
Licensing of Channel 3 and Channel 5

A report to the Secretary of State under section 229 of the Communications Act 2003

Non-confidential version: [X] indicates redacted information.

[Licensing of Channel 3 and Channel 5](#) – Welsh document

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1. Overview

Introduction

This report gives our opinion on the ability of the Channel 3 and Channel 5 licensees to contribute to the fulfilment of the purposes of public service broadcasting (PSB), at a commercially sustainable cost, over the next ten-year licence period. The purposes of PSB are designed to secure the delivery of a wide and balanced range of high-quality programmes, which meet the needs and satisfy the interests of as many audiences as practicable. This report is part of the process leading to either the renewal or re-advertisement of the licences, which must be completed before they expire on 31 December 2024.

There are 15 national and regional Channel 3 licences and one UK-wide breakfast licence. Elements of the Channel 3 schedule will be different depending on where you live, most notably for nations and regions news programming. The Channel 3 licences are held by subsidiaries of ITV plc (ITV) and STV Group plc (STV). STV provides the Channel 3 service in Central and Northern Scotland while ITV provides the services in England, Wales, Northern Ireland and Southern Scotland, alongside the breakfast service, GMTV. The Channel 5 licence provides a service across the whole of the UK. It is held by a subsidiary of Paramount Global.

We include, in this report, our view on whether the Secretary of State should exercise their order-making powers to:

- block licence renewal; and/or
- remove (or in some cases amend) the statutory obligations that must be included in the Channel 3 and Channel 5 licences.

If the Secretary of State does not intervene, we will proceed with the licence renewal process. Licences not renewed must be re-advertised.

In summary

We think the licensees could continue to contribute to PSB purposes at a commercially sustainable cost over the next licensing period:

- The current licence obligations are the minimum contributions to PSB that we expect for audiences, and Channel 3 and Channel 5 have a good track record in delivering them.
- Over and above the specific licence obligations, Channel 3 and Channel 5 licensees contribute more broadly to the PSB purposes and objectives, for instance by investing in a wide range of original UK content that meets different audiences needs and interests. Our research shows that the channels continue to be valued by audiences.
- The current obligations could be commercially sustainable, such that the licensees could continue to deliver them over the next licence period; a position that would be strengthened by implementation of the Government's proposed legislative reforms to establish new prominence and availability regulation for relevant PSB online TV services.

Our key findings

Channel 3 and Channel 5 licensees are likely to continue making important contributions to PSB over the next licence period

In addition to their public service remit to provide high quality and diverse programming, the Channel 3 and 5 licences include specific programming and production obligations, such as quotas for hours of news and current affairs, proportion of original programming, and the proportion of programmes and investment to be made outside London. Except for some minor impacts due to Covid-19, the licensees have met their licence obligations since the start of the current licensing period in 2015.

Channels 3 and 5 are an important part of the PSB system, alongside the BBC, Channel 4 and S4C. Each of the public service broadcasters plays a unique role in ensuring that the system has something for everyone, so together, they can meet the needs and interests of as many different audiences as possible. Our research and analysis show that, despite changing viewing habits, Channels 3 and 5 remain valued by, and popular, with audiences.

- Almost half of all people in the UK watch Channel 3 each week, and nearly a third watch Channel 5. In Scotland, over half of all individuals watch STV each week.¹
- Our research shows high levels of audience satisfaction with the channels. Three quarters (75%) of people who have watched the channel in the past six months are satisfied with ITV/STV/UTV and two thirds (67%) say the same for Channel 5.²
- Channels 3 and 5 both exceed the minimum requirements set in their network news and current affairs quotas. Around seven in ten people who watch Channel 3 news rate it highly for trust, accuracy and high-quality, and around six in ten people who watch Channel 5 news rate it highly for the same attributes.³ Both channels have made recent announcements and schedule changes to invest in and update UK-wide news services to better meet audience needs.
- Channel 3 provides competition and an alternative voice to the BBC in providing regional news in England and plays a key role in providing plurality of news provision in Scotland, Wales and Northern Ireland.
- Channel 3 and 5 also play an important role in the health of the UK production sector, collectively spending around £860m a year on average, on original network content, much of which is spent on programmes produced externally.⁴

The current range of licence obligations is the minimum we would expect the Channel 3 and 5 licensees to contribute to PSB purposes, and as such, we do not see a case to recommend that the Secretary of State should remove any of the statutory obligations included in the licences.

¹ BARB. Average weekly reach % 15+ consecutive minutes. Network and ITV Scotland area (for STV).

² Ofcom PSM Tracker 2021.

³ Ofcom 2022 News Consumption Survey.

⁴ Ofcom/broadcasters.

The PSB contributions made by Channels 3 and 5 could be commercially sustainable in the next licence period, but this is increasingly at risk as the value of licence benefits declines

In return for delivering the PSB obligations contained in the licences, Channel 3 and Channel 5 receive benefits that non-public service broadcasters do not get. These benefits are currently in the form of prominence within electronic programme guides (EPGs) and privileged access to spectrum. This spectrum enables the licensees to make their services available to 98.5% of the UK population on the digital terrestrial television (DTT) platform.

