased its current affairs spend and output, by 35.3% and 13.4% respectively over the review period. It demonstrated a significant ongoing commitment to peak-time current affairs programming, showing substantially more peak-time output than any of the other main PSBs (132% more than the next highest PSB; Channel 4 showed 142 hours vs. BBC Two's 61 hours). In common with all the main PSBs, the total amount of viewing to peak time current affairs fell over the review period.

Increased investment in feature film development

- 3.181 C4C has increased its spend on UK film production in real terms, after committing to invest at least £15m a year from 2011. The number of Film4-supported films released in UK cinemas doubled over the review period, from six in 2010 to 12 in 2013. C4C won 144 awards in 2013 including three Oscars, two BAFTAs and a Golden Globe, all for *12 Years a Slave*.

C4C has shown an ongoing commitment to nurturing new talent despite the challenging economic backdrop

- 3.182 C4C increased the volume of on-screen strands dedicated to new talent, and provided a variety of internal work placements and off-screen opportunities aimed at people seeking a career in the media, through a range of in-house and external initiatives.

C4C has partnered with a range of cultural organisations

- 3.183 C4C has worked with a variety of cultural organisations over the review period, in a range of capacities from producing content to distribution. Examples include the BFI, the Science Museum, Arts Council England and a range of art galleries such as the Tate.

There were some areas where performance was weaker

There was a decline in audience reach to, and share of, the main channel

- 3.184 The continued decline of Channel 4's audience reach and share, at the rate observed over the review period, remains a concern. The main channel's weekly reach was 48% in 2013, down from just over 53% in 2010, a drop of 10.1%. Audience share fell to 4.9% in 2013 from 6.2% in 2010, a 21% reduction.
- 3.185 This has been largely offset by the growth in viewing to the portfolio channels, which together increased their collective additional weekly reach by 3.5 percentage points to 16.6% between 2010-13, an increase of nearly 27% and the biggest reach extension of any of the PSB portfolios. Their collective share also grew by 0.9 percentage points to 6.1% over the review period, an increase of over 17%.
- 3.186 The total reach of C4C's family of TV channels fell slightly, to 64.6% in 2013, from 66.5% in 2010 (down 2.9%), while share declined from 11.4% to 11% (down 3.5%) over the period.

Limited provision of content for older children

- 3.187 C4C has a duty to make media content '*that appeals to the tastes and interests of older children and young adults*'. Over the review period C4C moved away from an online-only strategy for the provision of content for older children and young adults (defined by C4C as 10-14 year olds and 14-19 year olds respectively) to a multiplatform approach, including television.

Expenditure on programming specifically for these groups fell by 19.2%; from £9.9m in 2010 to £8m in 2013. During that time the vast majority of spend and originated hours was targeted at 14-19 year olds. However, spend on new content for 10-14s did increase over the period, albeit from a very low base, from around £148,000 in 2010 (1.5% of the £9.9m spend allocated to this duty) to £2.2m, or 27.5% of spend, in 2013. This delivered four hours of content in 2013 (the E4 eight-part 30 minute drama series *Youngers*). Given the limited content provided for 10-14 year olds by the PSB system as a whole (other than by the BBC) and C4C's specific obligation to this age group, we consider that the level of original content provision targeted at this age group demonstrates a relative lack of ambition by C4C in the meeting of this duty.

- 3.188 Consumption patterns for 10-15s and 16-24s were a more exaggerated version of the trends for audiences of all ages. The loss of share of 16-24 year olds to the main channel was greater than the loss for any other age group (at 26.3%), and was followed by 10-15s (at 25.8%). However, increases in viewing by both age groups to the portfolio channels helped to minimise the overall decrease in C4C's total TV share, both for 10-15s and 16-24s. The youthful profile of C4C's channels also meant that, despite the sizeable declines in share to the main channel, the C4C family of channels continued to perform better among these age groups than among all individuals (12.9% audience share for 10-15 year olds and 17.8% for 16-24s in 2013, compared to an 11% share for all individuals). We consider that C4C delivered on its obligations to provide content for young adults. However, we are concerned about the extent to which C4C met its duty to provide content for older children, as the volume of provision for 10-14 year-olds remains very limited. We will seek information from C4C to better understand its future strategy for content provision for 10-14 year-olds better.

- 3.189 Taking into account both the educational themed content specifically targeted at 14-19 year olds, and the likely appeal of much of C4C's general output to young adults, we consider that C4C is sufficiently delivering this aspect of its duty.
- 3.190 Through the Statement of Media Content Policy (SMCP) process⁵⁴ we have previously highlighted that C4C needs to establish effective ways of measuring the impact of its strategy for content targeted at 14-19 year olds. We welcome C4C's acknowledgement, in its 2013 SMCP, of the need to address this issue through research measures that go beyond direct ratings and we continue to urge C4C to take this forward. In the light of this review's provisional findings on 10-14 year olds, we suggest that the younger age group is also included in C4C's research considerations.
- 3.191 In addition, we suggest that in future SMCPs the figures should be disaggregated, to show content spend and hours for each of the two age groups. This would deliver more transparent reporting and facilitate more precise monitoring of delivery of the two parts of this duty.

A decline in the reach and share of *Channel 4 News*, particularly among young adults

- 3.192 *Channel 4 News* is a high quality and distinctive programme. Importantly 16-34s and BAME viewers account for larger proportions of its news audience than any of the other main PSB channels. But in audience terms, the ongoing performance of C4C's news output remains an area of concern. The average weekly reach of Channel 4's news programme fell more sharply than the other PSBs' news bulletins over the review period (by 22.6% for all adults aged 16+, and by 31.5% for 16-34s) and its audience share is small (2.9% among all individuals in 2013) and declining, falling by 19.4% over the review period. In peak time, when Channel 4 broadcasts the vast majority of its news output, share fell by a similar amount (20.7%). However, Channel 4 continued to represent a much larger share of peak-time news viewing (at 6.9% in 2013, down from 8.7% in 2010) than across the day as a whole. We will continue to monitor the reach and share performance of *Channel 4 News*.
- 3.193 C4C has developed its online news offering in an effort to help counter this decline. Through the annual SMCP process we have encouraged C4C to clarify its stated strategy to innovate online to increase the reach and impact of its news content (particularly with young people). There is some evidence that this approach is starting to bear fruit, with views to *Channel 4 News* video clips on YouTube in 2013 increasing by 87% year on year from 9.5 million in 2012 to almost 18 million in 2013. *Channel 4 News* won a number of online media awards in 2013, including the best website for news-led journalism and the best use of social media. We also note C4C's plans for further innovations (e.g. online-only programmes and a focus on social media). But at present C4C's performance in the online news environment continues to be surpassed by other providers.

Volume of international programming

- 3.194 Excluding news, C4C's data show that the volume of first-run content on the main channel⁵⁵ covering international matters fell by more than 40%, from 120 hours in

⁵⁴ Section 198B of the Communications Act 2003 requires C4C to consult Ofcom in the preparation of its annual SMCP (C4C's proposals for delivering its duties over the year ahead and review of its previous year's performance) and have regard to guidance given by Ofcom.

⁵⁵ Channel 4 plus the *True Stories* strand broadcast first on More 4 between 2010-2012

2010 to 70 hours in 2013 (and dipping to a low of 54 hours in 2012). The range of genres covering international content in 2013 was also narrower than in previous years.

- 3.195 We understand from C4C that the steep drop in 2012 was primarily due to C4C's decision to cut the volume of *True Stories* films. It points out that by moving the strand from More 4 to the main channel, it increased the impact of the remaining hours, attracting average audiences of 1.6 million in 2012 compared to 200,000 in 2011. As with diversity output, we will continue to monitor the volume of international output, and will seek information from C4C to better understand its strategy for future content provision in this area.

While the PSB system continues to deliver, investment is declining

- 3.196 Our initial findings suggest that overall, the PSB system continues to deliver the public service broadcasting purposes and public service objectives, although declining real-terms investment in new first-run original programmes may be a concern.
- 3.197 There has been a more notable decline in the output of and investment in some PSB genres than in others, while in some genres the BBC is now the only major supplier.
- 3.198 Meeting the needs and expectations of an increasingly diverse society, with an evolving constitutional settlement, looks challenging.

Declining PSB spend, output and consumption do not appear to have impacted on audience satisfaction

- 3.199 The PSB system has seen a sizeable reduction in spend, a resulting decline in output, and falling viewing due to the choice offered by the broader market. It would be reasonable to expect these declines to demonstrate decreasing audience satisfaction with PSBs. But this does not appear to be the case.
- 3.200 Our analysis demonstrates that the BBC remains the cornerstone of the system, providing the majority of PSB investment and output, that Channel 4 plays an important complementary role, and that ITV and Channel 5 deliver certain key genres and invest in new, UK content. In the nations, STV, UTV and S4C are important parts of the media landscape.
- 3.201 Audiences continue to value the purposes of PSB and continue to believe that the PSB characteristics are important. Satisfaction with PSB among audiences remains high, in many areas higher than in 2008.
- 3.202 Our audience research suggests that consumers still associate PSB output with quality, and they consider that the programmes produced by the PSBs compare well with content from other, non-PSB sources both from the UK and abroad.
- 3.203 So why has declining PSB performance in some areas not resulted in a fall in audience satisfaction? Our audience research suggests that audiences are increasingly satisfied with the television services they receive and the ways in which they can view them.
- 3.204 High-definition picture quality, the ability to easily record and time-shift viewing using a DVR, and the widespread availability of on-demand services on a range of devices

all allow viewers to enjoy higher-quality television in an increasingly more convenient and flexible manner.

- 3.205 In combination with an explosion of choice of channels and new content services, explored in more detail in the following chapter, it is perhaps unsurprising that viewers are increasingly satisfied by television services as a whole. These improvements apply equally to PSB services, and may partly explain the increasing audience satisfaction.
- 3.206 As people are able to more easily personalise their viewing experience, so they watch more of what they want to (whether from PSBs or elsewhere). Although this has resulted in lower viewing to PSB services, it is also likely to mean that people regard the programmes they do watch very highly, thereby increasing satisfaction.
- 3.207 And despite a decline in output, there is still an extremely high level of investment in new original programmes. Absolute levels of investment in new original programmes remain very high as a proportion of all spend on content, and there remain more than 100 hours a year of output in all key PSB sub-genres⁵⁶ apart from religion, formal education and classical music.

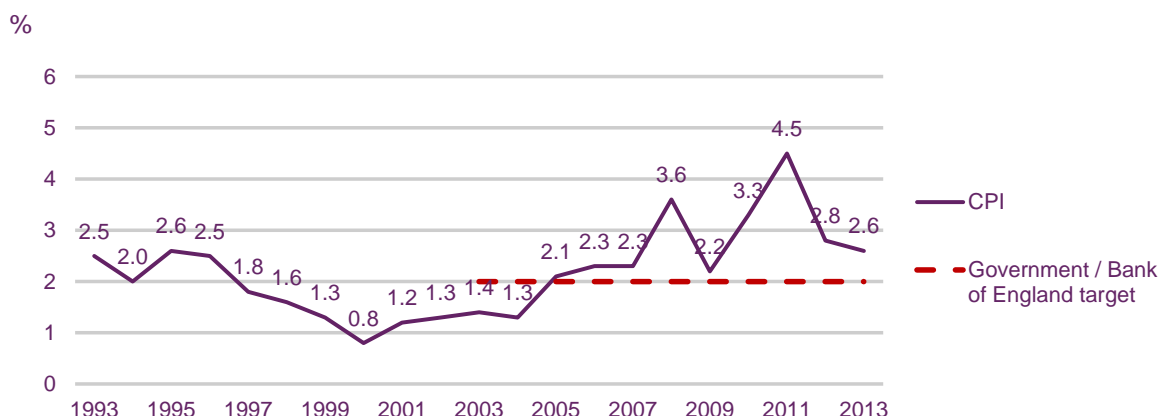
Other factors may have offset declining broadcaster investment

- 3.208 Other factors may also explain why declining investment has not been reflected in audience satisfaction:
- 3.208.1 our use of CPI to adjust programme investment data into real terms;
 - 3.208.2 third-party (non-PSB) contributions to PSB programme funding; and
 - 3.208.3 programme production efficiency gains.

The impact of adjusting for inflation

- 3.209 We use the Consumer Prices Index⁵⁷ (CPI) to adjust programme investment data into real terms. CPI has been consistently high during the review period and recession:

Figure 39: Consumer Price Index (CPI): 1993-2013



Source: ONS

⁵⁶ Discrete types of PSB programmes within macro genres

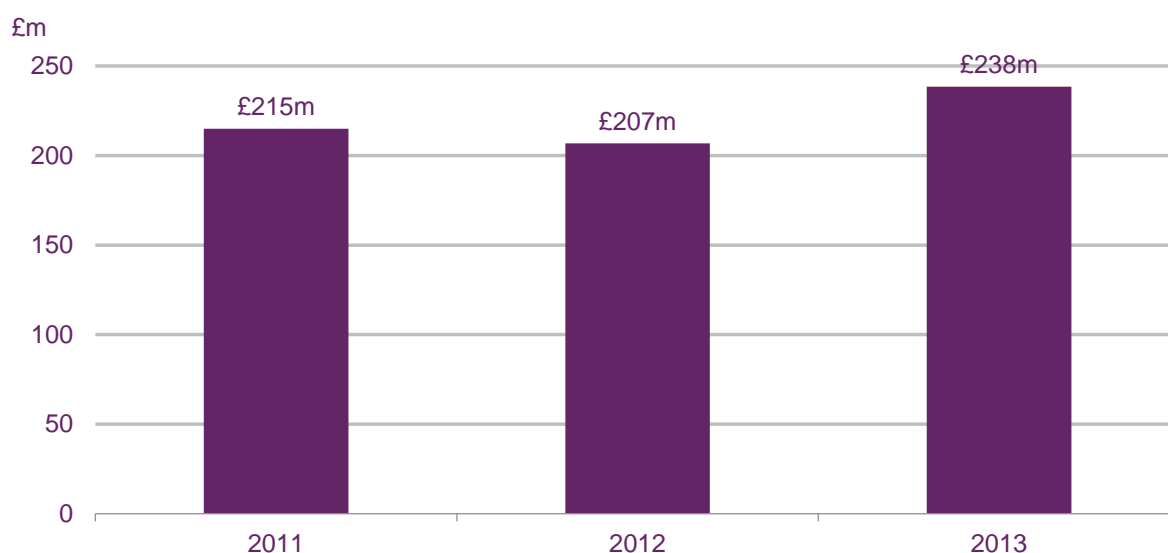
⁵⁷ UK Office of National Statistics

- 3.210 Given that the CPI measure represents the price inflation of a basket of typical consumer goods, it may not be a perfect indicator of price inflation in the cost of producing new UK television programmes.
- 3.211 It is therefore possible that each real-terms pound spent by the PSBs on first-run UK programmes is buying more than it did in previous years, meaning that there may be less impact on the range and quality of programmes than might ordinarily be expected, given the fall in spend.

Third-party contributions to PSB programme funding

- 3.212 Direct broadcaster investment in programmes is not the only source of funding for programmes. Two further important sources of funding are: co-production investment, where a third party pays for part of a production's costs, and producer deficit finance and/or distributor advances, where producers part-fund a commission in exchange for secondary or non-UK rights that can be commercially exploited. This might mean that the decline in PSB spend does not reflect the overall value of the programmes on screen. The level of this investment is shown in the figure below⁵⁸.

Figure 40: Third-party contribution to first-run UK originations, PSB channels (real terms, 2013 prices): 2011-2013



Source: Ofcom / broadcasters

Notes: figures are expressed in 2013 prices; BBC figures include BBC One, BBC Two, BBC Three, BBC Four, CBBC, CBeebies, BBC News, BBC Parliament; the analysis does not include S4C, BBC Alba or BBC HD; figures exclude nations/regions programming

- 3.213 The contribution of third parties to first-run new UK programmes has grown steadily in real terms since 2008, but from a relatively low base. The growth of this third-party funding only partially offsets the real-terms decline in direct PSB investment, but may have helped to maintain the volume and quality of output to some extent. There may also be significant differences by genre.

⁵⁸ We asked the PSBs to report on the estimated level of third-party funding of their commissions. It should be noted that some PSB channels could not report levels of third party funding before 2011 so we have only included data from 2011 onwards.

- 3.214 The vast majority of value generated by secondary rights appears to lie in drama output. The proportion of drama commissions benefiting from third-party funding, and the level of that funding, may therefore have grown over the review period.
- 3.215 Factual and entertainment programming have not, so far, generated the same levels of secondary market value, although in some cases the ‘formats’ sales can be substantial for these genres if sold in many territories. But it may be that non-scripted PSB factual commissions are also increasingly drawing in third-party funding, although this market appears to be at an earlier stage of development, and probably has less headroom for growth than drama.

Production efficiency gains

- 3.216 As PSB funding and investment have come under pressure over the review period, it is possible that broadcasters have been able to reduce the average cost of first-run UK programmes by seeking efficiencies in a number of ways. Our hypothesis is that non-scripted tariffs have not risen much on average over the past 5-10 years.
- 3.217 The most substantial area where efficiencies are likely to have been found are in reducing direct costs in production processes by eliminating unnecessary wastage or minimising the number of crew involved in the making of programmes.
- 3.218 In addition, broadcasters may also have been able to agree lower tariffs for key returning series in return for longer multi-year contracts.
- 3.219 The external production sector may have been willing to accept less favourable commercial terms from broadcasters – there is some evidence for this in falling producer margins over the period, as set out in the figure below.

Figure 41: UK independent production sector net profit margins: 2004-2013



Source: Pact census, Oliver & Ohlbaum Associates analysis

Note: *2010 figure is higher due to variable reporting methodology used by producers which we cannot disaggregate

Section 3 consultation questions

Question 3: Do you agree with our assessment that the PSB system remains strong overall?

Question 4: Given the resources available, to what extent is the system meeting the needs of as wide a range of audiences as practicable?

Question 5: Given the resources available, does the PSB system deliver the right balance of spend and output on programming specifically for audiences in Wales, Scotland and Northern Ireland and programmes reflecting those nations to a UK-wide audience?

Question 6: Is declining investment affecting the quality of PSB and is it a cause for concern?

Question 7: Do you agree with Ofcom's provisional findings in the Review of C4C's delivery of its media content duties?

Section 4

The delivery of the public service objectives by the wider market

Ofcom has new PSB Review duties to consider the delivery of the public service objectives by the wider media market – these duties were introduced by the Digital Economy Act 2010.

While the PSBs continue to account for the majority of new, UK content, the wider market is playing a growing role. **The non-PSB channels have significantly increased their investment in non-sport first-run original UK programmes by 43% since 2008** in real terms. These channels now account for around 15% of the value of all UK non-sport first-run UK original programmes.

This increase in investment by the multichannel sector is particularly welcome, given the reduction in real-terms investment by the PSB channels. It should be noted that beyond the PSB portfolio channels, most of the channels contributing to this investment are pay-TV channels and so are not available to audiences without a subscription.

The multichannels also increasingly contribute towards the **public service objectives**. This growing contribution benefits audiences by providing competition for quality and increasing choice.

The PSBs' portfolio channels also play an important role, increasing the reach and share of PSB output by repeating programmes from their main PSB channel and investing in original programmes.

Increased internet take-up and consumption has been mirrored in **the popularity of the internet as a source for different types of content**, with online media services such as Vice Media and BuzzFeed making an important contribution to the delivery of the public service objectives. BBC radio, commercial and community **radio stations** also contributed towards the public service objectives.

