

## **News Broadcasting's response to Ofcom's consultation on the proposed methodology for a review of the financial terms of the Channel 3 and Channel 5 licences**

### **Section 1: Introduction**

News Broadcasting welcomes the opportunity to respond to Ofcom's consultation on the proposed methodology for setting the financial terms for the Channel 3 and Channel 5 licence renewal. News Broadcasting is the broadcasting division of News UK, home to TalkTV and the radio services talkSPORT, Times Radio and Virgin Radio.

News Broadcasting has no specific objections to the proposed methodology (i.e. the hypothetical auction) set out in Ofcom's consultation. Rather, we would like to raise concerns about the underlying assumptions and inputs that will inform the financial terms for the licences.

As national assets, it is important that the licences are accurately valued. We appreciate that putting a financial value on these licences is a difficult task, and that Ofcom has extensive experience in conducting such theoretical auction processes and assessments of EPG slot value.

However, we are concerned that the financial terms for the next licence period might be set at the same level as for the 2015-2024 licence period, where the cash bid for each Channel 3 regional licence, the Channel 3 breakfast licence and the Channel 5 licence was a nominal £10,000 and the percentage of qualifying revenue was 0%. We are concerned about the impact setting the cost of the licence at too low a level would have on competition in the broadcasting sector, potentially further skewing the playing field in favour of the PSBs.

In addition, given our recent experience entering the TV broadcasting market with TalkTV and negotiating access to EPGs, we wanted to share insight that might help to inform a fair representation of the value of the licences.

### **Section 2: Response to specific consultation question**

**Question 1:** *Do you have any comments on the methodology Ofcom proposes to use to determine the financial terms? Where you disagree with any of our proposals, please explain why.*

The Channel 3 and Channel 5 licences are valuable assets, and it is important that the financial terms set by Ofcom reflect that. We are concerned that the licences may be undervalued, and that they may continue to be undervalued over the course of the next licence period, with negative implications for competitive dynamics across the broadcasting sector.

The success of ITV clearly demonstrates the considerable value of the Channel 3 licence. ITV plc, with a market capitalisation of £2.7 billion, has built the value of its business on

owning and operating the Channel 3 licence. ITV1's advertising revenues are based on audience reach, which is in turn based on having a prominent EPG position. Moreover, ITV1's prominent position and high reach further benefits ITV's portfolio of non-PSB channels and the ITVX streaming platform, for example through the cross-promotion and brand recognition that ITV1 provides.<sup>1</sup> In 2022, ITV's non-digital advertising revenues across its portfolio channels and platforms was £1.6 billion.<sup>2</sup>

The most significant benefit tied to the Channel 3 and Channel 5 licences is the privileged access to key distribution platforms, which helps to maximise audience reach and therefore advertising revenues. Access to a premium, secured slot on every TV set across the UK is immensely valuable. Ofcom's decision to define linear prominence by slot position has made this potentially even more valuable since the last licence renewal, guaranteeing the licensees a position within the top five slots on any EPG.<sup>3</sup>

Furthermore, access to reserved capacity on the DTT platform helps to secure reach. Carriage on the PSB multiplex helps the licensees to reach roughly 5 million more people than if they were carried on the commercial multiplex.<sup>4</sup> This is a material benefit. Despite pressure on traditional TV viewing, the DTT platform remains by some distance the single most important viewing platform for broadcasters, accounting for 45% of all TV viewing time - more than any other platform. The Channel 3 and Channel 5 licensees' preferential access to DTT, combined with their privileged position on the EPG, has enabled both ITV and Channel 5 to maintain their share of this crucial source of demand.