To evaluate whether the PSB contributions could be sustainable, we have assessed the relevant costs of the PSB licence obligations and compared these to the value of current benefits over the next licence period. Precisely estimating costs and benefits out to 2034 is difficult and estimates are necessarily based on broad assumptions and a significant degree of judgement.

Based on our analysis and the information provided by the licensees, over the next licence period we think that:

- Channel 3's PSB obligations could be sustainable over 10 years overall but could represent a small annual net cost towards the end of the period. However, as an individual licensee, STV's PSB obligations could represent a small net cost in each year of the next licence period; and
- Channel 5's PSB obligations are likely to be sustainable.

As the value of licence benefits is likely to reduce over the next licence period as linear viewing and advertising revenue move to other platforms, we recognise that sustainability could come under increasing pressure, particularly if the value of the licence benefits declines faster than expected. However, the licences are part of the wider broadcasting and production businesses of ITV, STV and Paramount Global and they may reasonably take this wider context into account when considering the full commercial value of their PSB licences. Information provided by the licensees suggests that they may have strategic reasons to continue as licensed public service broadcasters even where our analysis might suggest that the PSB obligations could represent a small net cost relative to PSB benefits in some years of the next licence period.

Proposed reforms to PSB prominence and availability regulation are crucial to protect benefits to audiences in the next licence period and strengthen Channel 3 and 5 sustainability

In July last year we published our [recommendations](#) to the UK Government on the future of public service media. We said that the PSB regulatory framework needed modernisation and we outlined a range of areas that required urgent reform. In particular, we restated our 2019 recommendations to introduce new legislation to secure prominence for live and on demand public service content across all major TV services and platforms. We also set out new recommendations on securing the wide availability of PSB beyond just the linear channels.

In April this year, the UK Government published its white paper, [Up Next](#), setting out its vision for the broadcasting sector. The white paper explains the Government's policy intentions on a range of

issues, including on new regulation to secure PSB prominence and availability, and that these will be included in an upcoming media bill. Government plan to introduce the bill to Parliament in the current Parliamentary session.

Reforms to the prominence and availability rules are important to strengthen the future sustainable delivery of the PSB licence obligations. The licensees highlighted this as a key concern in the information they provided to us for this report, as such reforms should help mitigate the decline in the value of existing licence benefits. Crucially, the reforms will help protect benefits to audiences by making sure PSB services and content continues to be widely available and easy to discover online.

We will work closely with the UK Government, the licensees and others to make sure reforms can be implemented effectively and that audience interests are protected

In addition to reforms to prominence and availability, the UK Government has also proposed to simplify the purposes and objectives of PSB with a new, shorter remit and to give public service broadcasters more flexibility in how they deliver those remits beyond the public service TV channels.

It is likely that the licences will need to be updated to reflect changes to be made by the media bill, though the exact requirements cannot be known at this stage. We will work with the UK Government, the licensees, and other stakeholders on when any such changes might be implemented and would expect to consult on any relevant changes as soon as practicable.

As part of our wider work programme to ensure the PSB framework remains effective, we have [recently published our proposals](#) to update the BBC operating licence, including plans to incorporate the BBC's online services. We will also continue to engage stakeholders on other relevant suggestions made during our *Small Screen: Big Debate* programme of work, such as rules on advertising frequency and commercial references in content, to ensure our approach remains effective and proportionate in a changing market.

There is a good case to proceed with licence renewal

Overall, we think the current licensees could continue to contribute to the fulfilment of the PSB purposes at a commercially sustainable cost in the next licence period, taking account of the potential wider strategic benefits of the licences. The legislative reforms that the UK Government expects to make next year should strengthen the sustainability of the licences in the next licence period by enhancing PSB benefits. We also note that there may be other changes that need to be reflected in the licences arising from proposed changes to the PSB framework. We would expect to work with licensees to ensure that any future changes are sustainable and continue to make adequate contribution to PSB purposes.

For these reasons, we are not making a recommendation that the Secretary of State uses their order-making powers to remove or amend conditions that must be included in the licences or to block renewal of the licences.

2. Background to this report

This report gives our opinion on the ability of the Channel 3 and 5 licensees to contribute to the fulfilment of the purposes of public service television broadcasting in the UK at a cost that is commercially sustainable over the next 10-year licensing period.

Background to the public service broadcasting licensing regime

- 2.1 This report is about the licensed Channel 3 and 5 services, which are designated as public service channels in statute. For TV viewers, this means the main channel provided by ITV in England and the Border region, ITV Cymru Wales, UTV in Northern Ireland and STV in Central and Northern Scotland. Other than GMTV, the UK-wide Channel 3 breakfast service, Channel 3 services are regional in England and Scotland, and national in Wales and Northern Ireland, meaning elements of the TV schedule will be different depending on where you live, most notably for news programming. The Channel 5 service is a nationwide service across the whole of the UK.
- 2.2 Outside of the scope of this report, ITV, STV and Channel 5 also operate on demand programme services such as ITV Hub, STV Player and My5.⁵ They also hold standard commercial licences for their other channels such as ITV+1, ITV2, 5 USA, and STV+1 as well as providing online services, on their own websites and on various social media platforms.