- 4.1 While the PSBs continue to account for the majority of investment in and output of new, UK content, the wider market is playing a growing role. This section looks at the contribution of the multichannel television channels, PSB portfolio channels, online media services⁵⁹ and radio services to the delivery of the public service objectives.⁶⁰

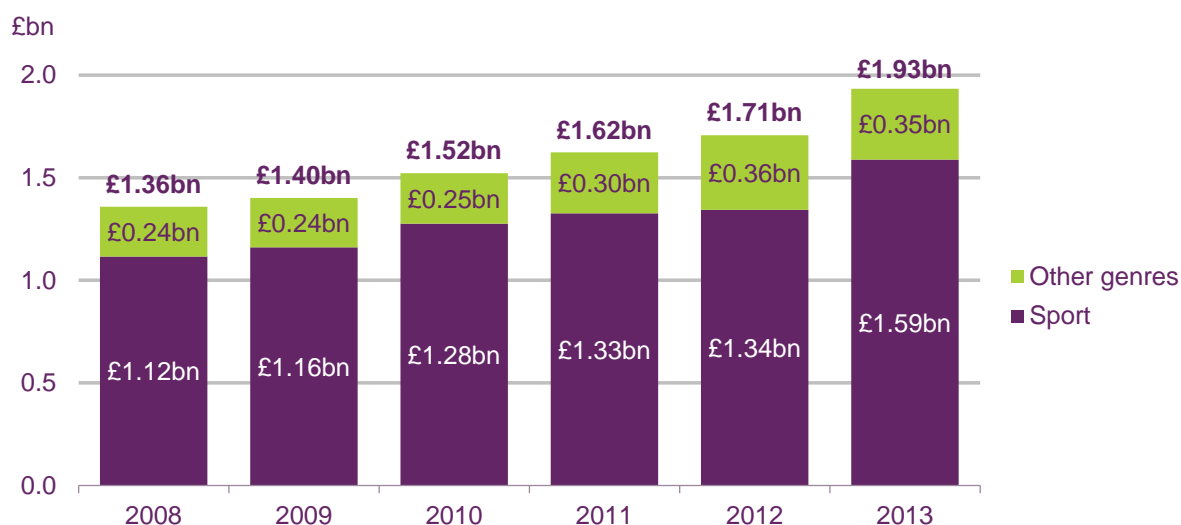
Spend by non-PSB channels has increased since 2008

- 4.2 Spend by the multichannel sector and PSB portfolio channels combined (excluding sport) has risen from £242m in 2008 to £345m in real terms at 2013 prices, an increase of 43% since 2008.

⁵⁹ To inform our understanding in this area we commissioned Enders Analysis to assess the extent to which online services were delivering the public service objectives. Their report is published as an annex to this consultation.

⁶⁰ Ofcom's duties in conducting this wider 'media services' review are set out in Annexes 1 and 2.

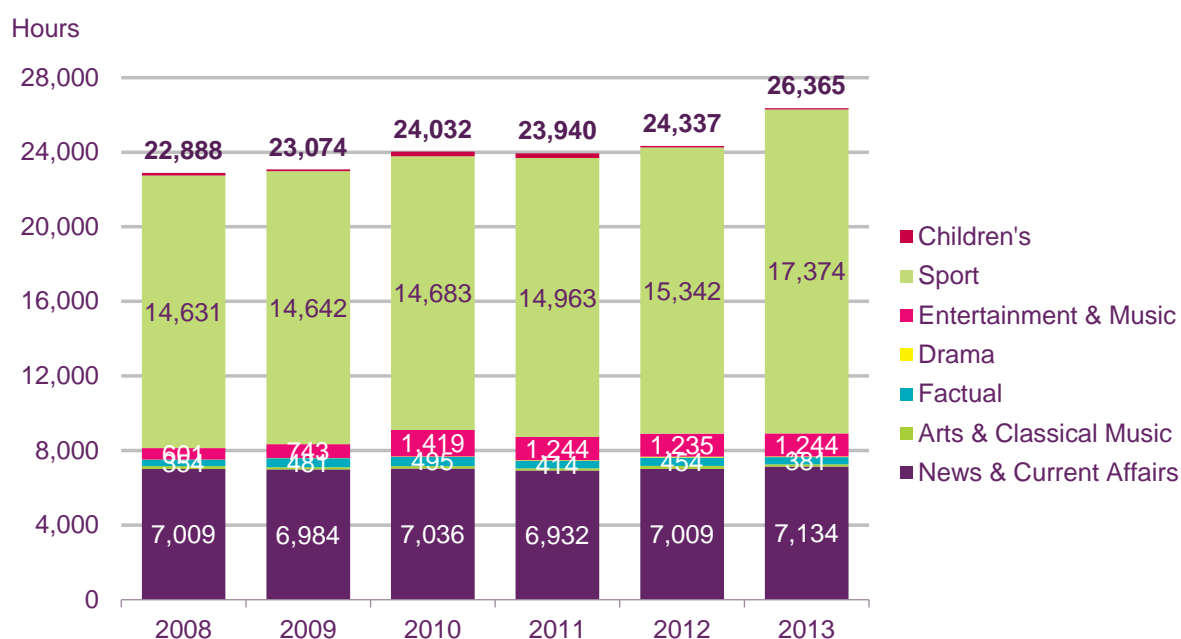
Figure 42: Non-PSB channel spend on first-run UK originations (real terms, 2013 prices): 2008-2013



Source: Ofcom

Notes: figures are expressed in 2013 prices; commercial PSB portfolio channels are CITV, ITV2, ITV3, ITV4, 4seven, E4, Film4, More4, 5USA and 5*; the multichannel sector consists of returns from Sky, Viacom, UKTV, BT, Discovery, AETN, Turner, Disney, CSC and Baby TV.

- 4.3 Investment in television content by non-PSB channels has continued to increase since 2008; output from BSkyB is of notable scale. While the vast majority of spend by these multichannel broadcasters is on sport, spend on first-run, non-sport UK originations has grown by more than £100m in real terms since 2008.
- 4.4 This increased investment is clearly to be welcomed. But it is also worth noting that investment in new UK programming by the main five PSB channels still accounts for a greater proportion of overall investment than that by the hundreds of other non-PSB services combined.
- 4.5 The multichannel sector provided 26,365 hours of first-run UK originated content in 2013, 93% of which was news and sport output. This is a 15% increase on the 2008 figure of 22,888 hours of first-run UK originations.

Figure 43: Multichannel first-run UK originated hours, by genre: 2008-2013

Source: Ofcom

Notes: multichannel data consists of returns from Sky, Viacom, UKTV, BT, Discovery, AETN, Turner, Disney, CSC and Baby TV; output hours are based on running time

- 4.6 Excluding news and sport, the sector provided 1,857 hours of first-run UK originated content in 2013 – a 49% increase on the 2008 figure of 1,248 hours.
- 4.7 The volume of first-run hours produced (excluding news and sport) is much more than that of the commercial PSB portfolio channels. Again, this is to be welcomed, but the volume of new commissions remains small compared to that from the main PSB channels each year.
- 4.8 Share of viewing to multichannels in 2013 was just under 28% of total viewing, with a further 22% to commercial PSB portfolio channels (set out below).

Output from the multichannel sector contributes towards many of the public service objectives

- 4.9 There are many channels beyond the PSB and PSB portfolio services that are delivering the public service objectives:
- 4.9.1 Arts, comedy, music and drama: Sky has invested in a range of high-profile new UK drama, such as *Mad Dogs*, and comedy, like *This is Jinsy* and *Stella* for Sky One. It also provides two Sky Arts channels covering a wide range of cultural events and topics. Beyond Sky, other multichannel broadcasters are also investing in new UK content, such as UKTV's comedies *Crackanory* and *As Yet Untitled* for Dave channels, while Comedy Central and the MTV channels also deliver programming which contributes towards the objective to reflect cultural activity in the UK.
- 4.9.2 News and current affairs: a large number of news channels are available in the UK, including Sky News, Al Jazeera, CNN, and France 24.

- 4.9.3 Sport and leisure: Sky, BT and Eurosport deliver numerous sports channels, broadcasting live sports and a range of sport- and leisure-related programming, such as documentaries. There are also a number of more specialist sports channels catering for more specific tastes and interests.
 - 4.9.4 Religion: channels covering religious topics and services are now widespread, serving the major religious traditions, including Christian, Muslim and Sikh communities.
 - 4.9.5 Children's programming: Disney, Nickelodeon and Cartoon Network are all prominent in children's programming. While predominantly providing non-UK programming, they also commission a limited amount of UK programming, such as Nickelodeon's 2010-2012 children's series *Summer in Transylvania*.
 - 4.9.6 Reflecting different communities and interests: local TV services, in addition to contributing towards many of the objectives above, are intended to provide programming that meets the needs and reflects the lives of people in different localities throughout the UK. The Community Channel offers a range of programmes from new directors and community filmmakers, describing itself as "inspiring you to take action on the causes and issues that matter to you."
- 4.10 Many of the examples above are available only to pay-TV subscribers, rather than being free of charge to everyone in the UK. In our view, this limits their contribution to the delivery of public service content, in comparison to the universally-available PSB channels.

The role of the commercial PSB portfolio television channels is important

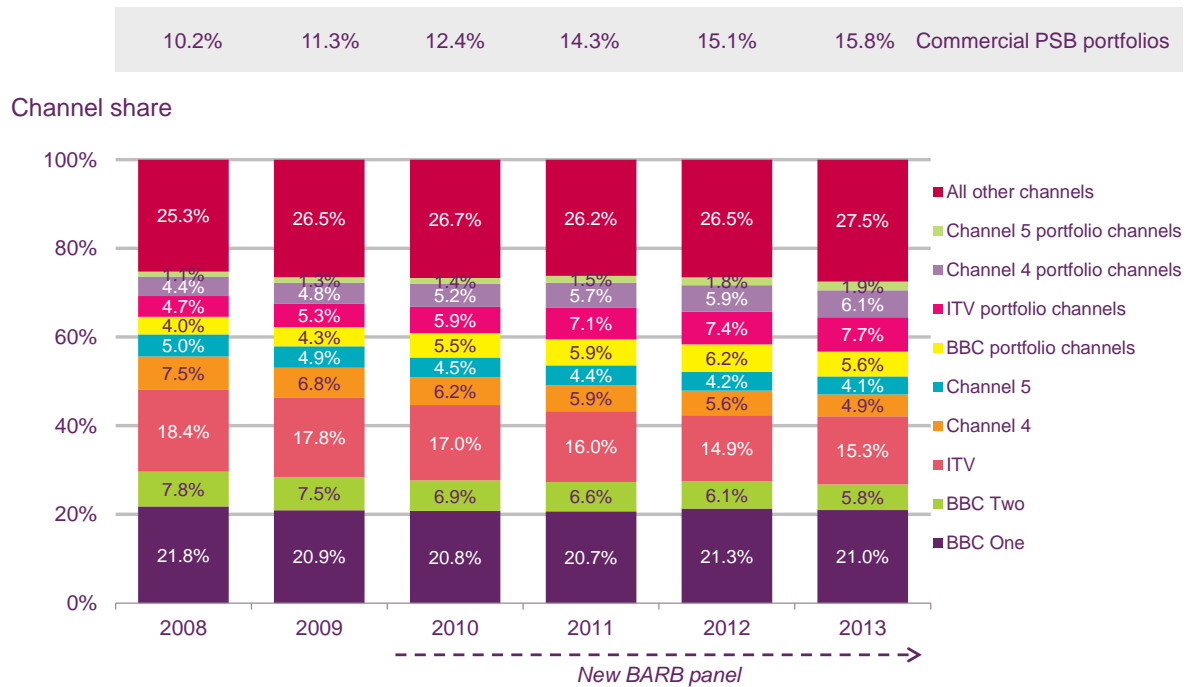
- 4.11 The role of the commercial PSB portfolio channels is very different to that of the PSB channels. As purely commercial services, they have none of the licence obligations⁶¹ and receive none of the benefits associated with being a PSB channel. The main purpose of the portfolio services is to increase commercial revenues by extending reach and share through a mix of previously-broadcast originations from the PSB channels and other acquisitions.

The commercial PSB portfolio channels have helped broadly to maintain overall levels of viewing to the PSB institutions

- 4.12 While the share of viewing to PSB channels has fallen over the past six years, viewing to the wider portfolio of channels provided by ITV plc, Channel 4 Corporation and Channel 5 has been important to these broadcasters' overall group performance.
- 4.13 In 2013, share of viewing to these services was 15.8%, up from 10.2% in 2008. Taken together, all of the channels produced by the PSB institutions accounted for 72.5% of all viewing in 2013, down from 74.7% in 2008.

⁶¹ C4C has media content duties to deliver across its services. See Annexes 1 and 2.

Figure 44: Channel shares for the main five PSB channels and their portfolio channels, all Individuals: 2008-2013

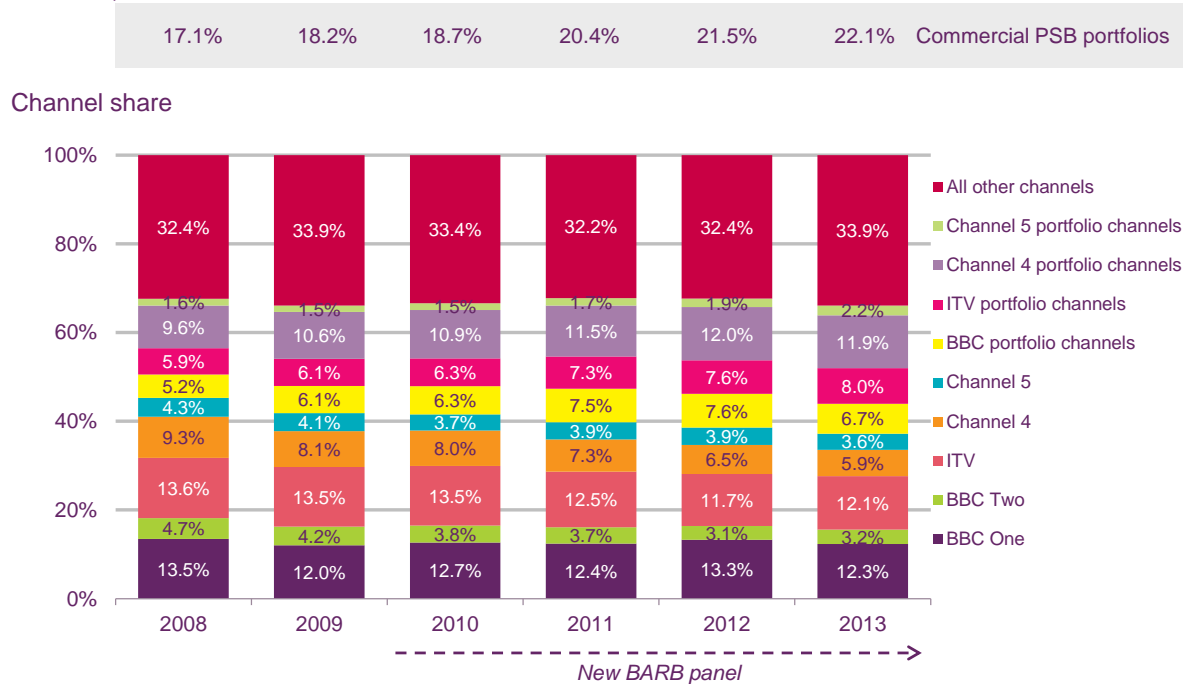


Source: BARB

Notes: all Individuals (4+); network; new BARB panel introduced in 2010, please compare pre- and post-panel change data with caution; rounding errors may occur

4.14 These services appeal particularly to those aged 16 to 24, with a share of 22.1% in 2013.

Figure 45: Channel shares for the main five PSB channels and their portfolio channels, adults 16-24: 2008-2013



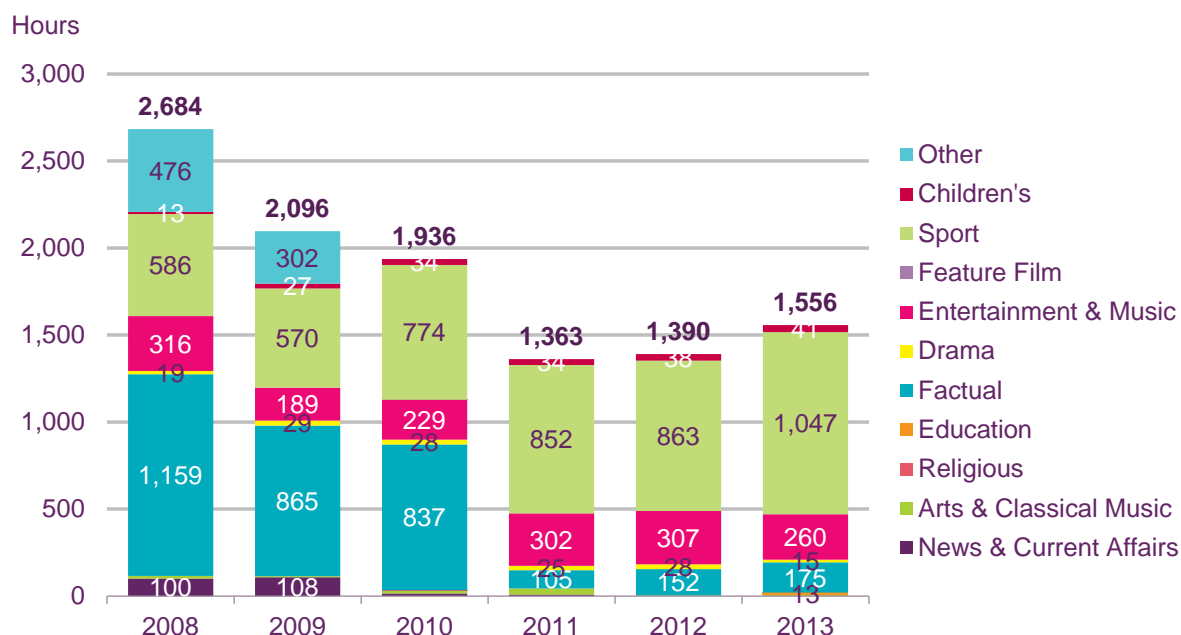
Source: BARB

Notes: adults 16-24; network; new BARB panel introduced in 2010, please compare pre- and post-panel change data with caution

At present the portfolio services play only a limited role in delivering new UK programming

- 4.15 The commercial PSB portfolio channels broadcast 1,556 hours of first-run UK originated content in 2013; a 1,128 hour decrease from the 2008 figure of 2,684 hours. This reduction can be explained in part by the loss of *Big Brother* live streaming from E4 over this period.

Figure 46: Commercial PSB portfolio first-run UK originated hours, by genre: 2008-2013



Source: Ofcom

Notes: commercial PSB portfolio channels are CITV, ITV2, ITV3, ITV4, 4seven, E4, Flim4, More4, 5USA and 5*; output hours are based on running time

- 4.16 Although the amount is small, the commercial PSBs do choose to broadcast some of their most well-known original programming on their portfolio channels. Original UK content shown on the ITV portfolio channels includes popular series like *Celebrity Juice* and *Plebs* (ITV2), and reality spin-off shows such as *The Xtra Factor* and *Britain's Got More Talent* (ITV2). ITV also chose to launch its ITVBe service by making it the new home of *The Only Way is Essex* as well as several new commissions.
- 4.17 C4C's portfolio commissions are concentrated on E4 and More4. E4 is home to the popular simulated reality show *Made in Chelsea*, as well as newer dramas targeted at young people, such as *Drifters* and *Youngers*. More4's commissions include lifestyle-themed factual programming like *Building the Dream* and *Homes by the Sea*.
- 4.18 Channel 5 typically broadcasts fewer hours of new UK content on its portfolio, partly because one of its two services is focused on acquired US content (5USA). However, it does air some first-run originations, including the entertainment news strands *5* Access* (5*) and *Inside Hollywood* (5USA).
- 4.19 Sport output made up 67% of all first-run UK origination hours of output by the PSB portfolio channels in 2013 – a total of 1,047 hours of output, including UEFA Europa League football and the Tour de France (ITV4).

But portfolio channels extend the reach of PSB programming, often to a more targeted audience than the PSB channels

- 4.20 Timeshifted “+1” channels, while not officially PSB channels, extend the reach of all PSB content. Beyond this, many of the portfolio channels target specific audiences who would not necessarily be drawn to content on the main PSB channel. Some serve a particular age group; E4, for example, targets young adults, and 61% of its audience is under 35, compared with 31% for Channel 4. Others provide for those with an interest in a particular genre, such as US dramas on 5USA.
- 4.21 By offering up an alternative mix of programming, the portfolio services can extend the reach of PSB content which they then re-broadcast, delivering it to a different audience at a different time. Although ratings rarely exceed those on the main channels, repeated PSB content can achieve sizeable viewing figures. Repeats of *Midsomer Murders* on ITV3 regularly attract audiences of more than one million, for instance. This suggests that the availability of the portfolio channels might at least ensure that the number of people exposed to PSB content remains stable.