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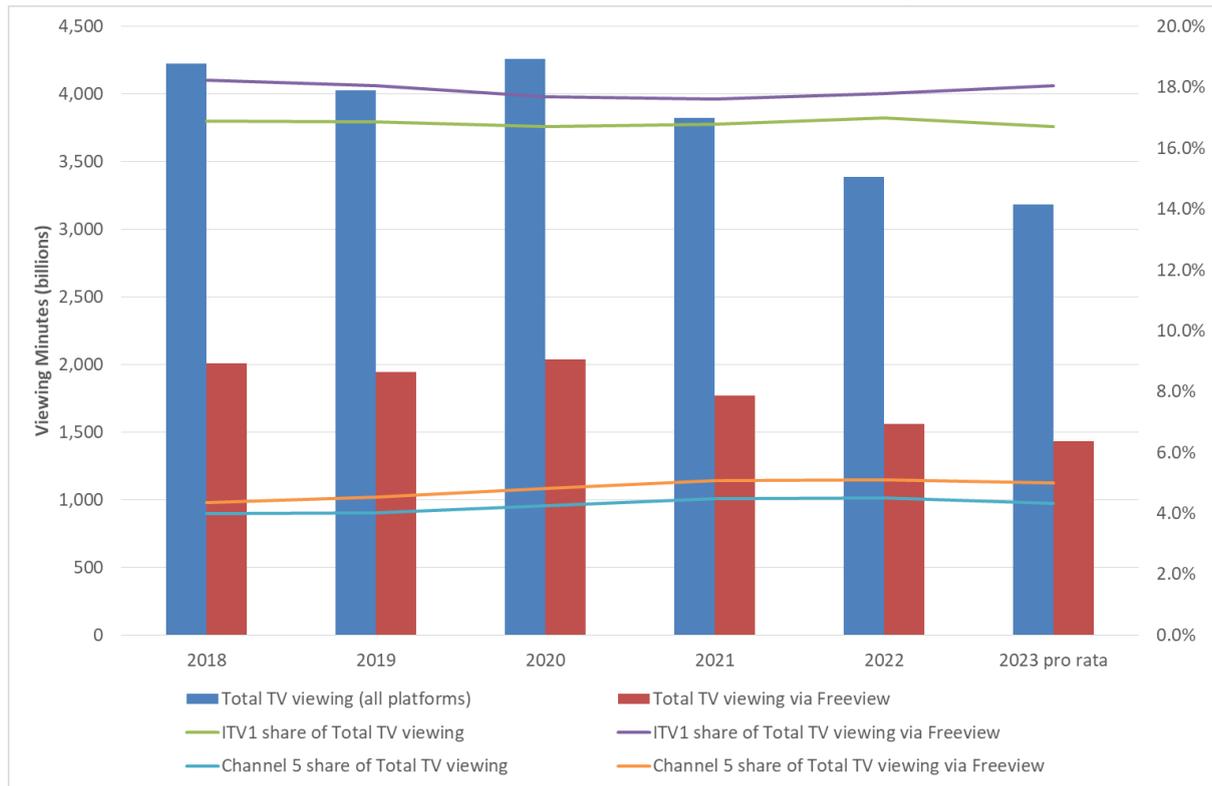
<sup>1</sup> ITV's portfolio channels include ITV2, ITV3, ITV4, ITVBe, CITV and associated +1 and HD equivalents.

<sup>2</sup> ITV plc, [Annual Report and Accounts 2022](#), p. 5

<sup>3</sup> Ofcom, 4 July 2019, [Review of prominence for public service broadcasting: Statement on changes to the EPG Code](#).

<sup>4</sup> The PSB multiplex covers 98.5% of the UK population, while the commercial multiplex covers 90%. According to the [ONS](#), the UK population in mid-2021 was 67 million.

**Figure 1: ITV1 and Channel 5's share of Total TV and DTT viewing, 2018-2023**



Source: TechEdge based on BARB data

The value of the Channel 3 and Channel 5 EPG positions cannot be overstated. Indeed, our own experience of negotiating access to the linear EPG underlines how valuable prominent EPG slots remain, especially on the Freeview EPG. [CONFIDENTIAL: ∞]. Access to a secured, premium slot on the EPG therefore, is a significant benefit to the Channel 3 and 5 licensees. Given our own experience in launching a new TV channel, there is no doubt that a new entrant would be able to place a significant positive value on these EPG positions, despite the PSB requirements.

The licensees will also soon receive additional significant benefits, which further enhances the value of these licences. The Media Bill will ensure the UK's PSBs - including the Channel 3 and Channel 5 licensees - are given appropriate prominence on connected platforms, including Smart TVs and streaming sticks. These benefits are tied to the linear Channel 3 and Channel 5 licence, and the government has committed to introducing the Bill.

There are - of course - obligations tied to the Channel 3 and Channel 5 licences, but it is difficult to understand how an efficient operator could not run a viable business given the cost:benefit profile of the rights enjoyed by PSBs relative to the obligations. Neither do we consider there to be a real opportunity cost in complying with many of the PSB obligations. For example, the content-related obligations only apply to a few genres (e.g. news and current affairs) which there is strong audience demand for, and original programming is something any broadcaster who wants to draw in significant audiences and earn advertising revenue will need to provide.

Ofcom is also considering whether to relax the restrictions on PSB advertising minutage and frequency, which if revoked, would remove an obligation tied to the licences, with significant negative revenue implications for commercial broadcasters.

In short, while we have no objections to Ofcom's proposed financial methodology for the renewal, it is important that the financial terms set by Ofcom for the next licence period fairly and accurately represent the considerable value of these licences. Failure to do so will grant the incumbent licensees a significant financial advantage over the rest of the broadcasting sector, with negative implications for competition across the sector.

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28 July 2023