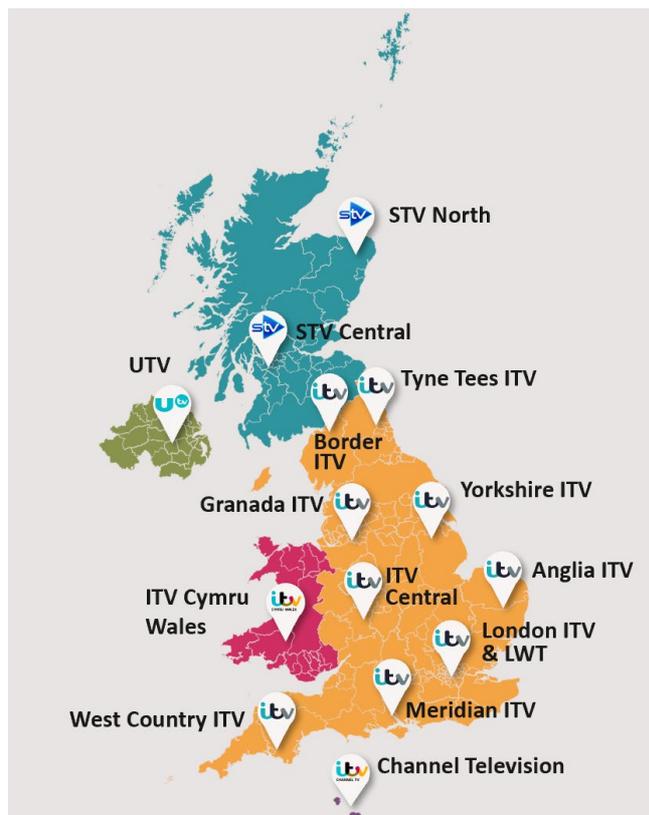
Who owns the Channel 3 and 5 licences

- 2.3 There are 15 regional Channel 3 [licences](#). Over the years, ownership has consolidated, most recently when we approved the change of control for the Channel 3 licence in Northern Ireland after ITV plc (ITV) acquired UTV Limited in 2016.⁶ All the regional licences in England and Scotland, and the national licences in Wales and Northern Ireland are now owned by subsidiaries of either STV or ITV.

⁵ A full [list of on demand services regulated by Ofcom](#) is available on our website.

⁶ Ofcom, [Change of Control of the Channel 3 Licence for Northern Ireland: Review under s.351 of the Communications Act](#), May 2016.

Figure 2.1: Map showing the Channel 3 licence areas in the nations and regions



- 2.4 In addition, ITV Broadcasting Limited, owns the Breakfast licence which broadcasts nationwide during the hours 6:00am to 9:25am.
- 2.5 The UK-wide Channel 5 licence is owned by Channel 5 Broadcasting Limited, a subsidiary of Paramount Global.

Licence obligations and benefits

- 2.6 As public service broadcasters, the Channel 3 and Channel 5 licensees are subject to licence conditions not placed on other non-public service broadcasting television licensees. These additional obligations are designed to ensure that the Channel 3 and Channel 5 licensees contribute to the purposes of public service broadcasting (PSB), as set out in section 264 of the Communications Act 2003 (the Act). In return, the licensees receive benefits, in the form of prominence within electronic programme guides (EPGs) and privileged access to spectrum (digital terrestrial television or DTT). This exchange of obligations and benefits is sometimes referred to as the 'PSB compact'.

- 2.7 The purposes of PSB are intended to be achieved by the public service broadcasters collectively rather than by any individual licensee⁷ and are to provide⁸:
- programmes that deal with a wide range of subject matters;
 - television services that meet the needs and satisfy the interests of as many different audiences as practicable;
 - television services which are properly balanced, so far as their nature and subject matter are concerned, for meeting the needs and interests of audiences; and
 - programmes which maintain high general standards (including in terms of content, quality of programme making and editorial integrity)
- 2.8 The statutory scheme envisages that the fulfilment of the PSB purposes collectively by the public service broadcasters will secure the objectives set out in section 264(6) of the Act. These include the provision of public service television which taken together, educates, entertains and informs, reflects cultural activity in the UK and its diversity and facilitates to an appropriate extent, civic understanding and fair and well-informed debate on news and current affairs.
- 2.9 Each public service broadcaster also has an individual public service remit set out in legislation, together with further specific obligations established in their broadcasting licences.⁹ The Channel 3 and Channel 5 licensees have the same public service remit, which is the provision of a range of high quality and diverse programming.¹⁰ The specific PSB licence obligations for Channel 3 and Channel 5 are summarised below and the current quantitative requirements are set out later in this report:
- programming obligations focused on a few specific genres, namely news (at a UK, nations and regions level) and current affairs, where plurality of provision is particularly valued as critical to a well-functioning democracy;
 - obligations designed to stimulate production across the country (i.e. to make programming outside London), as well as ones to ensure investment in new programming and the continuation of a vibrant independent production sector (i.e. by setting quotas in relation to original and independent productions and code of practice requirements); and
 - obligations not directly related to content, such as the obligations on the regional Channel 3 licensees to make networking arrangements. These arrangements mean content commissioned or produced by one licensee can be available to the others for broadcast, so that the services together provide a nationwide network, able to

⁷ The public service broadcasters which must, taken together as a whole, fulfil the purposes of public service television broadcasting in the UK ("PSB purposes") are those providing Channel 3 services (ITV and STV), Channel 4, Channel 5, S4C and the BBC. While all BBC public service television channels are PSB channels (BBC One, BBC Two, BBC Three, BBC Four, BBC Alba, BBC Scotland, BBC News, CBBS, CBeebies, BBC Parliament, BBC Red Button), only the main channels of each of the other public service broadcasters have this status. The BBC has announced that some of the BBC television channels listed may become online-only in the future.