The portfolio services also deliver revenue for the PSB institutions

- 4.22 The reach delivered by the portfolio services from the commercial PSBs delivers important additional advertising revenues. Commercial PSBs can also derive non-advertising revenues from their portfolio services. As these channels do not fall under the PSB must-offer obligations, there is an opportunity for exclusivity deals to be negotiated with platforms. Most notably this is the case with ITV’s recently-launched drama service ITV Encore, which is available only to Sky customers under a commercial arrangement with the broadcaster.
- 4.23 For ITV and Channel 5, this enhances their profitability. In the case of Channel 4 Corporation, the additional revenue raised by its portfolio services is used to help it better deliver its public service obligations.

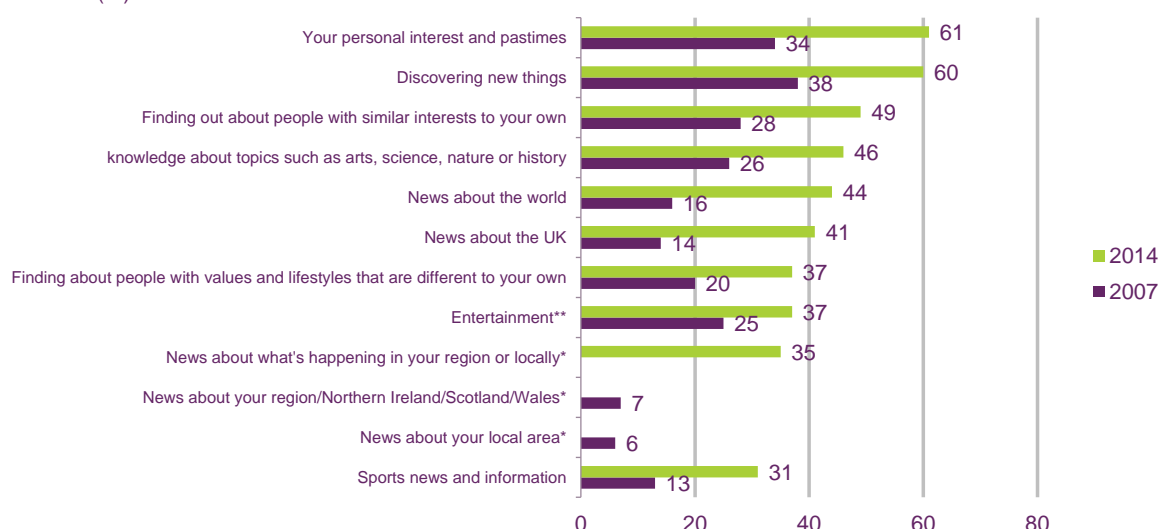
The role of online media services

Increased internet take-up and consumption has been mirrored in the popularity of the internet as a source for different types of content.

- 4.24 Ipsos MORI’s report shows that in 2014, the internet was a more popular source than in 2007 for all the types of content asked about. In 2014, content about ‘*your personal interests and pastimes*’ was the most popular content sourced from the internet (61%).
- 4.25 The popularity of the internet as a source for all types of news increased the most between 2007 and 2014. The proportion of the adult population who claimed to use the internet for ‘*news about the world*’ was up by 28 percentage points, while ‘*news about the UK*’ was up by 27 percentage points. The smallest increase over the period was in claiming the internet as a source for entertainment; up 12 percentage points to 37%.

Figure 47: Types of content for which the internet is a source; 2007 and 2014

Adults 16+ (%)



Source: Ofcom consumer research

Notes: PSB review 2007 Q12 *And which of these different media would you say is a source for...*; PSB Review 2014 CPP1a *Which of these different types of media available to you would you say you ever use as a source for...*; *questions merged from 2007 in 2014; **in 2014 asked as *relaxing and entertainment*

- 4.26 The biggest change in attitudes between 2007 and 2014 has been in the proportion of people agreeing with the statement: “*the internet is very influential in shaping public opinion about political and other important issues*”. In 2014, three-quarters (75%) of internet users agreed with that statement, up from just over half (52%) of internet users in 2007. Furthermore, those agreeing strongly increased from one in ten (10%) internet users to more than one in five (23%).

Social media, and news and information, are the most-frequented categories of citizen-related content

- 4.27 Ofcom’s *Internet Citizens Report 2014* shows that the highest-ranking citizen activities, as categorised by comScore, are social media, which incorporates social networking and other forms of social media such as blogs, and news and information, both of which reached 91% of UK internet users in July 2014. Health-related resources were used by around half (51%) of UK internet users in that month. Other citizen-oriented categories such as education and government sites had a lower reach, and were visited by just over a third of internet users in July 2014.

Big names get the biggest audiences, but small players are important too

- 4.28 In terms of user figures for individual sites, the biggest names are drawing the biggest audiences. BBC websites attracted 31.6 million unique users in July 2014, 65% of active internet users, and NHS.uk attracted 10.1 million unique users, 21% of all active internet users.
- 4.29 However, while the smaller players do not attract such large audiences, they can still play an important role. For instance, research into the hyperlocal media sector⁶²

⁶² Williams, A., Barnett, S., Harte, D. and Townend, J. (2014) *Hyperlocal Community News in the UK: Findings from a survey of practitioners*.

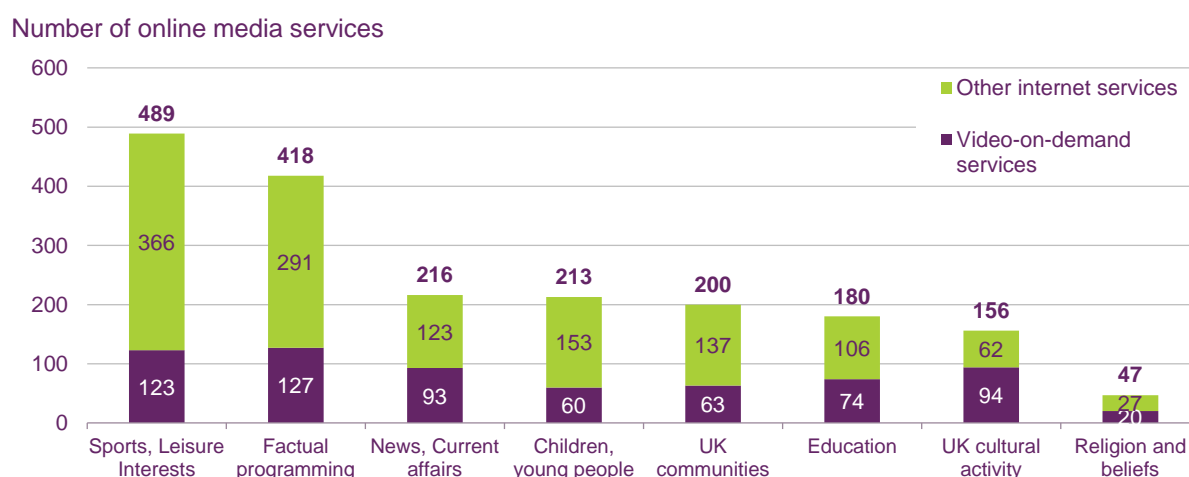
suggests that not only are these sites providing their communities with information about local events, they are also playing an important role in upholding democratic accountability, by initiating and conducting investigations into subjects as diverse as a waste incinerator breaching emissions guidelines, plans to develop land poisoned by previous industrial owners, and secret or illegal payments by local councils.

- 4.30 While many hyperlocal sites have a focus on the provision of local journalism, for example *MyWelshpool* and the *Edinburgh Reporter*, others have a particular focus on cultural activities or community action among other subject areas. In Wales there are several hyperlocal services linked to Welsh language community newspapers (papurau bro) such as *Papur Dre* and *Y Clonc*, which provide users with information about local community and cultural events, and local people, in the Welsh language.
- 4.31 Other hyperlocal services such as *Sheffield Forum* have a focus on user-generated content and provide space for citizens to contribute to online debates and discussions about their locality.
- 4.32 Hyperlocal content is also created and distributed on social media such as Twitter and Facebook by individuals and organisations, either as a complement to or an alternative to a dedicated website or app.

Online media services make an important contribution to the delivery of the public service objectives

- 4.33 As set out earlier, the PSBs are involved in a number of partnerships with other cultural organisations. There are also a wider range of online media services playing a role in their own right. Due to the large number of services available online, Enders Analysis has sought to create a database of key services. This database has captured 888 online media services⁶³ in total, of which just under a third were VOD services and just over two thirds were non-video ('other internet services'). These services were contributing to the following public service objectives:

Figure 48: Online media services, by public service objective: June 2014



Source: Enders Analysis, September 2014

⁶³ The Act requires Ofcom to look at both on-demand programme services and other internet services

- 4.34 In news and current affairs alone, there are more than 200 online English-language media sources available in the UK. For other public service objectives there is now a vast range of content online, much of it unavailable on broadcast television.
- 4.35 As well as affecting how media content is distributed and consumed, the internet is changing the nature of the content on offer. The range of online media which contributes towards the public service objectives includes:
- 4.35.1 Existing traditional media that can be viewed online. This includes feature films, television programmes, coverage of sporting events, and news and current affairs content from broadcasters and print publishers, some of which is redistributed via VoD services and social media platforms. The PSBs' on-demand players have been particularly successful.
 - 4.35.2 Original traditional media created for the internet. This includes television series, such as *House of Cards*, commissioned and distributed by Netflix, as well as news and features on websites like the *Huffington Post*.
 - 4.35.3 New forms of content only available online. These range from short-form video on YouTube, to interactive learning programmes and socially-driven news and entertainment services such as BuzzFeed.
- 4.36 Most online media services that contribute to the public service objectives fulfil only one or two objectives, underlining the level of specialisation on the internet. Many services offer interactive elements that cannot be replicated on broadcast television, although they can be replicated online by broadcasters. Social media and mobile apps are increasingly important channels to reach and engage with internet audiences, and this is reflected across all the objectives.
- 4.37 In addition, online media services contributing to the public service objectives are extremely good at targeting niche audiences and interests which are not viable on broadcast television, such as services for small audiences within particular locations, e.g. hyperlocal websites and services, and widely-dispersed audiences across many countries, e.g. for niche sports and cultural events
- 4.38 'High cost' media such as feature films, television drama and major sports events are still overwhelmingly provided by broadcasters, but there is increasing investment by online services in TV-quality programming, such as Netflix's original TV series, Digital Theatre's arts productions and Journeymen Pictures' documentaries.
- 4.39 As with the internet generally, most online media services offering content that contributes to the public service objectives are free at the point of use, funded by advertising, although many service providers also use other funding models. Growth in consumer spending on digital media suggests that people are increasingly comfortable paying for content online.
- 4.40 Below we explore the online provision of news, culture and education in more detail.

News

- 4.41 The BBC is the most popular PSB-provided website, by a considerable margin, with 65% of UK internet users using BBC sites in July 2014.
- 4.42 The BBC is also the most-used website for news provision. According to Ofcom's news survey research, 59% of online news users say they use it, while 18% say they

use Google, 17% Facebook, 17% Sky and 9% say they use Twitter⁶⁴. The BBC is also the most-visited site in the comScore general news category, with 17.6 million unique visitors in July 2014, equivalent to over one-third (36%) of the online population.

- 4.43 Research by the Reuters Institute⁶⁵ found that a substantial minority of internet users are talking about and sharing news stories online, particularly via Twitter and Facebook.
- 4.44 According to Ofcom's news survey research, half (51%) of all UK adults say they use an online source for local news and information at least monthly, with almost two in five (39%) doing so at least weekly. This compares to 47% and 36% respectively in 2013. While TV is most likely to be nominated as the most important local source (40% in 2014, 29% in 2013), one in five (19%) regular local news users in 2014 nominated 'any online source' as their most important type of local media (17% in 2013)⁶⁶.
- 4.45 Blogging websites are visited by over half the internet population, and survey research finds that almost a quarter say that they comment on blogs⁶⁷.
- 4.46 Vice and BuzzFeed are also prominent providers of news online. Vice⁶⁸ is a mostly online media organisation which, rather than aiming for the completeness of a newspaper, or the depth of a specialist magazine, aims to cover the sort of stories other organisations do not, to cover stories from different angles to established media, or to go to great lengths to get a story in the first place. Their recent five-part video series on the group "Islamic State" (IS) is one such example, with their reporter being given access to key figures within IS.
- 4.47 Vice reached 4.2 million internet users in the UK in June 2014, with many accessing the service via a smartphone or tablet. Interestingly, Vice's UK audience skews heavily towards the young, compared to the overall internet audience and other online news services, driven by its mix of 'alternative' stories not covered elsewhere and more light-hearted content.
- 4.48 BuzzFeed⁶⁹ describes itself as "the social news and entertainment company", delivering both light-hearted and serious news, as well as entertainment, games, quizzes and lists. It has an audience of over 7 million in the UK, again skewing much younger than other news services, with more than half under 35.
- 4.49 Its content is designed to be highly 'sharable', aimed at younger people who often discover news via social media rather than through directly accessing a news service.

⁶⁴ Ofcom (2014) *News Consumption in the UK: 2014 Report*

⁶⁵ University of Oxford and Reuters Institute for the Study of Journalism (2014) *Digital News Report 2014*

⁶⁶ Ofcom (2014) *News Consumption in the UK: 2014 Report* and Ofcom (2013) *News Consumption in the UK: 2013 Report*

⁶⁷ Ofcom (2014) *Adults' Media Use and Attitudes*

⁶⁸ Full case study in Enders report

⁶⁹ Full case study in Enders report

Culture and libraries

- 4.50 The most popular kinds of cultural websites are heritage sites⁷⁰, visited by three in ten adults in England in 2013/14⁷¹. Since 2005/06 there have been increases in the numbers of adults in England visiting heritage websites, museum or gallery websites and library websites⁷².
- 4.51 Visitors are engaging with culture and library websites to look for information and book tickets, but are also engaging in other ways, including by downloading documents and podcasts, viewing objects or exhibitions, taking virtual tours and keeping updated via Twitter.
- 4.52 Although in most areas the in-person visit is still dominant, a higher proportion of adults in England visited an archive or records office online than in person (11% vs. 4%).
- 4.53 Visitors to culture and library websites are most likely to be in the AB socio-economic groups.
- 4.54 In July 2014, the top three UK museum/gallery websites visited were the Victoria and Albert Museum, with 171,000 unique visitors (0.4% of active internet users in the UK), the Tate Modern, with 154,000 (0.3% of active users) and the Natural History Museum with 127,000 (0.3% of active users).
- 4.55 Other interesting services include those from the National Theatre, The Space and the National Library of Scotland.
- 4.56 The National Theatre (NT) is one of the most prominent publicly-funded performing arts venues in the UK and it has embraced new technologies, as detailed in its Annual Report.
- 4.57 Its website was re-designed in summer 2012 and reaches an average of 5,000 users a week, who watch video and listen to podcasts. It has also developed and expanded onto numerous other platforms including iTunes, iTunes U (where a playwriting course received over 10,000 downloads in one week), SoundCloud, YouTube, the Times Educational Supplement, Promethean, London Grid for Learning and Channel 4 Clipbank. Its digital audience grew by 70% in 2012/13.
- 4.58 National Theatre Live is an initiative to broadcast live and recorded performances of the best of British theatre to cinemas around the world. This started in June 2009, when the theatre began a programme of simulcasts of live productions to cinemas, first in the United Kingdom and then internationally. NT Live productions have since been broadcast to over 1,000 venues in 35 countries around the world.
- 4.59 Digital resources continue to extend the NT's offer to schools. The NT's profile on the Times Educational Supplement (TES) website hosts over 300 pieces of video and audio content, as well as pdf education packs. In 2012-13 its content had been

⁷⁰ Digital engagement with the heritage sector, as defined by DCMS, includes visiting a heritage website to take a virtual tour of a historical site, learn about history or the historic environment, or discuss history or the historic environment on a forum.

⁷¹ Data taken from the DCMS Taking Part survey which covers English adults only.

⁷² DCMS (2014) *Taking Part: England's Survey of Leisure, Culture and Sport, 2014/15 Quarter 1: Report*

streamed 30,000 times on TES, showing an increase of 500% from the previous year.

- 4.60 The Space is a digital arts service created by the BBC and the Arts Council England (ACE) as part of the 2012 Cultural Olympiad, which ran alongside the 2012 Olympic and Paralympic Games. This experimental service offered free-to-access on-demand arts content to web-enabled devices, mobile platforms and some digital TV platforms (Freeview HD Channel 117).
- 4.61 The stated aims of the pilot were to build digital capacity in the arts sector, support digital creativity and experimentation, and connect arts organisations with wider audiences and with each other.
- 4.62 Resources for the pilot were provided by the Arts Council of England and the BBC. Under the partnership, the BBC provided the technology platform, while the Arts Council England led on content and marketing the service. The Arts Council invested £3.5m in commissioning content for the pilot, and made 51 grants to 50 organisations for original arts content for the pilot.
- 4.63 These commissions were on the themes of capturing (and distributing) works, providing additional content around a work, or commissioning a totally new work. Additional archive content was sourced from the BBC, the British Film Institute (BFI) and the Arts Council England's own film collection. Content relating to a wide range of arts including, music, film, literature, theatre, dance, and visual and media arts was available via the pilot service.
- 4.64 Between May 2010 and its initial closure in November 2012, the Space pilot attracted 630k unique visitors, with a weekly average audience of 30k unique visitors. Overall, 43% visits came from outside the UK. The vast majority (97%) of visits to the pilot were from computers, mobile or tablet devices rather than from digital television. In June 2014 The Space re-launched as an online-only service, with an emphasis on newly-commissioned digital works of art.
- 4.65 Following its re-launch, The Space has concentrated on commissioning new digital works from artists from around the world, and it expects to commission around 50 works a year which are generally added every Friday. In addition to open calls for commissions, it works with partner organisations including broadcasters and galleries, and co-commissions works with them.
- 4.66 The current aim of The Space is to provide access to a range of digital arts content to a wide range of audiences around the world on a not-for-profit basis. It is now run by an independent, not-for-profit community interest company (CIC). The BBC and Arts Council England continue to support the project, along with the bodies responsible for arts funding in the nations (Arts Council of Wales, Creative Scotland and Arts Council of Northern Ireland) alongside the British Council and the Open Data Institute.
- 4.67 The National Library of Scotland's digital resources allow people to view and read material from its collections. Resources range from digitised books, manuscripts and maps to searchable electronic journals and reference works. Its website offers films to view, in the Scottish Screen Archive.
- 4.68 Its learning zone includes resources for learners of all ages, particularly secondary school teachers and students. It has short videos on collections and on how to use the National Library of Scotland.

- 4.69 In October 2010, the National Library of Scotland added over 400,000 pages of material from prominent Gaelic book collections to its website. This was made possible through a large-scale digitisation project, which increased tenfold the amount of online content available from National Library of Scotland.
- 4.70 In Ofcom's *Internet Citizens 2013* report we noted that the library attracted 28,000 visitors to its website in March 2013 from across the UK, 18,000 of whom were from Scotland.