⁸ Section 264(4) of the Act.

⁹ It is outside of the scope of this report, but Channel 3 and Channel 5 also operate portfolio channels such as CITV, ITV2 and 5*, and on demand services like STV player, which also contribute towards delivering the PSB purposes.

¹⁰ Section 265(2) of the Act

compete with other nationwide TV services. There are also coverage obligations, which apply to all the public service broadcasters and are designed to secure the widest possible availability across the UK for PSB services.

- The licensees are also subject to higher licence fees payable to Ofcom than non-public service broadcasters. They must also contribute to the National Television Archive and comply with must offer obligations which are intended to secure that their services are available on other networks free of charge to as wide an audience as practicable.

The purpose of this report and next steps

- 2.10 This report to the Secretary of State provides our opinion on the ability of the current licensees to contribute to the fulfilment of the PSB purposes at a commercially sustainable cost over the next licence period.
- 2.11 On receipt of this report, the Secretary of State can use their order-making powers to block licence renewal. They can also use their order-making powers to:
- a) amend the public service remit of the Channel 3 and Channel 5 licences
 - b) remove or suspend the inclusion of any licence condition required by the Act
 - c) amend the independent production quotas included in the licences
 - d) amend the specification of original productions for the purposes of the original productions quota in the licences
- 2.12 Different decisions can be made for each of the three licence categories. A decision about the regional Channel 3 licences applies to all of them regardless of who owns the licences. Any order under section 230 of the Act to block licence renewal must be made by 30 June 2023.¹¹

An order to block licence renewal can apply to the following:

- All 15 regional Channel 3 licences; and/or
- The breakfast licence; and/or
- The Channel 5 licence.

- 2.13 In the absence of an order blocking renewal, we will proceed with the relicensing process set out in the Act. We will decide whether to grant any renewal applications submitted by existing licence holders.¹² The licensees must apply for renewal by 30 April 2023. If licences are not renewed, we must re-advertise them. We explain this further in Section 5 of this report. We also set out further details about the legal framework and relicensing process in Annex 1 to this report.

¹¹ The order-making power under section 230 is subject to the affirmative resolution procedure, which means a draft must be approved by both Houses of Parliament before it is made.

¹² The grounds on which we may decide not to renew a licence are set out in sections 216 (5) to (7) of the Act.

Our approach to this report

- 2.14 Our report addresses two issues:
- a) The contribution that Channel 3 and Channel 5 licensees could make to the fulfilment of PSB purposes during the next licensing period.
 - b) Whether, in light of the benefits they receive, it will be commercially sustainable for the existing licence holders to deliver services which contribute to PSB purposes.
- 2.15 We published an [open letter](#) on 29 October 2021, seeking information from the current licensees, and any other interested parties to help us come to a view on these matters. We asked whether the current obligations would remain sustainable over the next licensing period, and if not, how the obligations should change. We asked the licensees to explain why any change to obligations would enable them to contribute to the fulfilment of PSB purposes.
- 2.16 We received responses to our open letter from, or on behalf of, the current licensees: ITV, STV and Channel 5. Their submissions form the basis of this report, alongside additional information we requested from them to inform our analysis, as well as relevant audience and industry data and research.
- 2.17 In subsequent sections to this report, we address the two issues above and explain our reasoning. We also touch on the wider regulatory landscape and the UK Government's proposed reforms to the broadcasting sector.

Relevant market and regulatory developments

- 2.18 The regulatory framework in which the commercial public service broadcasters operate is largely set out in the Act and was designed at a time where nearly all viewing was 'live', via the TV set and to a limited number of established broadcast channels. The regulatory benefits and obligations placed on ITV, STV and Channel 5 as public service broadcasters only apply to their main television channels.
- 2.19 Audiences now have a much wider choice over what content to watch and how to watch it. Alongside a wide range of broadcast channels from the public service broadcasters and commercial providers like Sky, online services, like Netflix and YouTube, are now widely available on smart TVs and other connected devices. This is generally positive for audiences, whose choice of entertainment and information has expanded, however the increase in competition for viewers' attention has put pressure on broadcasters, squeezing revenues, and made it harder for them to maintain their current offer. The pace of change has seemingly been accelerated by the Covid-19 pandemic with even faster take-up of online services. We summarised the challenges facing PSB, and our view on how to safeguard it for the next decade, in [Small Screen: Big Debate](#) (SS:BD). This drew on a wide-ranging programme of work with input from audiences, producers, broadcasters and the wider industry.

- 2.20 Public service broadcasters are responding to the challenges they face by investing in online services, and by diversifying their revenue streams to reduce reliance on traditional broadcast advertising revenues (for example, by growing production businesses). However, to support these efforts, we made a number of recommendations to the UK Government to modernise the regulatory framework underpinning the PSB system so it can keep up with the pace of change in technology and audience viewing habits.

We recommended that the UK Government urgently brings forward primary legislation in the following areas:



Small Screen: Big Debate

- Modernise the objectives of the current system to deliver public service media (PSM) content that delivers social value, brings people together, reflects the diversity of the UK, supports the creative economy and is universally available, delivered on demand as well as through broadcast TV.
- Secure the prominence and availability of PSM on connected TV platforms: requiring PSBs to offer the on demand services that they rely on to fulfil their PSB obligations to commonly used TV platforms and to require these platforms to make the PSB service and content available in line with new statutory objectives, including an objective to ensure PSM is made appropriately prominent. These requirements would be supported by new enforcement powers for Ofcom and a dispute resolution function to support fair terms being reached if necessary.
- Update the rules on production of PSM content so that PSB requirements for commissioning from independent producers to apply to both broadcast TV and on demand services.
- Update the rules to allow PSM providers to have more flexibility in delivering their requirements across broadcast and on demand services; and Ofcom's regulatory role and powers to ensure we continue to hold PSM providers accountable through a variety of measures including annually reporting on their performance.

UK Government's proposed reforms to the regulatory framework

- 2.21 In April 2022, the UK Government published its white paper, *Up Next*, setting out its vision for the broadcasting sector, explaining its policy intentions for an upcoming media bill. The UK Government intends to introduce the bill into Parliament in the current Parliamentary session.
- 2.22 There are a number of proposals in the white paper that could affect Channel 3 and Channel 5, including plans to update the PSB remit to simplify the objectives and purposes of PSB, and giving the public service broadcasters greater flexibility in how they can deliver their remits (such as across broadcast and on demand services). In its white paper, the UK Government has also said it agrees on the need for new rules to secure the wide availability and prominence of designated PSB on demand services. This will make sure public service content is available and easy to find on connected TV platforms, like smart TVs.

- 2.23 In addition, the UK Government is looking at whether to make qualification for the listed events regime¹³ a benefit specific to public service broadcasters. Separately, they also intend to consider whether the regime should be extended to include digital rights.
- 2.24 It is likely that the Channel 3 and 5 licences will need to be updated to reflect the changes arising from the media bill, though the exact requirements cannot be known at this stage. For the purposes of renewal, the only changes that we can make to the existing licences are (i) the area covered by the licence¹⁴; (ii) the hours of broadcast; and (iii) the financial terms.¹⁵ This means that other changes, such as to licence obligations, must be implemented via a separate process. Otherwise, the licences are renewed on the existing terms. We will work with the UK Government, the licensees, and other interested stakeholders on when any such changes might be implemented and would expect to consult on any relevant changes as soon as practicable.
- 2.25 To a certain extent, the changing context within which the licensees are likely to operate in the next licence period increases the uncertainty of the analysis and projections we make in this report. Given this, and the period of time we are considering – more than a decade into the future, we have necessarily based our analysis on reasonable estimates and value ranges, based on the information available to us at this time.

Our work on advertising and commercially supported content

- 2.26 In our SS:BD statement, we noted that the regulation of content that is subject to commercial arrangements, such as sponsorship and product placement, as well as rules on the scheduling of advertising on broadcast channels is also relevant to PSB sustainability. Some respondents to our December 2020 consultation asked Ofcom to consider the rules and guidance around such arrangements. In our statement, we said we would engage with stakeholders on the specific suggestions made and highlighted that we were also working with industry, the UK Government and other regulators on other relevant matters, including new restrictions on advertising around high fat, salt and sugar products and online advertising.
- 2.27 On content subject to commercial arrangements, we are conducting audience research to gain a better understanding of attitudes towards commercial references in programmes and views on the potential trade-off between exposure to more advertising versus more in-programme branding. Any changes to our approach on commercial references is likely to be seen as a benefit for all broadcasters. We expect to have an update on this work later in the year.
- 2.28 We are also looking at the rules that set the frequency and length of advertising on broadcast TV. These rules are complex, with limits in place for public service broadcasters

¹³ Listed events are events designated as having national significance by the Secretary of State for the Department for Culture Media and Sport, the regime aims to ensure these events are available free to air to as many people as possible. As such, only broadcasters who 'qualify', by meeting certain availability or coverage criteria, are included in the regime.

¹⁴ For the regional Channel 3 licences.

¹⁵ Financial terms are payments that Channel 3 and 5 licensees make to HM Treasury. They consist of an annual 'cash bid' amount and a percentage of qualifying revenue (PQR). Currently, the financial terms for each licence consist of a £10,000 annual cash bid payment and a 0% PQR, as set out in our [2014 determination](#).

that are stricter than the rules set for commercial broadcasters. We have had initial discussions with stakeholders, and we expect to be able to outline our next steps later this summer.