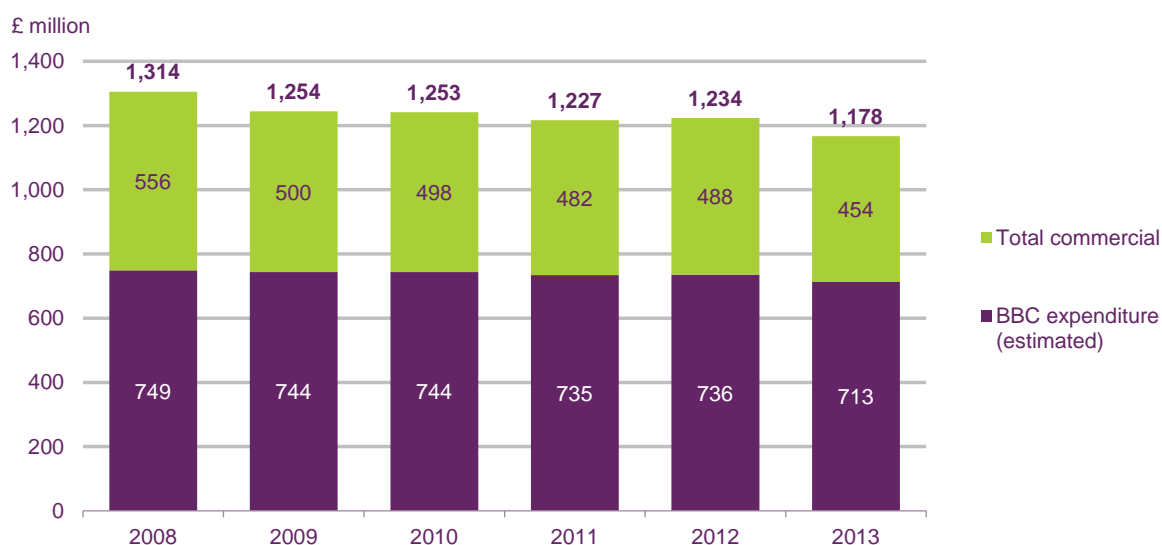
Education

- 4.71 Ofcom's *Internet Citizen Report 2014* showed that there were over 17 million unique visitors to websites in comScore's 'education' category in July 2014, equivalent to 35% of UK internet users.
- 4.72 The most popular site was the StudentRoom group, with over 2 million unique visitors in July 2014, equivalent to over 4% of active internet users. This was followed by about.com Education, with over 1.3 million unique visitors in July 2014, equivalent to nearly 3% of active internet users, and BBC Learning, with over one million unique visitors in July 2014, equivalent to over 2% of active internet users.
- 4.73 The StudentRoom Group's audience is most likely to come from the AB (35%) and C1 (36%) groups, while audiences for both about.com Education and BBC Learning are most likely to come from the AB group, at 40% and 26% respectively.
- 4.74 Roughly equal proportions of visitors to the StudentRoom Group came from the 18-24, 25-34 and 35-54 age groups. In contrast, most visitors to about.com Education and BBC Learning were in the 35-54 age group.
- 4.75 In addition to the sites with the largest number of hits, some other sites provide an interesting insight into new and emerging ways in which people can interact with education and educational content online. These include ParentPay, which provides an online payment system that lets parents pay for school meals and trips, and TED Talks, which provides videos of over 1900 talks designed to "stir your curiosity".
- 4.76 ParentPay had 269,000 unique visitors in July 2014, equivalent to 0.6% of active internet users. The majority of visitors were female and in the 35-54 age group, and the most represented socio-economic group were ABs. TED Talks had 858,000 unique visitors in July 2014, equivalent to 2% of active internet users. Visitors were more or less evenly split between men and women, were most likely to be in the 25-34 age group, and almost half were in the AB demographic group.
- 4.77 In Scotland, Glow is available to every pupil and teacher and describes itself as the world's first national online community for education.
- 4.78 It can be accessed anywhere at any time, for instance in schools, at home or on the move, by anyone with a password. The Glow password is an important feature and automatically connects the user with appropriate materials and resources.
- 4.79 The service includes Glow TV and access to around 1,500 films linked to the curriculum. It describes itself as a tool to access and develop high quality, relevant learning content; a space for collaboration and interaction with other educators across Scotland; a way to access files and materials anywhere, anytime, using different devices; and a facility to build learning resources for classes and pupils.

The role of radio

- 4.80 The radio market consists of three types of radio service: BBC, commercial and community. Total UK radio industry revenues have declined slightly since 2008, in real terms (at 2013 prices). In 2013 total revenue was £1.18bn, down from £1.31bn in 2008.
- 4.81 The figure below shows total UK commercial radio revenues, and estimated BBC expenditure across its portfolio of stations. The BBC's expenditure makes up around 60% of total industry revenues.

Figure 49: Radio industry revenue and spending (real terms, 2013 prices): 2008-2013



Source: Broadcasters

Notes: BBC expenditure figures are estimated by Ofcom based on figures in Note 2c of the BBC Annual Report (www.bbc.co.uk/annualreport); community radio revenue is included in the total, but not shown on the chart; figures are expressed in real terms at 2013 prices.

The BBC services play an important role in contributing to the public service objectives

- 4.82 BBC radio contributes towards most of the public service objectives (film aside) through its provision of 11 UK-wide radio services, 40 local services in England and two services in each of the nations. Six of the BBC's UK-wide services (BBC Radio 1 Xtra, Radio 4 Extra, 5 Live Sports Extra, 6 Music, Asian Network and the World Service) are available only on digital platforms.
- 4.83 As a result of the growth in take-up of DAB sets, the use of smartphones which can access digital radio services, and digital TV switchover (DTV carries all of the BBC's UK-wide radio services), digital-only services are now available to the vast majority of the population.
- 4.84 BBC Radio 1 and Radio 2, while music-focused, each broadcast a far greater number of music tracks than any individual commercial service and broadcast a higher amount of speech than the majority of commercial radio music services. They also broadcast specialist programming, catering for specific music genres and documentaries. Both stations must broadcast a certain amount of live music and new music.

- 4.85 BBC Radio 3 broadcasts a wide range of classical music as well as jazz, world music, arts programmes and drama, and it broadcasts a significant amount of live music. The BBC orchestras contribute to Radio 3's output, the most high profile of which is the annual BBC Proms.
- 4.86 The remit of Radio 4, according to its service licence, is to be a mixed speech service, offering in-depth news and current affairs and a wide range of other speech output including drama, readings, comedy, religion, factual and magazine programmes.
- 4.87 BBC Radio 5 Live broadcasts news and sports coverage, while its sister station 5 Live Extra carries live sporting events which cannot be accommodated on the main network.
- 4.88 The 40 BBC Local Radio stations in England and the Channel Islands are generally county-sized and focus heavily on news and local speech programming. There are also BBC radio stations for each nation (see below).

Commercial radio contributes towards fewer of the public service objectives but plays an important role in some genres

- 4.89 Commercial radio comprises three UK-wide analogue stations and over 300 local analogue stations. On digital platforms, there are many more UK-wide stations. Many of these services contribute to the delivery of a single public service objective, including:
 - 4.89.1 Arts, comedy, music and drama – provided by Classic FM (popular classical music), Absolute Radio, Planet Rock and Team Rock (rock music), Kiss and Capital Xtra (Contemporary dance and urban music), and Absolute 80s, 90s and Smooth (classic pop music).
 - 4.89.2 News and current affairs – LBC (news-based speech programming).
 - 4.89.3 Sport and leisure – TalkSport (live sport and discussions).
 - 4.89.4 Religion – Premier Christian Radio (speech and music station for the Christian faith) and UCB UK (contemporary Christian music and interviews).
- 4.90 BFBS is a station for the British Forces, which contributes to more than one objective, with music, personal messages, hourly news updates and Forces features.
- 4.91 Since 2008 there has been a significant increase in the range of services available on DAB. These services are also available online, alongside many hundreds of other radio services from the UK and around the world.
- 4.92 The FM local analogue services are generally music-based but also have localness requirements. They are required to broadcast at least seven hours a day of local programming (which must include breakfast) during daytime on weekdays, and four hours a day at weekends. This requirement is a reduction from the previous requirement and was introduced in 2010; many stations have taken advantage of the regulatory relaxation. Local stations are generally required to provide local news at least hourly at peak times (breakfast and evening drive-time) and many are required to do so throughout daytime. These programming obligations mean that the many

local commercial stations contribute to the provision of local news, as well as ensuring that a range of content is made around the UK.

- 4.93 There is a range of different types of local commercial station, from specialist dance music to Asian music to adult contemporary music. The local commercial radio sector also has an important role in providing programming aimed at minority groups; for example, stations such as Asian Star 101.6FM in Slough and London Greek Radio in London, although due to the local nature of these services this programming is not provided consistently across the sector and the UK. There is also a range of specialist digital stations available across regional multiplexes which serve particular communities and specific interests.

Community radio services play a smaller but unique role

- 4.94 Community radio stations, which are not-for-profit radio services designed to operate on a small scale and to deliver community benefits, provide an even greater range of locally-targeted and niche services. The legislation governing community radio sets out the characteristics of community radio services and defines social gain. Each station has a set of 'key commitments', which forms part of its licence and sets out how it will meet these characteristics and deliver social gain. The key commitments include how a station will make itself accountable to its target community and ensure access, its programming aims and its commitments with regard to training and other social gain objectives.
- 4.95 These services contribute particularly to the public service objective to provide programmes that reflect the lives and concerns of different communities and cultural interests and traditions within the UK, and locally in different parts of the UK. For example, there are 82 community radio services aimed at rural communities, 29 aimed at urban communities, 29 aimed at ethnic minority communities, ten aimed at military communities, 13 aimed at religious communities and 21 aimed at youth communities

The role of radio and the press in the nations

Northern Ireland

- 4.96 In Northern Ireland the BBC broadcasts two radio services: Radio Ulster and Radio Foyle. Radio Foyle, which serves the north-west of Northern Ireland, broadcasts much of its own content during the day but shares content with Radio Ulster at other times. Both services are mainly speech-based, providing coverage of local issues and events.
- 4.97 There are ten commercial radio stations (which are mainly music-based) in Northern Ireland. Northern Media Group owns six small radio stations, located in Derry, Coleraine, Omagh/Enniskillen, Newry, Cookstown and Ballymena. The four remaining commercial radio services are broadcast from the Greater Belfast area – Downtown Radio and Cool FM (owned by Bauer) cover much of Northern Ireland, while CityBeat (owned by the CN Group) and U105 (owned by UTV) are broadcast to the Greater Belfast area.
- 4.98 Local radio is popular in Northern Ireland – the local commercial services had a 35% share of listening hours in 2013 and BBC Radio Ulster/Foyle had 20% share, by far the highest percentage for BBC local/nations services across the whole of the UK. Per head of the population, the BBC spends more in Northern Ireland (£12.95) than in any of the other nations. Local radio revenue in Northern Ireland per head of

population (£6.85) is also higher than the UK average and second only to Scotland (£7.70).

- 4.99 There are 12 community radio stations currently on air in Northern Ireland and a further five (including the two indigenous language stations) are due to start broadcasting by mid-2015. Republic of Ireland radio stations are also widely available in Northern Ireland.
- 4.100 Northern Ireland remains well behind the rest of the UK in terms of DAB ownership with only 26.7% of adults claiming to own a DAB digital radio (compared to the UK average of 48.5). The extension of the national commercial digital multiplex, Digital One, to Northern Ireland last year has boosted the number of digital radio services in Northern Ireland, and this may in turn increase DAB radio ownership.
- 4.101 There are three local newspapers printed daily in Northern Ireland – The Belfast Telegraph, The News Letter and The Irish News. While readership of all have declined in recent years, there remains a preference for local newspapers over UK-wide titles. The Daily Mirror (which contains some local Northern Ireland content) and The Sun are the most popular UK-wide newspapers. As in Scotland and Wales there is a trend towards accessing news online (on mobiles or computers) rather than the traditional methods of newspapers, TV and radio.

Scotland

- 4.102 There is no BBC local radio in Scotland but the BBC broadcasts two national radio services, BBC Radio Scotland (in English) and BBC Radio nan Gaidheal (in Gaelic). Both have a mixed schedule of music, sport, news and information, with some more specialist programming.
- 4.103 Commercial radio in Scotland comprises 36 stations, all music-based, with listeners in the central belt having the widest choice of stations. Bauer operates two stations in most Scottish cities (Clyde 1 and 2 in Glasgow, Forth 1 and 2 in Edinburgh, Tay 1 and 2 in Dundee and Perth, Northsound 1 and 2 in Aberdeen, MFR in Inverness, West Sound in Ayr, SouthWest Sound in Dumfries and Radio Borders). Global Radio operates Heart in the central belt. Until 2014 this station was Real Radio Scotland, but it was acquired by Global, which rebranded the station. Global also operates Smooth Radio in Glasgow. Communicorp operates Capital Radio in the central belt. Heart, Smooth and Capital each broadcast seven hours a day of programming specifically for their area, with the remainder being networked from London. There are a further 18 commercial radio stations in Scotland, each under independent ownership. These range in size from Original Radio in Aberdeen to Two Lochs Radio serving Gairloch and Lochewe.
- 4.104 Scotland has 23 community radio stations, each serving a small geographic area. A further eight community radio licences have been granted and these stations are also preparing to launch in Scotland.
- 4.105 The press in Scotland comprises Scottish editions of some of the UK national press, such as the *Scottish Sun*, together with purely Scottish titles, *The Daily Record* (sister paper of the *Daily Mirror* in Scotland). Other Scottish national titles are the *Scotsman* (based in Edinburgh) and *The Herald*. Local papers include the *Press and Journal* in Aberdeen and the *Courier* in Dundee.

Wales

- 4.106 There is no BBC local radio in Wales but the BBC broadcasts two national radio services, BBC Radio Wales (in English) and BBC Radio Cymru (in Welsh). Both have a mixed schedule of music, sport, news and information, with some more specialist programming. Commercial radio in Wales comprises 18 stations.
- 4.107 The national commercial service for Wales, Real Radio Wales, which began as a station for South Wales but extended to North Wales in 2011, was bought by Global Radio in 2013. The Competition Commission required the North Wales station to be divested and it was sold to Communicorp. However, both stations have been re-branded as Heart, and carry programming from London outside of the required local programming (separate for North Wales and South Wales) for seven hours a day on weekdays and four hours a day at weekends.
- 4.108 The other commercial stations in Wales are all local. Global Radio also operates Capital Radio in Cardiff and Wrexham/Colwyn Bay/Caernarfon and Smooth Radio in Cardiff and Wrexham. Town & Country Broadcasting operates local stations in Pembrokeshire, Carmarthenshire, Swansea and Ceredigion, and a local station for South Wales, Nation Radio. UTV operates two stations in Swansea, and Radio Hafren operates in Powys. All of the Global and Communicorp stations in Wales have taken advantage of the relaxation in regulation which allows more programme sharing and reduced hours of local programming.
- 4.109 BBC radio is stronger in audience terms in Wales than the UK average, with a share of 61% compared to 54%. BBC Radio Wales and BBC Radio Cymru account for 10% of this 61%, while commercial local radio accounts for 24%, compared to the UK average of 30%. There is a small amount of Welsh language programming on some commercial stations, with Capital in the Caernarfon area required to be bilingual.
- 4.110 There are ten community radio stations in Wales, each serving a small geographic area. In 2012 a licence was awarded to Radio Beca, which plans to operate a Welsh-language community radio service for the Ceredigion, Pembrokeshire and Carmarthenshire areas, but this has yet to launch.
- 4.111 The daily press in Wales consists of the *Western Mail*, which is available throughout Wales, the *Daily Post* (North Wales), the *South Wales Echo* (Cardiff and environs), the *South Wales Evening Post* (Swansea and environs), and the *South Wales Argus* (Newport and environs). There are no Welsh editions of the UK national press. Weekly titles include the *Cambrian News*, *South Wales Guardian*, *Carmarthen Journal*, *Holyhead and Anglesey Times*, and *Pontypridd Observer*.

Section 4 consultation questions

Question 8: *To what extent do you agree with our assessment of the degree to which the non-PSB services play a role in helping to deliver the public service objectives? In doing so please set out your views on the delivery by the PSB portfolio channels, other non-PSB channels, on-demand and internet services and also radio services separately.*

Section 5

Potential future market developments

In order to consider how the PSB system might be maintained and strengthened, it is important to consider how the industry might change in future. Projecting forward based on current trends suggests that, in the absence of any major structural changes, it is possible we may see only **steady evolution**. This assumes that the BBC continues to be the cornerstone of public service broadcasting, funded at a similar level as today (which is of course a matter for Charter review), and that the commercially-funded PSB channels, ITV, STV, UTV, Channel 4 and Channel 5, continue to operate under their licences which have just been renewed for ten years.

Such a path of market development would suggest that viewing to PSB (and television more broadly) would remain relatively high and that as a result TV advertising would remain at broadly comparable levels to those we see today.

There are a number of market developments, either individually or in combination, which could lead to more transformational change. This might in turn affect the ability of the PSB system to deliver the outcomes that Parliament intended. Of course, some of these scenarios might also present new opportunities for the PSBs. A faster shift to on-demand viewing than anticipated could lessen the reach and impact of the PSBs or it could actually help PSBs better target programming at different audience groups, and new intelligent ad models may strengthen TV advertising.

It may also become **harder to secure that PSB services are widely available and easily discoverable** and it is not yet clear whether the PSBs have the scale to thrive in a global market place. Given that the BBC Licence Fee and TV advertising are the key sources of funding, **the system could be at risk if TV advertising were to enter structural decline or if there were a future reduction in BBC Licence Fee income** such that broadcasters were unable to maintain the volume, range or quality of UK output through further efficiencies or new sources of revenue.

Even if we do see only steady evolution, the changes in the market that we are already observing, such as the incremental increase in competition for viewers and the impact of technological developments such as DVRs, may already be **changing the incentives for different organisations to invest in key PSB genres**.

Potential future market developments

- 5.1 In order to consider how the PSB system might be maintained and strengthened, it is important to consider how the industry might change in future. Simply projecting forward based on current trends suggests that, in the absence any major structural changes, we will see only steady evolution.
- 5.2 This assumes that the BBC remains the cornerstone of the public service broadcasting system, funded at a broadly similar level as today. This of course is a matter for the forthcoming review of the BBC Charter. We have also assumed that Channel 4 Corporation continues with its current structure and remit, and in line with its recently renewed ten year licence.
- 5.3 The following sections explore possible market developments in more detail.

It is possible that the platform mix serving the main TV set in the home will change only gradually

- 5.4 Today's main TV set reception platforms could remain the main way of receiving TV to the main set in the home in the medium term. Under this scenario, Freeview, FreeSat, Sky and Virgin Media would remain the main ways of accessing TV on the main set for the next five to ten years. As the vast amount of all viewing of television is still to the main TV set in the home, any change to this platform mix may have implications for the PSB system.
- 5.5 Such a scenario may play out because there is currently a relatively mature TV platforms market in the UK, and also a relatively slow pace of change (so far) in the mix of platforms used to serve the main TV set. In addition, these TV platforms have to date been able to successfully evolve their products to defend their market position as new innovative technologies and business models have emerged.
- 5.6 It is of course perfectly plausible that the platform market mix may change much more quickly. The technical innovations we are seeing in content distribution and discovery may drive profound changes in viewer behaviour, beyond those observed so far. Recent entrants to the market (such as Netflix) could have a much greater impact in the coming years. Completely new and as yet unseen innovations, or new market entrants, could plausibly lead to a much more radical pace of change in the mix of platform services that audiences use to receive television services.

Live viewing of broadcast TV channels may well still account for around 80% of all TV viewing in 2020

- 5.7 On current trends it appears that VoD and time-shifted viewing (including DVR time-shifting) may continue to grow, but not to exceed more than 20-25% of all viewing in the next 5-10 years. If this proves correct, most of the consumption of television programmes will continue to be to live linear channels.
- 5.8 One reason to believe this may indeed prove to be the case is that DVR viewing habits are now relatively well understood; unless there is an unexpected increase in use among those that own DVRs, future levels of use can be projected with some confidence.
- 5.9 DVRs were in nearly 60% of all homes by the end of 2013 but accounted for only around 10% of all viewing. The penetration of DVRs is expected to grow only slowly in the coming years, and we are yet to see evidence that average usage levels are growing particularly strongly. If these two assumptions hold, the total proportion of viewing that is DVR time-shifted may not grow by more than a few percentage points by 2020.
- 5.10 In addition, the growth of second screen and programme related social media is also reinforcing the importance and popularity of live television, in particular among young people. Event TV is increasingly supported by social media engagement to increase the viewer's enjoyment and participation. However, that participation can only take place during the live window. As viewers increasingly seek a social media experience around, and in combination with, TV programmes, this effect may further reinforce the resilience of linear programming.
- 5.11 There is less overall clarity about the future trajectory of on-demand viewing, although the technology roll-out enabling mass-market use of on-demand services is increasingly advanced. The technologies enabling on-demand and catch-up viewing

are already mass market. Broadband take-up is relatively mature, at around 80% of homes, although connections speeds, which are an important factor in consumer experiences of VoD, do vary. Tablets and smartphones are available to more than half the population and take-up continues to grow. By the end of 2013 there were already more than 10 million main TV sets in the home that were connected to broadband on-demand services, principally as a result of high connectivity rates for Sky and Virgin Media.