3. Channel 3 and 5 contributions to PSB purposes

- 3.1 In this section we look at the contributions to the PSB purposes that the licensees have made to date and comment on whether we think they can contribute to the fulfilment of the PSB purposes over the next licence period of ten years.

We think that the licensees can contribute to the fulfilment of the PSB purposes over the next licence period:

- The current licence obligations are the minimum contributions to PSB that we expect for audiences, and Channel 3 and Channel 5 have a good track record in delivering them.
- Over and above the licence obligations, the licensees contribute to PSB purposes, for instance by investing in a wide range of original UK content. Overall, the Channel 3 and 5 channels remain popular with viewers and audiences continue to be satisfied with their delivery of PSB.
- The licensees emphasised the need for enhanced PSB benefits (such as prominence for online PSB TV services) to maintain delivery of PSB obligations throughout the next licence period. We consider these submissions in Section 4, where we explain why we think the current set of licence obligations could be commercially sustainable over the next licence period.

How we have done our assessment

- 3.2 To carry out our assessment of Channel 3 and 5's contributions to the PSB purposes, we have:
- drawn on our last periodic review of the PSB system and the conclusions from our [Small Screen: Big Debate \(SS:BD\)](#) programme of work, which looked at how to renew the UK's public service media system for the next decade;
 - assessed how well the licensees have delivered the specific obligations in the licences since 2015 (the start of the current licensing period);
 - analysed industry data, including viewing to the channels as well as our audience research, which asks viewers how well they think the licensees have delivered PSB and their views on specific programme genres, like news; and
 - considered the licensees' views on the commercial sustainability of the PSB obligations, and in light of that, whether the current level of obligations should change over the next licence period. Our full analysis of commercial sustainability is in Section 4 of this report.
- 3.3 We last examined how the PSB channels delivered the PSB purposes and objectives in 2019, which reviewed the period 2014 to 2018. In this, our [five-year review of the PSB](#)

[system](#), we concluded that the PSB channels had generally fulfilled the statutory remit but that maintaining the current level and range of programming would be challenging.

3.4 We also report each year on public service broadcasters' compliance with the main output and programming obligations in their licences. The last [annual compliance report](#) was published in August 2021, reporting up to the end of 2020.¹⁶ The exceptional circumstances of the Covid-19 pandemic meant that there were some limited shortfalls in some of the Channel 3 programming quotas in 2020, which we explain later in this section of the report.¹⁷

3.5 The rest of this section sets out the key findings from our analysis. Where relevant, we look at Channels 3 and 5 in context of overall PSB or by comparing them to other PSB channels. We use a variety of data sources throughout our analysis including audience research and industry metrics. For some data sources, all of the Channel 3 licensees are considered as representing 'Channel 3' (e.g. BARB data). For other audience research we ask viewers questions where we refer to the Channel 3 brands as they are known in each different area (e.g. ITV/STV/UTV/ITV Cymru Wales). As far as possible, we signpost these differences throughout this section.

The rise of online viewing has impacted Channel 3 and Channel 5, but they remain popular services with viewers

3.6 Despite the growth in online viewing, watching live TV still accounted for almost half (47%) of all audio-visual viewing in 2020 in the UK¹⁸ and almost 8 in 10 people watched any PSB channel on the TV set each week in 2020.¹⁹ The continued importance of PSB TV channels was reinforced during the Covid-19 pandemic, as people sought out trusted news and turned to entertainment programmes for light relief during lockdowns. Broadcast TV remains especially important for many audiences, such as for some older viewers and those who do not have access to the internet.

3.7 Like all the UK PSB channels and broadcast TV overall, reach of the main ITV, STV and Channel 5 TV channels has declined over the last decade, as audiences spend more time watching content online. Since the start of the current licensing period in 2015, Channel 3's average weekly reach has declined by 8.4 percentage points and Channel 5's by 3 percentage points. This trend has been most prominent among younger audiences, whose viewing habits become increasingly diverse. This is evident in Figure 3.1 where the decline in reach among 16 to 24 year-olds has been far greater than the wider adult population.

¹⁶ Data from the broadcasters for 2021 compliance was not available at the time of writing this report, however the PSB compliance report 2022 is planned to be published in August 2022.

¹⁷ In addition, because of the impact of Covid-19 on broadcasters (for instance in relation to the fact many productions had to be halted at the peak of the pandemic), in some cases, we use 2019 in our trend analysis, rather than 2020 which was an unusual year for viewing, production and programme scheduling.

¹⁸ Ofcom estimates of total audio-visual viewing. Modelled from BARB, Comscore and TouchPoints data.

¹⁹ BARB, total TV. Reach criteria: 15+ consecutive minutes based on seven-day consolidated viewing.

Figure 3.1: Average weekly reach (%)

	Channel 3 2015	Channel 3 2020	Channel 5 2015	Channel 5 2020	STV 2015	STV 2020
All individuals (4+)	57.8	49.4 ↓	35	32 ↓	61.2	52.1 ↓
16-24s	41.2	26.4 ↓	21.7	12.2 ↓	41.1*	24.2*

Source: BARB. Average weekly reach % 15+ consecutive minutes. Network and ITV Scotland area (for STV). Excludes +1 channels. *Small sample sizes, please treat as indicative only.