- 5.12 While precise levels of overall use of on-demand and catch-up services are hard to measure, various estimates put the total at around 10-15 minutes per day on average per UK TV viewer, equivalent to only around 5% of all time spent watching live and DVR time-shifted TV. If average usage levels remain similar to today's among those who have access to on-demand services, we would expect only around 15% of all TV viewing time to be accounted for by on-demand viewing.
- 5.13 An alternative view could be that new innovations in on-demand service provision, especially user interfaces, could lead to a tipping point, where average levels of use start to rise much faster than expected.

TV advertising appears structurally robust, at least for now

- 5.14 TV advertising appears to have remained structurally resilient so far, despite changes elsewhere in the industry. Although the potential for online advertising to erode this remains, it is also possible that television advertising could instead become stronger as broadband connectivity to the TV set allows broadcasters to start to benefit from more granular measurement, and new 'intelligent' targeted advertising models. We have not yet seen evidence to suggest that the Channel 3 licensees, Channel 4 Corporation and Channel 5 might become financially unsustainable in the medium term.
- 5.15 The short-term performance of TV advertising shows no sign of structural weakness and is actually doing much better than many analysts had forecast. Traditional TV spot advertising expenditure grew by 4% in 2013 in nominal terms⁷³ and is forecast by some in the industry to grow at a similar rate in 2014.
- 5.16 It is possible that total advertising will continue to grow, linked to GDP growth rates, despite the growth of non-media and less-measured marketing such as PR, viral and social media. Within advertising there are two types of advertising market – display (for brand building purposes) and response (to generate a direct response from consumers). They tend to be separate in terms of characteristics and demand (although some brands use both) but so far, both have continued to grow. Traditional TV spot advertising continues to account for a steady share of total display advertising, despite the rapid growth of online display advertising (which appears to be mainly coming out of press). As yet there is therefore no sign that major TV advertising brands are shifting budget out of TV to the web.
- 5.17 For major display advertisers, TV appears to remain the most important medium for rapid mass-market brand-building campaigns. Commercial TV reaches most people in all demographics in huge volumes – even young people, despite their lower levels of viewing. Online and mobile video consumptions levels currently do not offer the reach and scale that have so far been required to attract budget away from broadcasters.

⁷³ Advertising Association/WARC

- 5.18 An alternative view is that it is perfectly possible that online video platforms and services such as YouTube and Facebook could deliver bigger and more accurately targeted video audiences relative to traditional TV than currently expected, and could therefore improve their attractiveness to advertisers relative to traditional TV. The advertising industry continues to forecast rapid growth in online advertising. This might lead to major TV advertisers switching budgets away from traditional broadcasters, and to a structural decline of TV advertising.

The PSBs and their portfolio channels may be able to maintain high audience share and reach

- 5.19 The PSBs may be able to retain a high reach and overall audience share, especially when viewing to their portfolio channels is included. The overall audience share of television channels is broadly correlated to overall levels of investment in programmes relative to other players in any given national market.
- 5.20 Should the PSBs' sources of funding remain resilient, they should also be able to broadly maintain their share of all investment in non-sport TV programmes⁷⁴, relative to other broadcasters, which should translate to broadly steady audience share, albeit with periodic fluctuations (both positive and negative) for individual broadcasters driven by short term performance.

New global market entrants have not yet started to cannibalise viewing of traditional TV broadcasters

- 5.21 New entrants like Netflix may well be starting to challenge traditional pay-TV providers, but their impact on the PSBs and broadcast channels in terms of consumption has proved limited to date. Netflix and other purely on-demand services appear to be broadly complementary to, rather than substituting for traditional TV viewing. For example, in the US, Netflix already has over 30 million paying subscribers, but there has been little impact on levels of traditional TV viewing. Other new global media players like Facebook and Google, while significant video platforms in their own right, have also not yet reduced viewing to traditional broadcasters to any great extent.
- 5.22 However, despite linear television remaining robust for now, many traditional media companies are already reacting to this increased competition. This is evident in the increased provision of on-demand and box sets as standard in many pay-TV packages, and in the launch of a number of 'pay-lite' options, such as Now TV.
- 5.23 The above trends suggest that the healthy balanced mixed ecology of the BBC, commercial broadcasters, pay-TV and new entrants may endure for the next five years at least, delivering positive PSB outcomes for consumers and citizens. However, this assumes a BBC with a remit and scale broadly similar to today.
- 5.24 We recognise that it remains early days in terms of judging the impact that new online players will have on broadcaster viewing trends and revenues. While less change has been seen than many people expected when the likes of YouTube and Netflix launched, we recognise that these players, or indeed as yet unseen new entrants could yet start to cannibalise broadcaster viewing and / or revenues.

⁷⁴ The correlation between programme investment and audience share does not hold true for sports programmes given the rapid rate of sports rights inflation

- 5.25 Taking the above trends and assumptions together, the PSB compact appears, on balance, to be sustainable for the next five to ten years, in terms of viewing levels and sources of funding. However, there is considerable uncertainty and there is the potential for structural changes and tipping points to occur in many areas. Even if we do see only steady evolution, the pressures that the system already faces may differ for different types of media, different genres or in different parts of the UK.

There are a number of opportunities and risks for the PSB system

- 5.26 We remain acutely aware that there are a range of risks and opportunities that could result in a faster pace of change. As discussed in the previous section, these could be completely new and as yet unseen technological or business model innovations, the emergence of genuinely disruptive new entrants or existing trends having a greater impact than they have had to date. These alternative scenarios could present opportunities for the PSBs to better serve audiences and to improve sources of funding, as much as they may also present downside risks.
- 5.27 The key areas where Ofcom has identified the potential for more radical change are set out below: any one or a combination of these factors could have profound effects on the future effectiveness of the PSB system, both positive and negative.

A faster shift to on-demand viewing

- 5.28 A faster shift than predicted away from live/linear television viewing to on-demand viewing could have both a positive and/or negative impact on the PSB system.
- 5.29 A faster rate of growth of on-demand viewing alone is not enough to weaken the PSB system financially. It would only be a problem for the effectiveness of the PSB system if PSBs lost share of all viewing to other players as a result of any greater pace of growth in on-demand viewing, or if on-demand viewing could not be monetised as effectively as live/linear viewing.
- 5.30 This could, subject to legislative change discussed below, even prove to be positive for PSBs if the broadcasters can better deliver content to specific audiences in ways most suited to them through personalisation, recommendation engines or by allowing much easier access to archive programmes. It is also possible that greater levels of connected viewing could allow PSBs to develop new innovative advertising models based on better measurement, targeting and tracking.

New disruptive entrants may well emerge

- 5.31 New entrants to the TV market, such as 'over-the-top' online-only video services, might start to eat into the audience share of traditional broadcasters, and possibly revenues. It is also possible that in an increasingly global media marketplace, the predominantly UK-only PSB institutions may increasingly lack the scale required to compete for viewers and revenues.
- 5.32 The emergence of genuinely new disruptive entrants into the TV market cannot be discounted, although none of the current candidates such as Google and Netflix appears to have had much of a disruptive effect so far. However, we will continue to monitor the market closely for signs of new entrants proving genuinely disruptive.
- 5.33 However, the PSBs, and broadcasters more generally, have proved able to adapt their services and business models quite effectively to counter the potential for disruption associated with the rise of the internet, connected devices and the

emergence of new players in recent years. Even if new genuinely disruptive players emerge, the PSBs may well be able to adapt and evolve to meet any challenges.

Faster fragmentation of audiences

- 5.34 Demographic changes in the UK, particularly differences between younger and older audiences, are potentially challenging for the PSB system. A failure to adequately reflect a more diverse society may result in falling viewing and satisfaction.
- 5.35 If audiences increasingly demand and seek out niche programming to suit their specific needs, ahead of mass-reach UK-wide programming, the current PSB system may not be able to respond to meet their needs. As a result, viewing to, and revenues for, the PSBs could be eroded.
- 5.36 Broadcasting relies on economies of scale and concentrating most resources on producing programmes for UK-wide consumption. If tastes change to such a degree that this programming becomes less popular, the whole viability of the system would be called into question.
- 5.37 An alternative view is that the PSB system may be able to make use of on-demand services to better target different audience groups and therefore redistribute the funds available and produce less UK-wide output, and focus instead on programmes which specifically meet the needs of different groups

Production cost inflation not matched by increase in funding

- 5.38 It is possible that inflation in the underlying costs of producing or distributing television programmes could lead to a reduction in the range, volume and/or quality of PSB programmes if funding levels do not keep pace.
- 5.39 If this occurs, viewing is likely to migrate away from the PSBs to service providers which can fund the highest quality content. Ofcom's audience research shows that quality is increasingly the key driver of audience demand for programmes, so it is vital that PSBs compete in terms of quality of output, in order to avoid loss of share to new competitors.

Structural changes to the key sources of funding

- 5.40 The key sources of funding for the PSB system are the BBC Licence Fee and TV advertising.
- 5.41 With content investment already appearing under pressure, a reduction in the BBC's Licence Fee income could have consequences for the funding of programmes and the overall ability of the PSB system to maintain current levels of delivery, were the BBC unable to address such a reduction through further efficiencies or new sources of revenue. Not only might the BBC's direct contribution weaken but its impact through stimulating investment by the wider market through competition would also weaken were programme investment to fall.
- 5.42 TV advertising may well remain structurally resilient, but it is possible that other forms of marketing could one day start to deliver the reach and impact for brands that currently only TV can achieve, and this could lead to the structural decline of TV advertising.

- 5.43 It is possible that even the largest TV-dependent broad-based brands may seek better targeting and measurement and be able to fulfil campaign goals through the aggregation of smaller niche audiences through non-TV mechanisms such as social media, or direct via connected TV sets and mobile devices. While there is little sign of this happening yet, and while traditional TV advertising remains the most cost-effective means of fulfilling brand-building objectives, change of this nature cannot be discounted and could have a significant negative impact on the funding of PSB and the ability of the system to maintain current levels of delivery.
- 5.44 If TV advertising were to enter structural decline, the impact of the commercial PSBs as a source of creative competition to the BBC may also weaken; this could also lead to an overall drop in the quality of PSB output overall.

Incentives to invest in key genres might be changing

- 5.45 Increased competition for viewers, and technological developments such as DVRs which facilitate time shifted viewing, may be changing the incentives of different organisations to invest in key PSB genres. As set out earlier, we are already seeing the mix of genres on PSB channels changing over time. In particular, there are significant pressures on arts, classical music, current affairs, children's, religious programmes, regional news, nations news and nations non-news programming.
- 5.46 These pressures are especially apparent for the commercial PSB channels. To understand the potential drivers for this we commissioned analysis from Mediatique, published alongside this review,⁷⁵ to explore whether changes are taking place to the commercial return on investment associated with each key genre in peak time for the three commercial PSB channels.
- 5.47 The Mediatique report suggests that overall levels of investment in specific genres and sub-genres appear to be dictated almost exclusively by the incentives of specific institutions to invest. These incentives are driven by three key factors:
- 5.47.1 the level of funding available to invest;
 - 5.47.2 the commercial PSB channels' public service remits⁷⁶ and licence obligations, and the status of C4C as a publicly-owned organisation; and
 - 5.47.3 the level of investment required to optimise value to shareholders, which is in turn heavily influenced by levels of competition for audience share in specific market segments.
- 5.48 The current strategic position of each genre within the PSBs' schedule is the product of the mix of incentives as described above. Mediatique's assessment of these positions, as things currently stand, given each broadcaster's schedule composition and profitability, is shown in the figure below.

⁷⁵ Investment in TV genres, Mediatique, November 2014:

<http://stakeholders.ofcom.org.uk/consultations/psb-review-3/supporting-documents/>

⁷⁶ The public service remits of the licensed PSB channels are set out in section 265 of the Act. The public service remit for S4C is in Part 2 of Schedule 12 to the Act, and the BBC's public purposes are set out in the BBC Charter.

Figure 50: Current strategic position of genres within schedule, by broadcaster

Genre	Current position			Key
	ITV	Channel 4	Channel 5	
Arts				Strategic fit
Children's / education	✕			
Current affairs				
Documentaries				Carried within schedule
Drama – single plays				Strategically challenged
Drama – soaps / series				
Entertainment				None in schedule
Films				
Hobbies / leisure				
Music				Strategically challenged
News – national / international				
News – nations / regions		✕	✕	Strategically challenged
Religious				
Sport				Carried within schedule

Source: *Investment in TV genres, Mediatique, November 2014*

- 5.49 Overall, over the next five years the key commercial sources of funding: principally TV advertising and video advertising around programmes from on-demand players should grow, at least in nominal terms. But growth in TV advertising and other sources of income for the commercial PSBs does not necessarily translate into growing investment in content, unless the right incentives are in place.

Channel 4 Corporation

- 5.50 The Mediatique report suggests that Channel 4 Corporation has for a long time cross-subsidised loss-making PSB output on Channel 4 (especially drama, news and UK comedy) through more profitable genres (predominantly factual output and foreign, acquired programmes) as well as through the operating profits generated from its portfolio channels and, increasingly, its on-demand activities.
- 5.51 Its public ownership, and the public service remit and obligations of Channel 4, should mean that the correct incentives are in place for C4C to maximise investment in its overall programme budgets in line with the levels of funding available to them (i.e. maximising PSB output within a break-even budget).

Channel 5

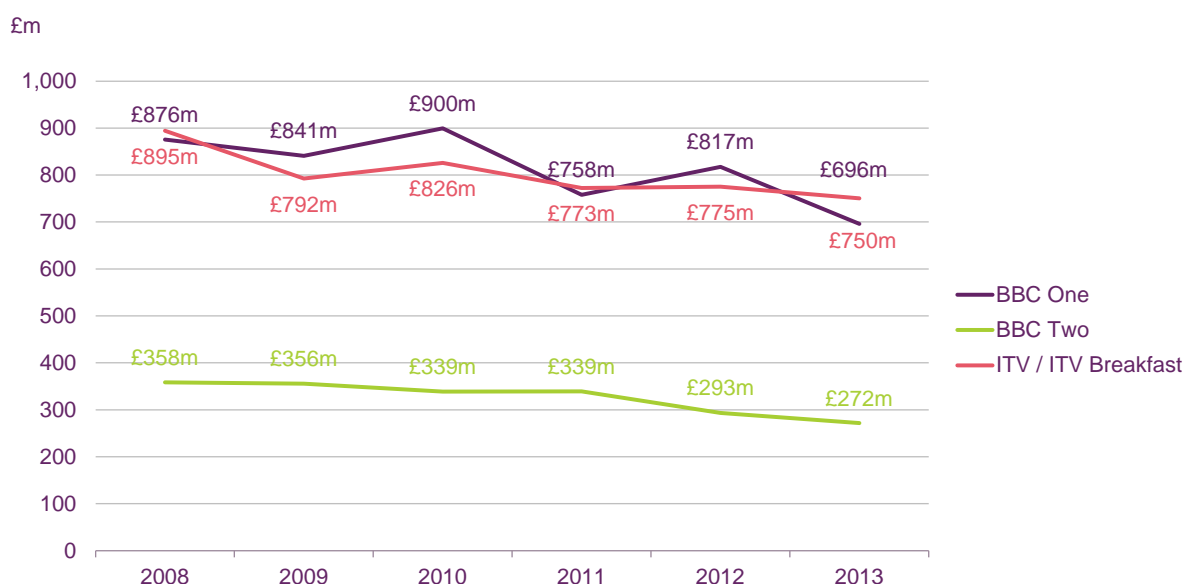
- 5.52 In contrast, Mediatique's findings suggest that there may be only limited incentives for Channel 5 to maximise investment in content. It is likely to be incentivised to invest in content only to the degree required to maximise audiences in the medium term, in order to optimise advertising and other revenues and ultimately profitability.
- 5.53 Channel 5 has struggled to generate operating profits since its inception. Channel 5 appears to generally avoid investing in loss-making output (other than one or two rare examples).

- 5.54 In order to strengthen its position in the UK TV advertising market, it may be incentivised to increase investment in content where possible, in order to raise audience share and maximise its advertising negotiating position as the smallest of the four main TV airtime sales houses. However, it is unlikely to be incentivised to increase investment to any great degree in lower audience genres such as current affairs, religious programmes and arts programmes.

ITV

- 5.55 As with Channel 5, ITV may be incentivised to invest only to the degree required to compete effectively for share. It mainly competes with BBC One, given the comparative reach and share of the two channels, with high-reach and share programmes, especially in peak time. The level of BBC (and especially BBC One) investment in first-run original programmes therefore appears to be a contributory factor in stimulating ITV to spend more through competition. The historical relationship between total network investment by the two channels can be seen in the figure below.

Figure 51: BBC and ITV network first-run UK originations spend: 2008-2013



Source: Ofcom / broadcasters

Note: figures are expressed in 2013 prices; the analysis does not include S4C, BBC Alba or BBC HD; figures exclude nations / regions programming

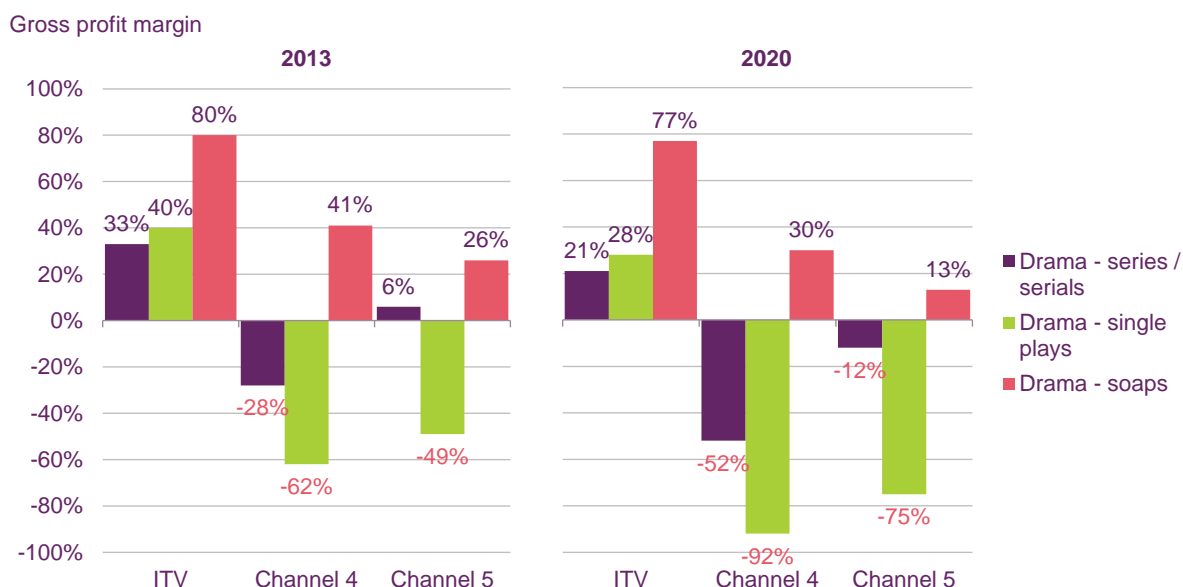
- 5.56 As a result, while BBC One's programme budget remains under pressure in real terms, ITV may not be incentivised to significantly increase investment in peak-time output because it does not need to in order to compete for high reach and share.
- 5.57 The report commissioned from Mediatique suggests that all genres appear commercially sustainable on ITV, and should remain so until 2020. Even lower audience genres (such as arts programmes) appear to be profitable on a standalone basis.
- 5.58 Therefore, any issues relating to ITV's investment in certain genres are likely to be driven in part by the opportunity cost considerations associated with a particular type or genre of programme over another, and in part by broader strategic considerations, rather than the sustainability of any one genre individually.

- 5.59 As a broad-appeal high-reach general entertainment channel, ITV appears incentivised to invest in a wide range of genres. But lower-audience niche PSB genres such as serious international / investigative current affairs, programmes of a religious nature and UK children's output are all unlikely to be commissioned in any volume as there will always be higher-audience, more commercially attractive options.