- 3.8 The average viewing time that audiences spent watching ITV and Channel 5's main broadcast channels in 2020 was on a par with 2015. However, TV viewing in 2020 was influenced by the Covid-19 restrictions and people being at home more. The viewing time for both channels dropped slightly in 2021.²⁰ In Scotland, STV has seen a 7% increase in viewing since 2015, with audiences watching almost 37 minutes on average per day in 2021. This increase was driven by an increase in viewing by those aged 45 and older while viewing by those under 45 declined.²¹
- 3.9 Despite declines in reach, the channels remain popular with audiences. Just over half of all UK individuals watch Channel 3 each week and over a third watch Channel 5. Three quarters (75%) of people who have watched the channel in the past six months are satisfied with ITV/STV/UTV and two thirds (67%) say the same for Channel 5.²²
- 3.10 The licensees, like all public service broadcasters and much of the wider industry, have responded to changing audience habits by investing in their on demand services. Our research shows that 49% of households in the UK said that ITV Hub or STV Player was used in their household to watch content. One in 4 households said the same for My5, Channel 5's on demand service.²³

Channels 3 and 5 have largely met their licence obligations to date

- 3.11 In this section we look at whether the existing quotas have been delivered by the licensees. Each licence contains a number of programming and production quotas as required under statute and in support of each licensee's obligation to contribute to the delivery of the PSB purposes. These licence obligations are a key part of their responsibilities as a PSB and are the minimum level of contributions we expect the licensee to deliver. The level of these obligations has remained fairly stable for a number of years. As part of SS:BD, we recommended to the UK Government that, in a regulatory framework that incorporates on demand delivery, there should be greater focus on a mix of quantitative quotas and qualitative measures to ensure appropriate contributions to PSB from both broadcast and

²⁰ BARB.

²¹ BARB, ITV Scotland area. BARB does not split STV and ITV viewing out and it is all measured as ITV. ITV in Scotland is used here as a proxy for STV.

²² [Ofcom PSM Tracker 2021.](#)

²³ [Ofcom Technology Tracker 2021.](#)

on demand services. This would modernise the framework and potentially deliver better outcomes for audiences without diminishing overall contributions to PSB.

- 3.12 Each national and regional Channel 3 and Channel 5 licensee is subject to quotas in its licence, requiring them to ensure that:
- a) a minimum number of hours per calendar year of high-quality national and international news programmes are broadcast;
 - b) a minimum number of hours of high-quality national and international current affairs programmes are broadcast;
 - c) a minimum number of hours of regional and national programming are broadcast which are of particular interest to persons living within the area for which the service is provided;
 - d) a proportion, by time, of programmes broadcast are originally produced or commissioned for any or all, of the regional and national Channel 3 services / Channel 5;
 - e) a proportion of originated network programmes, by spend and time, are made outside the M25;
 - f) a proportion of qualifying programmes, by time, is allocated to a range and diversity of independent productions and to draw up, revise and comply with a code of commissioning from independent producers;
 - g) there are approved networking arrangements in place (Channel 3 only); and
 - h) proportions of broadcast output are subtitled, signed and audio-described.
- 3.13 Using the information we gather for our annual PSB compliance report, we have looked back over the licence period to assess whether the licence conditions have been met between 2015 and 2020.²⁴ In summary, all the obligations have been met, except for some regional and national programming requirements, which were missed as a result of Covid-19. We discuss this in more detail later in this section. The quantitative requirements and whether they have been delivered between 2015 and 2020 are reflected in Figure 3.2. We draw out actual delivery against quotas in the rest of this section, which can also be seen in our last [PSB compliance report](#).

²⁴ The availability of time series data on the Channel 3 Breakfast licence's compliance against original and independent production quotas was limited. As a result we have used 2019 data for our assessment; we think this is a proportionate approach given the breakfast schedule does not substantially change from year to year.

Figure 3.2: Channel 3 and 5 main qualitative licence requirements²⁵

Licence requirement	Requirement met by Channel 3	Requirement met by Channel 5
News	Yes 365 hours per annum (pa). (125 in peak); 60 mins per weekday in the Breakfast licence.	Yes 280 hours pa (120 in peak)
Current affairs	Yes 43 hours pa (35 in peak); 1 hour per week in the Breakfast licence; 78 hours pa (35 in peak) in Border licence.	Yes 130 hours pa (10 in peak)
Regional and national programming (news & non-news)	Some requirements not met ²⁶ Amount varies by licence	n/a
Original programming	Yes 65% (85% in peak); 80% in Breakfast licence.	Yes 50% (45% in peak)
Proportion & range of qualifying spend and hours made outside M25	Yes 35% outside M25; n/a in Breakfast licence.	Yes 10% outside M25
25% (of qualifying hours) allocated to independent productions	Yes	Yes
Draw up, revise and comply with a code of commissioning from independent producers	Yes	Yes
Ensure approved networking arrangements are in force	Yes n/a for Breakfast licence	n/a
Subtitling, audio description ('AD'), and signing	Yes 90% subtitled, 10% AD, 5% signed	Yes 80% subtitled, 10% AD, 5% signed

3.14 The regional Channel 3 licensees must have agreed networking arrangements in place, which amongst other things, enables the regional Channel 3 services, as a whole, to be a UK-wide set of services which are able to compete effectively with other TV services in the UK. It is under these arrangements that Channel 3 network content is shared between ITV and STV as the Channel 3 licence holders.