High-end drama appears commercially and strategically sustainable on ITV

- 5.60 It is important to consider whether drama, and specifically high-end non-soap drama, remains commercially sustainable on ITV. The reason for this concern is that drama is the most highly time-shifted and on-demand viewed genre, as set out earlier in this document. On average, around 40% of all drama is time-shifted and for some dramas as much as 60% of total viewing is time-shifted. Given that most ads are skipped when time-shifting on DVRs, and drama is a key element of many OTT services, such as Netflix, this calls into question whether drama remains commercially viable.
- 5.61 While drama has traditionally been loss-making on a standalone programme basis for Channel 4 and Channel 5, due to the high costs associated with commissioning it, drama has traditionally been one of the most important and also most profitable genres for ITV, given the high audiences it attracts.
- 5.62 The Mediatique report suggests that drama still remains commercially sustainable on a standalone basis for ITV and is likely to remain so in 2020, despite the high levels of time-shifted viewing and ad-skipping associated with it. This is because of the high absolute audiences that drama generally delivers meaning that despite high levels of ad-skipping it can still deliver significant volumes of commercial impacts.
- 5.63 Drama can also be 'channel defining', it repeats well and generates significant revenues through secondary markets such as international sales, all of which mean that drama is likely to remain strategically important to ITV as well as remaining commercially sustainable, even as ITV faces competition from new entrants and increased timeshifting.

Figure 52: Estimated gross profit margin (direct revenues less cost of production), by drama sub-genre, by broadcaster in peak time: 2013 and 2020



Source: *Investment in TV genres*, Mediatique, November 2014

Section 5 consultation questions

Question 9: *How likely are we to see steady evolution and have we identified all of the potential alternative scenarios and risks to the system?*

Question 10: *How might incentives to invest change over time?*

Section 6

Maintaining and strengthening the system

The continuing potential for alternative scenarios to impact negatively on the PSB system means **it is important to consider what changes might be necessary** if they were to occur. It may also be desirable to seek to strengthen the system without any overarching imminent negative pressures. We have identified four key areas that could be considered:

Modernising availability and discoverability rules – what could be done to secure the ‘universal’ availability and easy discoverability of PSB services, should this remain desirable?

Providing greater institutional flexibility – could the PSB system be made more flexible by allowing PSBs to deliver their remit across their portfolio channels and online as well as on the main PSB channels? This might make the PSB system more readily able to adapt to audience needs and the changing market environment.

Rebalancing the relationship between broadcasters and the production sector – is the current structure of legislation and regulation around the independent production sector still fit for purpose, given the changes to the structure of the sector in recent years?

Considering additional sources of funding – it may also be the case that what is required is direct additional funding either for the system as a whole or to increase investment in specific at-risk genres. We seek views on what options might be available.

- 6.1 If market development is one of steady evolution, and because the PSB system may then remain broadly sustainable in its current form for at least the next five years, action to maintain or strengthen the system may not be an absolute necessity.
- 6.2 However, there appears to be little headroom for PSB investment growth, and there is the potential for more radical change to impact negatively on the PSB system. As long as Parliament continues to value the cultural, social and citizen benefits that PSB is intended to deliver, and Ofcom’s duties remain to report on ways to maintain and strengthen the PSB system, it is important to consider what could be done should any of the risks identified in the previous chapter materialise. It may also be desirable to seek to strengthen the system in the absence of any overarching negative pressures. We have identified four key areas for further consideration in this review:
 - 6.2.1 **Modernising availability and discoverability rules:** if Parliament continues to want to ensure that PSB content achieves universal reach and impact in a connected environment, it may be necessary to reform the current regulations around prominence and carriage, and to define what is meant by universality in a more complicated connected environment.
 - 6.2.2 **Providing greater institutional flexibility:** As the distinction between PSB channels and other services diminishes, the PSB institutions may need greater flexibility in choosing how they deliver public service content, including online, on demand and mobile. Such an approach could be applied to all PSB institutions or just a subset, recognising the different roles that different PSBs play in the overall system.

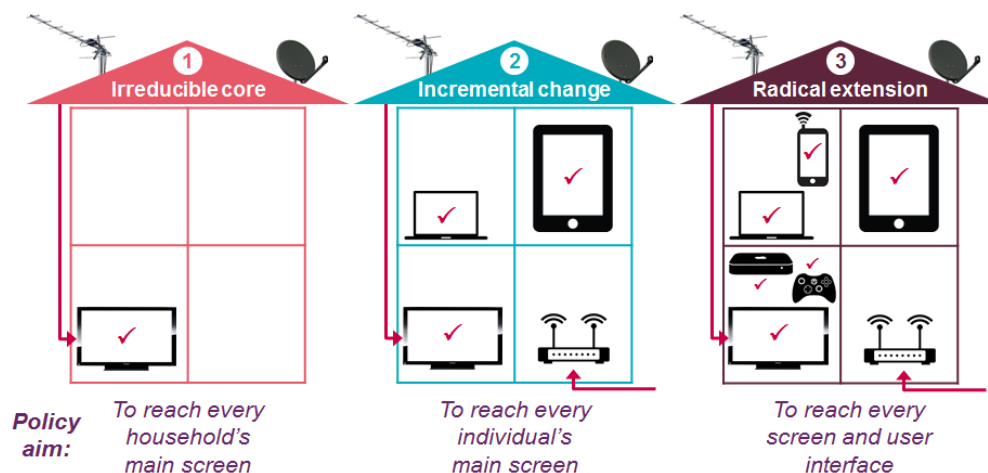
- 6.2.3 **Rebalancing the relationship between PSBs and the production sector:** Given changes to the structure of the production sector, it is appropriate to ask whether the regulatory interventions influencing the relations between PSBs and the independent production sector need changing. It is likely that any change will need to be tested against a number of questions, including: will it increase investment in UK content, how might it improve the delivery of the purposes and characteristics, and can it be achieved without undermining the current success of the UK independent production sector?
- 6.2.4 **Considering additional sources of funding:** The possible risks we have identified may not be fully offset by the options above. In this event, in order to maintain and strengthen the delivery of the purposes and characteristics, it may be desirable to consider other options for increasing the direct funding available to PSBs. This could include options currently under discussion, such as retransmission fees, as well as areas that Ofcom and Government have considered in the past, such as the possibility of relaxing television advertising rules, considering new tax breaks to encourage investment, industry levies and copyright regimes or establishing new quotas to secure provision of any at-risk genres.

Modernising availability and discoverability rules – securing the universal availability and easy discoverability of PSB services

Redefining universality in a connected world

- 6.3 The universal availability of PSB services, while not precisely defined in legislation, has been regarded by Parliament as one of the defining characteristics of the PSB system. It has been considered important that publicly-supported services are as widely available as possible, and free at the point of use⁷⁷.
- 6.4 Audiences are using a greater range of platforms and devices to watch TV and TV-like content than ever before. This means that a decreasing proportion of total TV viewing is delivered by linear television channels on traditional television platforms.
- 6.5 Sustaining the universal availability of public service programmes and channels could therefore require the PSBs to deliver their content, both linear and on-demand, via an ever-increasing range of platforms and devices, with the associated development and running costs that entails.
- 6.6 Should the view remain that universal availability of such content is beneficial to citizens and consumers, it will be important to consider:
- 6.6.1 **Which programmes and services should be universally available?** For instance, might VoD services need to be included?
- 6.6.2 **On which platforms and services should they be available?** Current interventions focus on main TV transmission networks. In future this may need to include audiovisual (AV) platforms.
- 6.7 We consider that there are broadly three ways in which universality might be defined in a connected world.

⁷⁷ See Ofcom's Second Public Service Broadcasting Review, *Putting Viewers First*, paragraph 3.31

Figure 53: Potential ways to define universality in a connected world

Source: Ofcom

- 6.8 Option 1, the irreducible core, would ensure that there is at least one option to access core PSB services in every household. This option may be appropriate if platform proliferation is seen as likely to lead to good outcomes for consumers, increasing choice and limiting the bargaining power of any one gatekeeper. In this scenario, public policy would focus predominantly on linear television services, as growing complexity in content delivery increases the risk of unintended consequences of wider intervention.
- 6.9 Option 2, incremental change, would ensure that all audience groups can access relevant forms of PSB on their main screen. Such an approach might be considered if it is thought important for public policy reasons to support the PSBs' responses to changing audience expectations, balancing flexibility with proportionality. This might involve ensuring that relevant forms of public service content, including VoD, are available and discoverable on all platforms that achieve a certain scale, or play a particularly important role in reaching specific audience groups (e.g. young people).
- 6.10 Option 3, radical extension, would ensure that accessing public service content is as easy and convenient as possible, through its presence on all user interfaces that enable AV consumption. As audience needs and expectations change, so public service content needs to be available and discoverable to all individuals, regardless of their device ownership and consumption patterns. A new, flexible policy framework may be required to cover new platforms and forms of content consumption as they emerge.
- 6.11 Option 1 does not appear to us to guarantee widespread availability, given the changes we are seeing in content distribution and discovery. While option 3 would guarantee universal access, it appears to be somewhat disproportionate, as PSB is currently widely available in unregulated spaces. Option 2 therefore appears to balance universality with proportionality.

PSB prominence – beyond linear?

- 6.12 As well as posing a challenge for delivering universal availability, recent developments have reduced the ease with which PSB content is discoverable, as each new service that launches gives audiences the ability to discover content by means other than traditional EPGs, such as apps, search functions, recommendation

lists and other means of navigation. Prominence for PSB services is not currently secured in these wider means of content discovery.

- 6.13 Once a view has been taken on which services should be universally available, and on which platforms, it will also be important to consider to what extent prominence remains important, and therefore what prominent should mean in a connected environment.

Prominence is likely to remain important

- 6.14 Prominence has played an important role in the PSB system historically for a number of reasons.
- 6.15 First, the PSB system has been supported by a 'virtuous circle' in which significant reach and large audience share drives advertising revenue (or, in the case of the BBC, supports the case for a compulsory licence fee) which in turn produces investment in high quality UK content.
- 6.16 EPG prominence supports viewing and is therefore one of the key benefits that supports the PSB system. As the proportion of viewing delivered by the main linear television platforms falls, so the case for widening prominence requirements may get stronger.
- 6.17 Second, the more people consume PSB services the greater the likely impact. Ensuring that services are prominent should mean that as many people as possible will consume key PSB genres, such as news and current affairs, helping to maintain levels of reach and share.
- 6.18 In our view prominence is therefore likely to remain a key part of the PSB 'compact' in future.

What form should prominence take in future?

- 6.19 Changes to the ways in which people find and consume content mean that the concept of prominence may need to move beyond simple lists of linear channels.
- 6.20 For example, what might prominence mean in relation to app stores, VoD services, or recommendation and search functions?
- 6.21 In considering how the concept might be developed it will be important to understand the extent to which discovery tools beyond the linear EPG play a role in people's consumption habits now, and what role they might play in future. This should inform discussions on what the concept of prominence might mean beyond the EPG.

Is legislative and regulatory reform required?

- 6.22 The precise nature of the changes that might be required will, of course, depend on the outcomes desired. But there are already some areas where a potential need for change may be evident.
- 6.23 The current policy tools supporting PSB distribution may be too limited in scope to ensure good outcomes. In particular:
- 6.23.1 Must-carry and must-offer provisions in the Act focus on distribution networks (including satellite services in the case of must-offer). But, to

reach viewers, PSBs have to secure carriage over distribution networks and access to AV platforms. The increasing relevance of new types of AV services that are not managed in connection with the underlying distribution networks could mean that an increasing proportion of AV consumption takes place on platforms that are not captured by current legislation; and

- 6.23.2 EPG regulation focuses on linear channels and applies to licensed EPG providers, but TV-like content is increasingly consumed outside the linear TV schedule, and through user interfaces that do not require an EPG licence.
- 6.24 Any future misalignment of the incentives of PSBs and platform providers could warrant reform of the policy tools that are aimed at securing good distribution outcomes for public service content:
 - 6.24.1 Commercial PSBs may want to reduce their reliance on TV advertising revenues by negotiating payments from platforms for the carriage of their content. This could lead to a bargaining strategy based on the threat of withholding channels (although legislative change would be required to enable this) from platforms that are not willing to negotiate these payments. We discuss this further later in this section, in the context of the current debate on re-transmission fees.
 - 6.24.2 Platform operators' incentives to carry and give prominence to some PSB channels could diminish in future if they stand to gain from discriminating in favour of non-PSB services: for example if international deals on the carriage of non-UK content or services affects their ability to give prominence to UK PSBs.
- 6.25 Prominence for certain PSB portfolio services might also enable an increase in their investment and impact. This is discussed further below.
- 6.26 But a new concept of universality may not necessarily require regulatory intervention. In fact, today, content provided by the PSBs in both linear and non-linear formats is widely available and easily discoverable on a range of AV platforms, well beyond the scope of current policy tools. The resilience of live/linear TV channels could mean that there is no need to change PSB distribution policy. This could mean that the incentives of PSBs and platform providers remain aligned:
 - 6.26.1 PSBs would continue to have incentives to secure presence on platforms that help them achieve high audience reach.
 - 6.26.2 Platform providers may continue to have incentives to grant access and prominence to content provided by the PSBs, given its attractiveness to audiences.
- 6.27 Also, if we see only steady evolution, the proportion of public service programmes consumed on platforms and in formats that are not captured by current distribution policy tools may remain limited.

Providing greater institutional flexibility – is there a case for regulating by organisation rather than by channel?

- 6.28 Although both the BBC⁷⁸ and Channel 4 Corporation⁷⁹ have additional duties beyond those attached to their PSB television services, the Act requires this review primarily to focus on the extent to which the public service purposes and objectives have been delivered by PSB channels⁸⁰. As set out in Section 2, the PSB system is supported through a range of obligations and benefits which are attached to specific PSB channels.
- 6.29 But as this review demonstrates, increasingly audiences see no distinction between programmes from the same provider, whether delivered on their PSB channels, commercial portfolio services, or online services. And they expect to be able to watch the programmes from all of these services whenever and wherever they want.

There are reasons to consider a more flexible approach

- 6.30 As the delineation between PSB channels and other service diminishes, it is important to consider whether a system focused primarily on specific individual television channels is still fit for purpose. Might citizens and consumers be served better by a more flexible PSB system?
- 6.31 In particular, might the policy goals of PSB be delivered better by either:
- 6.31.1 applying some or all of the obligations and benefits which are currently applied only to the specific PSB channels to some or all of the other services offered by the PSBs, including online; or
 - 6.31.2 applying benefits and obligations to the PSBs, rather than to specific services, and allowing them the flexibility to choose how best to deliver the purposes and objectives in line with audience expectations.
- 6.32 There are a number of reasons why a more flexible system might deliver more positive outcomes.
- 6.33 First, restricting the assessment of the delivery of PSB purposes and obligations solely to programmes delivered on linear television channels may limit the incentives of the PSBs to innovate with new forms of content and its delivery on other services (although at this stage we have not carried out an assessment of whether this is the case). Allowing PSB delivery on portfolio channels and online/on-demand to count towards the delivery of their remits may encourage increased diversity of output allowing a greater targeting of niche interests and tastes reflecting different community and cultural groups. This could also increase the impact of PSB programmes among connected online younger audiences, who are increasingly looking beyond television for video content.
- 6.34 Second, many forms of non-TV output (such as short-form content or non-AV content) can be substantially cheaper to deliver than traditional television programmes with high production costs intended for large screens. Flexibility to

⁷⁸ Under its Royal Charter

⁷⁹ Following changes introduced by the Digital Economy Act 2010

⁸⁰ Although the Digital Economy Act 2010 extended our duties to include a review of the contribution made to the delivery of the public service objectives by other media services. See Annexes 1 and 2.

deliver more of this type of output may help to offset the impact of any further reductions in funding.

- 6.35 Third, there is a financial opportunity cost to providing some forms of PSB programming, particularly in peak time and on the most-viewed channels. Historically this has been a deliberate restriction. Certain PSB genres must be shown on the most-watched services in peak time in order to maximise consumption and impact. This is despite the reduction in revenues that results from those channels being unable to schedule popular programming in peak time. Historically the PSB channels have still raised sufficient revenues to sustain high levels of overall investment in UK content. But the decreasing investment in overall PSB programming, as discussed in Section 3 above, suggests that it might now be the right time to reconsider the trade-offs involved if maximising viewing to one genre means reducing investment overall.

Such an approach is not without risks

- 6.36 In deciding whether the broader services offered by PSBs should play a greater role in the PSB system, it is important to be clear about the intended outcomes and the associated risks.
- 6.37 We can see a number of potential goals of such a change, although this list is not exhaustive:
- 6.37.1 maintaining current levels of overall PSB programming investment and output (rather than seeing them decline further, as current trends suggest is likely);
 - 6.37.2 increasing the levels of overall PSB investment and output;
 - 6.37.3 maintaining or increasing investment and/or output in certain key genres; and
 - 6.37.4 maintaining or increasing the overall reach and impact of some or all PSB content.
- 6.38 It is likely that there will be tensions and trade-offs between some of these goals. For instance, allowing PSBs to schedule more flexibly might help to maximise revenues – and therefore potentially increase overall PSB investment – but this is likely to be at the cost of some PSB output being placed in less widely-used parts of the television schedule, or online (with potential challenges for older consumers and those on low incomes, as discussed earlier), thereby reducing the viewing to, and impact of, that programming.
- 6.39 If the intention is to help increase revenues in order to increase PSB provision, mechanisms may need to be put in place to secure investment in programmes which specifically meet the PSB characteristics and/or deliver the PSB objectives. These may vary depending on the institutional incentives in place. For example, there may be a difference between the publicly-owned, not-for-profit Channel 4 Corporation, where any increased revenues will be reinvested in securing delivery of its functions, and the commercially-owned Channel 3 licensees and Channel 5, which have a fiduciary duty to their shareholders. A formal requirement may be needed to secure reinvestment in PSB programmes (possibly of specific types) by these commercial organisations, as set out earlier in this section.

Applying in full the same obligations and benefits which currently apply to PSB channels to other services is unlikely to deliver PSB benefits

- 6.40 Each of the licensed commercial PSB channels currently receives broadly the same benefits, and must deliver similar obligations, although the value of the benefits and detail of the obligations varies by channel. One approach to allowing the delivery of PSB obligations across a wider range of services would be to apply the same package of benefits and obligations in full to the PSBs' other television channels. This would increase the number of individually-regulated channels that form the PSB system as a whole.
- 6.41 But our hypothesis is that the cost to the broadcasters of delivering new output obligations on these services, and some of the limitations associated with being a PSB channel, such as restrictions on advertising minutage and the burden of higher licence fees, may outweigh the benefits.
- 6.42 This might mean that no benefit would be delivered from such a change, or indeed, that such a change might have a negative impact on funding for PSB.

We may therefore need to consider a new form of PSB compact, with a different package of benefits and obligations

- 6.43 There are a number of ways in which the system might be made more flexible in order to meet changing audience needs and expectations. Each offers potentially different risks and opportunities.
- 6.44 One such change would be to allow content provided by the PSBs, regardless of distribution platform, to be fully taken into account when we carry out a PSB Review.⁸¹ An associated change would be to allow output quotas as well, such as those for news and current affairs, to be delivered on any of a PSB's services, rather than on a single, specific television channel.⁸²
- 6.45 If the intention is to address specific areas of under-provision, such as children's programming, then rather than extending all benefits and obligations to additional channels, one or more providers could be given a genre-specific role in the PSB system in exchange for a more limited set of benefits.
- 6.46 The overall provision of PSB may also potentially be strengthened if, alongside increased flexibility in the delivery of obligations, benefits were applied beyond existing PSB channels. This might include giving some form of EPG prominence to the commercial PSBs' portfolio channels or their VoD services. Additional benefits such as these could increase viewing and therefore potentially increase revenues. If specific outcomes, beyond a general increase in funding, were sought then, in exchange for new benefits, additional obligations could be put in place as long as they did not outweigh the value of the new benefits.
- 6.47 Exemptions from other restrictions associated with offering a PSB channel, such as higher licence fees and restrictions on advertising minutage, might ensure that any

⁸¹ i.e. to take into account online or portfolio channel delivery, and not only programmes on the main PSB channel.

⁸² Similar to this, section 296 of the Act, which provides for Channel 4's schools programming quota, requires Ofcom to take into account 'services, facilities and materials which C4C provide to schools, or make available to schools, otherwise than by the inclusion of programmes in Channel 4 in determining the quota.'

benefits accrued were not undermined by additional costs, and so maximise the benefits to the PSB system.

- 6.48 This is clearly by no means an exhaustive list of potential changes or a full consideration of their consequences. We would welcome stakeholder views on whether a new compact might be desirable and, if so, what form it might take.

Rebalancing the relationship between PSBs and the production sector – is change required?

- 6.49 Earlier in this document we outlined the major changes taking place in the UK's content production industry, including consolidation and acquisition. We also set out that PSBs have continued to commission a significant amount of content from independent producers. Here we consider whether any changes to the interventions which influence the relationship between the PSBs and independent producers may be desirable.

- 6.50 The legislative regime comprises two main interventions:

6.50.1 **An independent production quota:** section 277 of the Act provides that Ofcom must ensure that, in each year, not less than 25% of the total amount of time allocated to the broadcasting of qualifying programmes included in every licensed PSB channel is allocated to the broadcasting of a range and diversity of independent productions.⁸³

6.50.2 **Codes of practice (terms of trade):** section 285 of the Act provides for Ofcom to ensure that the provider of every licensed PSB channel⁸⁴ draws up, and from time to time revises, a code of practice setting out the principles it will apply when agreeing terms for the commissioning of independent productions. Terms of trade with independent producers are negotiated within the framework set out by these codes.

- 6.51 These interventions apply only in relation to 'independent producers' as defined in the Broadcasting (Independent Productions) Order 1991 (as amended). In summary, an independent producer is not an employee of a broadcaster; does not have a shareholding greater than 25% in a broadcaster; and is not a body corporate in which a broadcaster has a shareholding greater than 25%.⁸⁵

The interventions are commonly associated with a number of benefits

- 6.52 The following benefits, commonly associated with interventions in relation to programme production, are directly or indirectly related to PSB policy:

6.52.1 **Underpinning the PSB system:** strengthening the independent sector benefits the system as a whole by helping PSBs provide a wide range of high quality output, as well as by helping Channel 4 and Channel 5, the

⁸³ Equivalent requirements apply to the BBC and to S4C.

⁸⁴ Equivalent requirements apply to the BBC (under the BBC Agreement) and to S4C.

⁸⁵ The Order has recently been amended by The Broadcasting (Independent Productions) (Amendment) Order 2014 to ensure that production companies owned by non-UK broadcasters can still qualify as independent producers. The amendments also preserve independent status for producers who are connected to a person who owns, or is owned by, a broadcaster which does not aim its services primarily at the UK.

PSBs which commission the majority of their programming externally, to benefit from a wider range of competing suppliers in all genres.

6.52.2 **Ensuring plurality of ideas and cultural diversity:** the best programme ideas originate from across the whole market and external producers often cater for a wider mix of genres, therefore the regime helps to ensure that a range of creative voices is delivered on screen to the viewer.

6.52.3 **Widening production's geographic footprint:** recognising that smaller producers are more likely to be based outside London in the nations and regions, the regime also helps deliver different voices to the screen.

6.53 There are a number of other, broader, benefits associated with the interventions:

6.53.1 **Serving UK interests internationally:** the interventions have helped promote British intellectual property in an increasingly globalised market and helped to attract overseas investment to a strong domestic sector;

6.53.2 **Stimulating the growth of SMEs:** enabling independent producers to establish themselves as SMEs helps to promote creativity and to foster new talent in the sector by reducing barriers to entry;

6.53.3 **Balancing vertical integration trends:** the vertical integration of broadcasters and producers in the supply market may lead to a lack of diversity of supply and therefore not deliver the best outcome for viewers in terms of the range of genres and value for money;

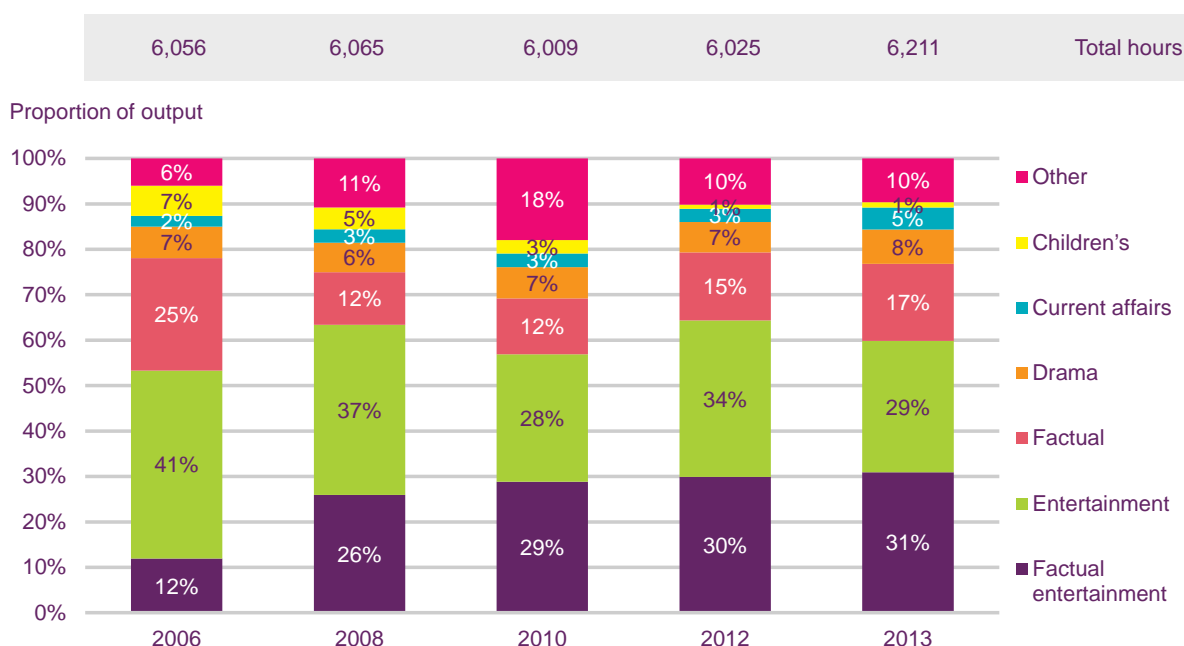
6.53.4 **Providing protection during commercial negotiations:** in addition to ensuring an absolute level of programmes commissioned from independent producers, the legislation also helps these producers to receive fair reward for their work when dealing with larger commercial entities that may have greater negotiating power.

Outcomes appear to be positive for both producers and broadcasters

6.54 The interventions are often credited as being a contributing factor to the production sector becoming a fast-growing and profitable market, attractive to investors. The terms of trade agreed by PSBs and independent producers within the framework of the codes of practice give a greater share of revenues from secondary window rights (typically an 85% share) to producers, with broadcasters receiving 15%. This has provided producers with the economic incentives to exploit their intellectual property fully, especially in international markets.

6.55 The independent production sector has become consistently profitable but it should be noted that overall margins are not particularly high and have fallen in recent years (see [Figure 41](#)).

6.56 A thriving independent sector has been credited with helping to bring new creative ideas to broadcasters and helping to stimulate creativity and quality, through increased levels of competition in the market for programme production (with external producers both in competition with each other and with in-house production departments at the BBC and ITV). Analysis of output shows that the independent sector is delivering across a range of key PSB genres.

Figure 54: Hours of externally produced programming, by genre: 2006-2013

Source: BARB, Oliver & Ohlbaum Associates analysis

Note: The increase in Other in 2010 is largely down to an increase of Nightscreen programming and The Zone – Netplay / QVC on ITV

- 6.57 Beyond the 25% independent production quota, the success of the independent sector in winning competitive commissions against PSB in-house production arms, across a range of genres, demonstrates that the independent sector remains an important source of creativity and that producers feel able to commission the best ideas, regardless of source.

Are changes required to the current interventions?

- 6.58 It is difficult to predict whether the recent trends of consolidation and acquisition in the sector will continue, and therefore what effect these trends may have on future policy goals in this area. However, while the production sector continues to globalise and grow in revenue and (possibly profit) terms, and while there continues to be a healthy turnover in new creative ideas delivered by new start-up indies, it seems likely that the sector will continue to attract new investment, and that the cycle of consolidation and acquisition will continue.
- 6.59 We now seek views on whether the goals commonly associated with intervening in the programme production market are still desirable. We are also seeking views on whether intervention is still required at all, and if it is, whether and how the interventions may need to be updated or changed.
- 6.60 It is likely that any change will need to be tested against a number of questions, including: will it increase investment in UK content, how might it improve the delivery of the purposes and characteristics, and can it be achieved without undermining the current success of the UK independent production sector?

Considering additional sources of funding – what options might there be to increase the funding of the PSB system?

- 6.61 In the light of the possible risks we have identified, which may not be fully offset by the other options set out above, it may be desirable to consider other options for increasing the direct funding available to PSBs. This could include options currently under discussion, such as retransmission fees, as well as areas that Ofcom and the Government have considered in the past.
- 6.62 We do not plan to revisit these areas at this stage as they have already been the subject of previous work and much debate. But we do seek views on whether they should be considered further as possible sources of funding for PSB, and if so, how they might be implemented to improve the delivery of the PSB purposes and objectives. We have currently identified seven options for consideration at this stage of our review:
- 6.62.1 **Changing TV advertising volume and scheduling rules** – Ofcom reviewed the rules relating to the volume and scheduling of television advertising in 2011. While it is possible that changes to the system could deliver benefits to the PSB system, it is far from certain that benefits would accrue, and whether the value would be particularly significant.
 - 6.62.2 **Relaxing wider TV advertising rules** – A change in the wider rules governing TV advertising, such as those related to product placement or sponsorship, could deliver additional revenue into the PSB system. There is always a tension between such relaxation and protecting consumers from too much or overly intrusive advertising, and it is also not clear how any additional commercial revenue that might be derived would be linked directly to greater investment in specific PSB programme genres.
 - 6.62.3 **New tax breaks** – Tax breaks have already been introduced for high-end television drama and UK-made animated programmes. Tax breaks in the television sector are predominately aimed at encouraging new foreign direct investment rather than incentivising broadcasters to produce PSB programmes in specific genres of concern. Tax breaks for children's television, previously considered by Ofcom,⁸⁶ were announced in the Autumn Statement 2014. The Government also announced that it would consult on reducing the minimum UK expenditure for high-end television tax relief from 25% to 10%. Further analysis would be required to assess whether new tax breaks in other areas could be introduced which might stimulate investment in specific PSB genres by the PSBs.
 - 6.62.4 **Exempting PSBs from any future AIP charges** – We have postponed the imposition of administered incentive pricing for broadcasting until at least 2020. But a longer-term exemption for PSBs could effectively remove future costs from the PSB system and so increase the funding available for investment in content.
 - 6.62.5 **Introduce contestable funding** – Parliament could introduce this to address under-provision of certain types of programming, such as children's content or nations and regions programming, should this be

⁸⁶ Ofcom: The future of children's television programming (2007)

desirable, but it would require additional funding to be identified – any use of current PSB funds would reduce other forms of provision.

- 6.62.6 **Use new quotas to secure at-risk genres** – Parliament removed most specific programming quotas in 2003. Their reintroduction may secure output, but is unlikely to secure guaranteed levels of investment. Again, additional funding would need to be identified to avoid reductions in output or spend elsewhere.
- 6.62.7 **Transfer funds from other parts of industry into the PSB system** – there are a number of models used in different parts of the world that seek to directly transfer value from one part of the communications industry to another in order to fund public policy goals related to PSB. These include copyright regimes, levies, and tax breaks, in addition to contestable funding, set out as a separate option above. We note that the current debate around ‘retransmission fees’ could be considered in this context. In considering such an intervention, attention also needs to be paid to how, specifically, any transfer would be directly tied to improving the delivery of the PSB purposes and/or objectives, if this debate is to be relevant to maintaining or strengthening the PSB system.
- 6.63 It is not currently clear whether these options could be successfully implemented, whether they would secure significant additional funding for the PSBs or whether any additional funding could be tied to greater levels of investment in PSB or in specific PSB genres. We seek views on the potential of each of these options to improve the delivery of the PSB purposes and objectives, and whether there are any other options available.

The wider implications of the ‘balance of payments’ debate

- 6.64 As set out above, we note the recent debate around ‘retransmission fees’ and the wider ‘balance of payments’ between the PSBs and TV platforms. This debate raises a number of issues that need to be considered when thinking about options for maintaining or strengthening the PSB system.
- 6.65 This section sets out some observations on the wider context of the current debate, and considers potential implications of the debate in relation to securing the universal availability and easy discoverability of PSB. It also sets out what might need to be considered as part of this debate if the intention is to maintain or strengthen PSB to the benefit of consumers and citizens.

There are broadly two types of payment between platforms and broadcasters

- 6.66 When considering the commercial relationships between PSBs and platform operators, it is important to note that they already negotiate distinct payments in a number of areas, and that payments can flow in both directions:
 - 6.66.1 **Content fees** – payments can be made by platforms to secure the presence of channels (i.e. copyright fees). Some PSBs currently receive payments for making available services other than the PSB channels, such as the commercial PSBs’ HD portfolio channels and catch-up players;
 - 6.66.2 **Platform charges** – these can be paid by PSBs to secure access to platforms and cover specific technical costs. For example, broadcasters pay for platform-provided services such as the regionalisation of channels.

- 6.67 The value and relative balance of these payments is determined primarily through commercial negotiations, with different outcomes for each broadcaster and platform. These outcomes tend to remain confidential.

Specific legislative and regulatory provisions may have some influence on the balance of payments

- 6.68 Each of these provisions relates to specific underlying policy objectives not necessarily related to the balance of payments between PSBs and platforms. Considerations by Parliament and regulators on the need and rationale for each these provisions were informed by the market conditions of the time when they were introduced.
- 6.68.1 Section 73 of the Copyright, Designs and Patents Act 1988 exempts cable providers from making copyright payments to carry the PSB channels.
- 6.68.2 The technical platform services (TPS) regime seeks to secure fair, reasonable and non-discriminatory conditions for any broadcaster (not just PSBs) wishing to use specific technical services to reach viewers on the Sky satellite platform without entering into BSkyB's retail bundle. It results in charges for cost recovery of technical services that broadcasters pay to Sky.
- 6.68.3 Must-carry and must-offer provisions in the Act are intended to support the widespread availability of PSB channels, one of the key aspects of universality, as discussed above. Their introduction took place in the context of emerging convergence in digital communications, hence their focus on the then newly-created and technology-neutral concept of electronic communication networks. It is not clear whether these conditions have affected the balance of payments between PSBs and platforms – to date, Ofcom has not issued a direction bringing the must-carry obligation into force, while must-offer provisions are subject to the need to agree terms.
- 6.69 ITV, C4C and Channel 5's new owner, Viacom, have recently taken public positions in favour of reforms that would see some of these provisions amended. Their view is that the current regulatory regime prevents them from negotiating content fees from platforms for the carriage of PSB channels⁸⁷. Commercial PSBs consider that they should receive content fees that reflect the commercial value that their PSB channels bring to platforms. Sky and Virgin Media have publicly stated they oppose this view, given the free-to-air nature of these services.

There are various models used around the world to transfer value from other parts of the value chain into broadcasting and production

- 6.70 In considering reform affecting the balance of payments between platforms and broadcasters, there has been much discussion of the US retransmission consent regime. However its outcomes relate closely to the characteristics of the US audio-visual market. Different market conditions in the UK could mean that this model for reform would lead to very different outcomes.

⁸⁷ We note that commercial PSBs already negotiate content fees for services other than their PSB channels.

- 6.71 The US Congress introduced the re-transmission consent regime in the 1990s in response to apparent consolidation in the cable platform market. The provisions had the explicit objectives of helping to fund local content by removing legislative support for pay-TV operators carrying free-to-air (FTA) content for free.
- 6.72 The reforms allowed TV networks to choose once every three years between must-carry (for no fee) or commercial bargaining when negotiating carriage on cable and other platforms, such as satellite providers DirecTV and Dish Network and the major urban fibre-based IPTV platforms from AT&T and Verizon.
- 6.73 TV networks began to extract cash payments from cable operators in 2005, following changes in the market that resulted in an increase in their bargaining power, principally due to the emergence of major IPTV platforms increasing competition in the platform market and an increased willingness to pay on the part of the satellite providers, effectively forcing cable operators to negotiate in certain markets. US retransmission fees have been steadily increasing since 2005. In 2013, they amounted to around \$3bn, or about 15%, of FTA broadcast network revenues.
- 6.74 These positive financial outcomes for US network broadcasters are linked to the relative fragmentation of the pay-TV platform market and the US's localised system of broadcast markets. The whole system is based on the ability of TV networks to withdraw their channels from platforms in specific local markets. This mitigates the negative impact of black-outs on audiences and on advertising revenues for TV networks operating on a national scale. In contrast, in the UK, broadcasters and major pay-TV platforms operate and negotiate carriage on a nation-wide basis. This makes the potential impact of black-outs far more significant.
- 6.75 Analysis by Oliver & Ohlbaum Associates⁸⁸ shows that many other regimes that fulfil public policy or industrial objectives in favour of broadcasters exist in other international markets. These include:
- 6.75.1 **competitive funding** – for content production raised through industry levies (used in France, Ireland) or general taxation (e.g. in New Zealand and Singapore, among others);
 - 6.75.2 **levies** – to finance PSBs (used in France and Spain);
 - 6.75.3 **taxes** – on retail sales of AV equipment to compensate copyright owners (used in many EU countries since the 1980s); and
 - 6.75.4 **copyright regimes** – explicitly supporting payments from platforms to broadcasters (in place in Belgium, as well as the US).
- 6.76 Several of these regimes are concurrently in place in France. Levies on the revenues of commercial broadcasters and electronic communications network (ECN) operators are used to fund the state broadcaster France Télévisions and were introduced to replace advertising. Taxes on the retail price of cinema tickets, VoD sales and commercial broadcasters' revenues provide contestable funding for independent producers of French TV content and films. There are also levies on the sales of AV recording equipment, including DVRs, that collecting societies distribute to copyright owners.

⁸⁸ Commissioned by Ofcom in 2008 for our second PSB Review

Consideration would need to be given to the full range of potential interrelated consequences of any reforms

- 6.77 Any reforms that might affect the balance of payments between PSBs and platforms could have implications for many different policy objectives. There may also be tensions between different policy objectives that would need to be resolved. Consideration would need to be given to the impact on:
- 6.77.1 overall levels of investment in programmes by PSBs;
 - 6.77.2 funding available for specific PSB genres;
 - 6.77.3 competition between PSBs and with other non-PSB broadcasters
 - 6.77.4 the universal availability of PSB channels and programmes;
 - 6.77.5 the potential impact on pay-TV retail prices for consumers;
 - 6.77.6 other commercial negotiations between PSBs and platforms (e.g. for carriage of non-PSB portfolio channels or VoD services); and
 - 6.77.7 the proportionality of as well as the costs and benefits associated with any regulatory change.
- 6.78 It is possible that an approach to reform focused on the objective of deregulation could deliver market outcomes that reflect the relative bargaining power of different players. This would not necessarily tip the balance of payments in favour of PSBs, whose bargaining power would be influenced by whether the threat of withholding their channels is credible or not. If such a threat is not credible, they would be unlikely to extract significant new payments from platforms, with no positive outcome for PSB funding. If it is credible, then it is conceivable that negotiations could lead to blank screens, either because the PSBs decide to withdraw their services, or because platforms refuse to carry them. This would affect the availability of PSB services to audiences relying on specific platforms for their AV consumption, with negative consequences for the overarching PSB objective of universality.
- 6.79 A hypothetical approach focused instead on introducing payments from platforms to PSBs may require new legislative provisions and greater levels of regulation and so not prove deregulatory. These new provisions might involve defining processes for determining the amount of revenue to be transferred from platforms to PSBs, which may be extremely challenging, and for ensuring that the monies transferred are re-invested in programmes which improve the overall delivery of the public service objectives. Any such approach would also need to consider questions of proportionality and the range of impacts, including unintended consequences.
- 6.80 Any regime that generated new funds for PSBs may also need to ensure that the additional funds would be channelled into the production of public service content (possibly specific forms or genres of such content). In particular, there are no guarantees that privately-owned commercial PSBs would invest the proceeds of any transfer of value from platforms into PSB content or even into their programme budgets at all. It is possible that any proceeds would be returned to shareholders or invested elsewhere in their businesses unless any new regime ensured otherwise.

Section 6 consultation questions

Question 11: Have we identified all the relevant ways in which the PSB system might be maintained and strengthened?

Question 12: Does universal availability and the easy discoverability of PSB remain important and how might it be secured in future?

Question 13: Should we explore the possibility of giving greater flexibility to PSB institutions in how they deliver public service content, including examining the scope (in some or all cases) for regulating by institution, not by channel?

Question 14: Do the current interventions in relation to the independent production sector need to change in light of industry developments?

Question 15: Have we identified the right options when considering potential new sources of funding, are there other sources of funding which should be considered, and which are most preferable?

Section 7

Conclusions

- 7.1 Our analysis suggests that despite rapid change in the communications industry the PSB system remains strong, broadly delivering the purposes and objectives of public service broadcasting despite falling output, spend and viewing. Indeed, people's satisfaction with PSB programming actually appears to be increasing. This may, in part, be due to increased choice in content, more ways to discover it, and a higher-quality experience with bigger televisions and HD picture quality.
- 7.2 Beyond the PSB system, people are increasingly well served and have access to a wider range of content than ever before on television, online and on radio.
- 7.3 There are of course areas where questions remain. Audience satisfaction with the way in which their region or nation of the UK is portrayed is lower than for the other PSB purposes. The growing importance of the unique identities of the UK's nations and increasing devolution potentially pose a growing challenge for the PSB system. The provision of programming for children has continued to decline and there remains little provision of UK non-animation output beyond the BBC.
- 7.4 People continue to want to see a combination of their favourite long-running programmes and original, innovative programming, which the PSB system enables and encourages, although our review suggest that some people may feel that the PSBs are duplicating successful programme ideas and formats, potentially at the expense of more original, innovative and challenging programming.
- 7.5 In future it is possible that overall levels of viewing to PSB (and television more broadly) will remain high. TV advertising appears robust in the medium term, meaning that the virtuous circle of investment, mass viewing and revenues could endure for now.
- 7.6 However, any continuation of the decline in real-terms investment in first-run original UK programmes may be noticed by audiences, if broadcasters were unable to address such a decline through further efficiencies or new sources of revenue, and if the volume, range or quality of programmes began to suffer as a result.
- 7.7 We have identified a number of risks that mean it is important to consider what changes might be necessary in order to maintain and strengthen the system in the future. We have identified three key areas which could be considered: availability and discoverability of PSB; changes to regulation in relation to the independent production sector; and increasing the flexibility of the regulatory system more broadly.
- 7.8 In light of the risks we have identified, which may not be fully offset by the options above, we have also considered whether there are more radical options for securing new sources of PSB funding. All of this is contingent on the continued support of Parliament to secure the economic, social, cultural and citizen benefits derived from the PSB system.
- 7.9 We are now seeking views on these initial findings. This consultation will run until the 26 February 2015. We will consider the responses received and publish a final statement in the summer of 2015.

Annex 1

About this review

- A1.1 The statutory framework for this review is included in full in Annex 2.
- A1.2 The Communications Act 2003 (the ‘Act’) defines the purposes of public service television broadcasting in the UK.⁸⁹ They include the provision of television services which cover a wide range of subject matters, meet the needs and satisfy the interests of many different audiences and maintain high standards. It also sets out certain objectives for public service television broadcasting⁹⁰ including to inform, educate and entertain; to reflect and support cultural activity in the UK; and to reflect the lives and concerns of different communities in the UK.
- A1.3 The Act calls upon Ofcom periodically to:
- 1.3.1 review the extent to which the public service broadcasters (PSBs)⁹¹ have provided relevant television services (PSB channels)⁹² which fulfil the purposes of public service television broadcasting; and
 - 1.3.2 report on this with a view to maintaining and strengthening the quality of public service television broadcasting in the future.⁹³
- A1.4 In carrying out the review we are required to consider the costs of provision and the sources of income available to the broadcasters to meet those costs.
- A1.5 The Digital Economy Act 2010 introduced some additional duties for Ofcom when conducting a PSB review.⁹⁴ We have therefore carried out a wider ‘media services’ review, in addition to looking at the PSB channels, which provides important context for the core focus of our review. Our media services review considers the contribution towards the fulfilment of the public service objectives⁹⁵ of the commercial PSB portfolio channels, television services provided by the multichannel sector, radio stations, and services such as on-demand players and websites.
- A1.6 The Digital Economy Act also introduced new duties for Channel 4 Corporation (“C4C”) in relation to media content⁹⁶ and a requirement for Ofcom to carry out a periodic review of C4C’s discharge of these duties.⁹⁷ We do so alongside our PSB review.

⁸⁹ Section 264(4) of the Act. See Annex 2 for relevant excerpts from the Act.

⁹⁰ Section 264(6) of the Act.

⁹¹ The BBC, Welsh Authority (S4C), the providers of the Channel 3, 4 and 5 services, and the public teletext provider.

⁹² The BBC’s television broadcasting services, S4C, Channel 3, 4 and 5 services, and the public teletext service (which has ceased operation and so is not considered in this review).

⁹³ Section 264 of the Act.

⁹⁴ Inserted as section 264A of the Act.

⁹⁵ Defined in section 264A(3) as the objectives set out in paragraphs (b) to (j) of section 264(6).

⁹⁶ Inserted as section 198A of the Act.

⁹⁷ Section 198C of the Act.

A1.7 The aims of this consultation document are therefore to:

- 1.7.1 assess the delivery of the PSB purposes and the public service objectives by the PSB channels over the review period (2008-2013);
- 1.7.2 review the extent to which wider media services have contributed to the delivery of the public service objectives over the same period;
- 1.7.3 review C4C's delivery of its media content duties over the period 2010⁹⁸-2013;
- 1.7.4 set out a broad analysis of the likely future development of PSB; and
- 1.7.5 stimulate a broad debate on the major choices the UK faces in maintaining and strengthening PSB.

A1.8 We received only a small number of responses to our published Terms of Reference. Themes included requests for greater depth on issues in each of the UK's nations, that we should consider the role of the PSBs in relation to new technologies and observations about the benefits and obligations associated with PSB. We have taken these views into account in producing our consultation.

⁹⁸ The duties came into force in June 2010.

Annex 2

PSB Review: Statutory Framework

Section 264 of the Communications Act 2003: Ofcom reports on the fulfilment of the public service remit

- (1) It shall be the duty of OFCOM--
- (a) as soon as practicable after the end of the period of twelve months beginning with the commencement of this section, and
 - (b) as soon as practicable after the end of each such subsequent period as may be selected by OFCOM for the purposes of this section,
- to satisfy, for that period, the review and reporting obligations of subsection (3).
- (2) The period selected by OFCOM for the purposes of subsection (1)(b) must be a period of not more than five years beginning with the end of the previous period for which OFCOM have satisfied those review and reporting obligations.
- (3) The review and reporting obligations for a period are--
- (a) an obligation to carry out a review of the extent to which the public service broadcasters have, during that period, provided relevant television services which (taking them all together over the period as a whole) fulfil the purposes of public service television broadcasting in the United Kingdom; and
 - (b) an obligation, with a view to maintaining and strengthening the quality of public service television broadcasting in the United Kingdom, to prepare a report on the matters found on the review.
- (4) The purposes of public service television broadcasting in the United Kingdom are--
- (a) the provision of relevant television services which secure that programmes dealing with a wide range of subject-matters are made available for viewing;
 - (b) the provision of relevant television services in a manner which (having regard to the days on which they are shown and the times of day at which they are shown) is likely to meet the needs and satisfy the interests of as many different audiences as practicable;
 - (c) the provision of relevant television services which (taken together and having regard to the same matters) are properly balanced, so far as their nature and subject-matters are concerned, for meeting the needs and satisfying the interests of the available audiences; and
 - (d) the provision of relevant television services which (taken together) maintain high general standards with respect to the programmes included in them, and, in particular with respect to--
 - (i) the contents of the programmes;
 - (ii) the quality of the programme making; and
 - (iii) the professional skill and editorial integrity applied in the making of the programmes.

(5) When--

- (a) determining the extent to which any of the purposes of public service television broadcasting in the United Kingdom are fulfilled, and
- (b) reviewing and reporting on that matter,

OFCOM must have regard to the desirability of those purposes being fulfilled in a manner that is compatible with subsection (6).

(6) A manner of fulfilling the purposes of public service television broadcasting in the United Kingdom is compatible with this subsection if it ensures--

- (a) that the relevant television services (taken together) comprise a public service for the dissemination of information and for the provision of education and entertainment;
- (b) that cultural activity in the United Kingdom, and its diversity, are reflected, supported and stimulated by the representation in those services (taken together) of drama, comedy and music, by the inclusion of feature films in those services and by the treatment of other visual and performing arts;
- (c) that those services (taken together) provide, to the extent that is appropriate for facilitating civic understanding and fair and well-informed debate on news and current affairs, a comprehensive and authoritative coverage of news and current affairs in, and in the different parts of, the United Kingdom and from around the world;
- (d) that those services (taken together) satisfy a wide range of different sporting and other leisure interests;
- (e) that those services (taken together) include what appears to OFCOM to be a suitable quantity and range of programmes on educational matters, of programmes of an educational nature and of other programmes of educative value;
- (f) that those services (taken together) include what appears to OFCOM to be a suitable quantity and range of programmes dealing with each of the following, science, religion and other beliefs, social issues, matters of international significance or interest and matters of specialist interest;
- (g) that the programmes included in those services that deal with religion and other beliefs include--
 - (i) programmes providing news and other information about different religions and other beliefs;
 - (ii) programmes about the history of different religions and other beliefs; and
 - (iii) programmes showing acts of worship and other ceremonies and practices (including some showing acts of worship and other ceremonies in their entirety);
- (h) that those services (taken together) include what appears to OFCOM to be a suitable quantity and range of high quality and original programmes for children and young people;
- (i) that those services (taken together) include what appears to OFCOM to be a sufficient quantity of programmes that reflect the lives and concerns of different communities and cultural interests and traditions within the United Kingdom, and locally in different parts of the United Kingdom;

- (j) that those services (taken together), so far as they include programmes made in the United Kingdom, include what appears to OFCOM to be an appropriate range and proportion of programmes made outside the M25 area.
- (7) In carrying out a review under this section OFCOM must consider--
- (a) the costs to persons providing relevant television services of the fulfilment of the purposes of public service television broadcasting in a manner compatible with subsection (6); and
 - (b) the sources of income available to each of them for meeting those costs.
- (8) Every report under this section must--
- (a) specify, and comment on, whatever changes appear to OFCOM to have occurred, during the period to which the report relates, in the extent to which the purposes of public service television broadcasting in the United Kingdom have been satisfied;
 - (b) specify, and comment on, whatever changes appear to OFCOM to have occurred, during that period, in the manner in which those purposes are fulfilled;
 - (c) set out the findings of OFCOM on their consideration of the matters mentioned in subsection (7) and any conclusions they have arrived at in relation to those findings; and
 - (d) set out OFCOM's conclusions on the current state of public service television broadcasting in the United Kingdom.
- (9) In performing their duties under this section, OFCOM must have regard, in particular, to--
- (a) every statement of programme or service policy which has been made by virtue of this Section by a public service broadcaster, or which is treated as such a statement;
 - (b) every equivalent statement of policy made by the BBC in pursuance of the BBC Charter and Agreement; and
 - (c) such matters arising at times before the coming into force of this section as OFCOM consider material.
- (10) Every report prepared by OFCOM under this section must be published by them--
- (a) as soon as practicable after its preparation is complete; and
 - (b) in such manner as they consider appropriate.
- (11) The following are relevant television services for the purposes of this section--
- (a) the television broadcasting services provided by the BBC;
 - (b) the television programme services that are public services of the Welsh Authority (within the meaning of section 207);
 - (c) every Channel 3 service;
 - (d) Channel 4;
 - (e) Channel 5;
 - (f) the public teletext service.
- (12) The following are public service broadcasters for the purposes of this section--
- (a) the BBC;
 - (b) the Welsh Authority;

- (c) the providers of the licensed public service channels; and
- (d) the public teletext provider.

(13) In this section--

"belief" means a collective belief in, or other adherence to, a systemised set of ethical or philosophical principles or of mystical or transcendental doctrines; and

"drama" includes contemporary and other drama in a variety of different formats.

Section 264A of the Communications Act 2003: OFCOM reports: wider review and reporting obligations⁹⁹

(1) When carrying out a review under section 264 for a period, OFCOM must also carry out a review of the extent to which material included in media services during that period (taken together over the period as a whole) contributed towards the fulfilment of the public service objectives.

(2) Every report under section 264 must--

- (a) include a report on the matters found on the review under this section,
- (b) specify, and comment on, whatever changes appear to OFCOM to have occurred, during the period to which the report relates, in the extent to which the public service objectives have been fulfilled,
- (c) specify, and comment on, whatever changes appear to OFCOM to have occurred, during that period, in the manner in which those objectives are fulfilled, and
- (d) set out OFCOM's conclusions on the current state of material included in media services.

(3) "The public service objectives" are the objectives set out in paragraphs (b) to (j) of section 264(6) (as modified by subsection (4)).

(4) Paragraphs (b) to (j) of section 264(6) have effect for the purposes of subsection (3) as if--

- (a) references to the relevant television services were to media services, and
- (b) references to programmes were to material included in such services.

(5) In this section--

"material" does not include advertisements;

"media services" means any of the following services that are available to members of the public in all or part of the United Kingdom--

- (a) television and radio services,
- (b) on-demand programme services, and
- (c) other services provided by means of the internet where there is a person who exercises editorial control over the material included in the service.

(6) The services that are to be taken for the purposes of this section to be available to members of the public include any service which--

⁹⁹ This section was inserted into the Communications Act by section 2 of the Digital Economy Act 2010.

- (a) is available for reception by members of the public (within the meaning of section 361); or
- (b) is available for use by members of the public (within the meaning of section 368R(4)).

Section 198A of the Communications Act 2003: C4C's functions in relation to media content¹⁰⁰

(1) C4C must participate in--

- (a) the making of a broad range of relevant media content of high quality that, taken as a whole, appeals to the tastes and interests of a culturally diverse society,
- (b) the making of high quality films intended to be shown to the general public at the cinema in the United Kingdom, and
- (c) the broadcasting and distribution of such content and films.

(2) C4C must, in particular, participate in--

- (a) the making of relevant media content that consists of news and current affairs,
- (b) the making of relevant media content that appeals to the tastes and interests of older children and young adults,
- (c) the broadcasting or distribution by means of electronic communications networks of feature films that reflect cultural activity in the United Kingdom (including third party films), and
- (d) the broadcasting or distribution of relevant media content by means of a range of different types of electronic communications networks.

(3) In performing their duties under subsections (1) and (2) C4C must--

- (a) promote measures intended to secure that people are well-informed and motivated to participate in society in a variety of ways, and
- (b) contribute towards the fulfilment of the public service objectives (as defined in section 264A).

(4) In performing their duties under subsections (1) to (3) C4C must--

- (a) support the development of people with creative talent, in particular--
 - (i) people at the beginning of their careers in relevant media content or films, and
 - (ii) people involved in the making of innovative content and films,
- (b) support and stimulate well-informed debate on a wide range of issues, including by providing access to information and views from around the world and by challenging established views,
- (c) promote alternative views and new perspectives, and
- (d) provide access to material that is intended to inspire people to make changes in their lives.

(5) In performing those duties C4C must have regard to the desirability of--

- (a) working with cultural organisations,

¹⁰⁰ This section was inserted into the Communications Act by section 22 of the Digital Economy Act 2010.

- (b) encouraging innovation in the means by which relevant media content is broadcast or distributed, and
 - (c) promoting access to and awareness of services provided in digital form.
- (6) In this section--
- "participate in" includes invest in or otherwise procure;
 - "relevant media content" means material, other than advertisements, which is included in any of the following services that are available to members of the public in all or part of the United Kingdom--
 - (a) television programme services, additional television services or digital additional television services,
 - (b) on-demand programme services, or
 - (c) other services provided by means of the internet where there is a person who exercises editorial control over the material included in the service;
- and a film is a "third party film" if C4C did not participate in making it.
- (7) The services that are to be taken for the purposes of this section to be available to members of the public include any service which--
- (a) is available for reception by members of the public (within the meaning of section 361); or
 - (b) is available for use by members of the public (within the meaning of section 368R(4)).

Section 198C of the Communications Act 2003: OFCOM reports on C4C's media content duties¹⁰¹

- (1) For each relevant period, OFCOM must--
- (a) carry out a review of the extent to which C4C have discharged their duties under section 198A, and
 - (b) prepare a report on the matters found on the review.
- (2) OFCOM must publish each report under this section--
- (a) as soon as practicable after its preparation is complete, and
 - (b) in such manner as they consider appropriate.
- (3) "Relevant period" means each period selected by OFCOM for the purposes of section 264(1)(b) that ends after this section comes into force.

¹⁰¹ This section was inserted into the Communications Act by section 23 of the Digital Economy Act 2010.

Annex 3

Responding to this consultation

How to respond

- A3.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on 26 February 2015**.
- A3.2 Ofcom strongly prefers to receive responses using the online web form at <http://stakeholders.ofcom.org.uk/consultations/psb-review-3/howtorespond/form>, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 5), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A3.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email PSBReview@ofcom.org.uk attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A3.4 Responses may alternatively be posted to the address below, marked with the title of the consultation.
- PSB Review
Floor 5
Content Policy
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- A3.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A3.6 It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together at Annex 6. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

Further information

- A3.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact Gareth Barr or David Cockram on 020 7981 3000.

Confidentiality

- A3.8 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, www.ofcom.org.uk, ideally on receipt. If you think your response should be kept confidential, can you please specify what part or whether all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A3.9 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A3.10 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/terms-of-use/>

Next steps

- A3.11 Following the end of the consultation period, Ofcom intends to publish a statement in summer 2015.
- A3.12 Please note that you can register to receive free mail Updates alerting you to the publications of relevant Ofcom documents. For more details please see: <http://www.ofcom.org.uk/email-updates/>

Ofcom's consultation processes

- A3.13 Ofcom seeks to ensure that responding to a consultation is easy as possible. For more information please see our consultation principles in Annex 4.
- A3.14 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at consult@ofcom.org.uk . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A3.15 If you would like to discuss these issues or Ofcom's consultation processes more generally you can alternatively contact Graham Howell, Secretary to the Corporation, who is Ofcom's consultation champion:

Graham Howell
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA

Tel: 020 7981 3601

Email Graham.Howell@ofcom.org.uk

Annex 4

Ofcom's consultation principles

- A4.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

Before the consultation

- A4.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

During the consultation

- A4.3 We will be clear about who we are consulting, why, on what questions and for how long.
- A4.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.
- A4.5 We will consult for up to ten weeks depending on the potential impact of our proposals.
- A4.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's 'Consultation Champion' will also be the main person to contact with views on the way we run our consultations.
- A4.7 If we are not able to follow one of these principles, we will explain why.

After the consultation

- A4.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

Annex 5

Consultation response cover sheet

- A5.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, www.ofcom.org.uk.
- A5.2 We have produced a cover sheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A5.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their coversheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A5.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this cover sheet in Word or RTF format from the 'Consultations' section of our website at <http://stakeholders.ofcom.org.uk/consultations/consultation-response-coversheet/>.
- A5.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why:

Nothing	<input type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
Whole response	<input type="checkbox"/>	Organisation	<input type="checkbox"/>
Part of the response	<input type="checkbox"/>	If there is no separate annex, which parts?	

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

☐

Name

Signed (if hard copy)

Annex 6

Consultation questions

Question 1:	Do you agree with our assessment of the context in which the PSB system operates, and how the trends identified might affect the PSB system? In particular, do you agree with our analysis of the independent production sector?	33
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Question 3:	Do you agree with our assessment that the PSB system remains strong overall?	75
Question 4:	Given the resources available, to what extent is the system meeting the needs of as wide a range of audiences as practicable?	75
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Question 6:	Is declining investment affecting the quality of PSB and is it a cause for concern?	76
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Question 8:	To what extent do you agree with our assessment of the degree to which the non-PSB services play a role in helping to deliver the public service objectives? In doing so please set out your views on the delivery by the PSB portfolio channels, other non-PSB channels, on-demand and internet services and also radio services separately.	95
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Question 14:	Do the current interventions in relation to the independent production sector need to change in light of industry developments?.....	123
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