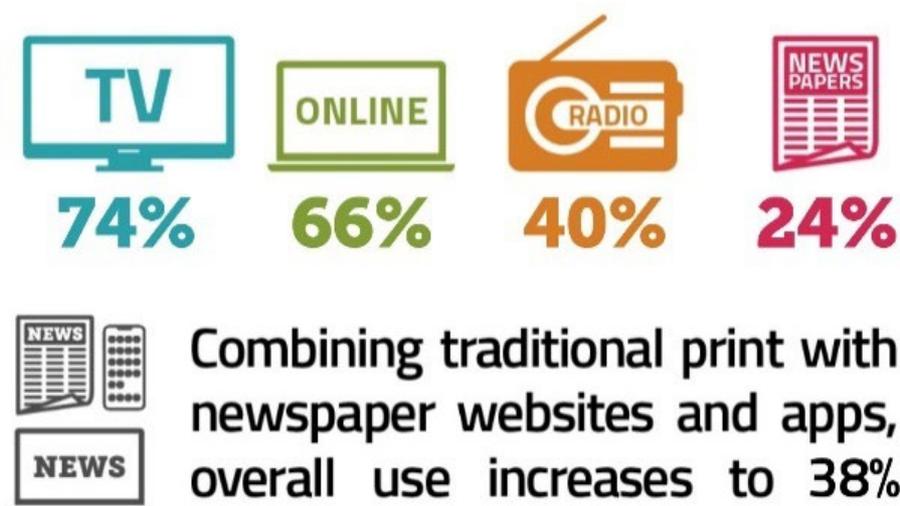
²⁵ The table shows the requirements over the period 2015 to 2020. The Channel 5 licence has now been updated to require 20 hours of news in peak time (where peak time is 6pm until 10.30pm). Compliance against requirements are calculated by Ofcom using broadcaster output and spend data.

²⁶ Due to Covid-19, see further explanation later in this section.

- 3.15 Regional or national programming requirements to make content aimed at, and of particular interest to, audiences in a particular region or nation are discussed later in this section.
- 3.16 The Channel 3 breakfast licence contains different requirements for news and current affairs as set out in Figure 3.2. Given its limited broadcasting hours (seven days a week between 6am and 9:25am) there is no original production requirement specifically for peak time or requirements for production in the nations and regions in this licence.
- 3.17 In the rest of this section, we look in more detail at key aspects of Channel 3 and 5 performance, specifically in news and current affairs, original production and their investment across the nations and regions.

Channel 3 and Channel 5 are valued sources of news and current affairs for audiences

- 3.18 Our research shows that audiences view the provision of trusted and accurate UK news as the most important element of the PSB system.²⁷ In SS:BD we concluded that it should remain a central part of a future PSB system as it continues to play an important role in helping people contribute to an informed democratic society.



Source: Ofcom 2022 News Consumption Survey. Question: Thinking specifically about <platform>, which of the following do you use for news nowadays? Base: All adults 16+: 2792.

- 3.19 TV remains the most-used platform for news with three in four people using it regularly followed by internet sources such as social media, websites and apps.²⁸ Use of TV for news is most prevalent among older people, while the internet is the most-used platform for news among 16 to 34 year-olds and those from minority ethnic groups. Covid-19 further highlighted the importance of accurate and trusted news. From the first week of March

²⁷ Ofcom PSM Tracker 2021.

²⁸ Ofcom 2022 News Consumption Survey.

2020, the established media including broadcasters, newspapers and radio, were the most used source of news and information about the Covid-19 pandemic.²⁹

- 3.20 In our research, we ask audiences about how well they think news has been provided; seven out of 10 regular Channel 3 viewers scored its news programming highly for trust, accuracy and high quality, while around six out of 10 regular Channel 5 viewers scored its news programming highly for these same attributes.³⁰ In 2021, Channel 3's news had the second highest TV share of all the PSB channels, after BBC One and continues to attract more viewers from C2DE backgrounds than those in ABC1.³¹
- 3.21 Overall, TV news continues to be popular with audiences and both Channel 3 and 5 news content appeals to audiences from different backgrounds.

Licensees are delivering a high volume of news and current affairs programming

- 3.22 Channel 3 and Channel 5 consistently met or exceeded their network news quotas in each year of the licence period so far.³² For example, in 2020, ITV broadcast 469 hours of network hours of news and Channel 5 showed almost 300.³³ In the same year, Channel 5 significantly exceeded its all-day quota for current affairs content, providing over 500 hours. Similarly, ITV exceeded its quota for current affairs, airing 150 hours. STV carries ITV's national news programming while also providing its own 30-minute flagship news programme at 6pm every weekday with other specific Scottish bulletins throughout the day and weekends.
- 3.23 Compared to 2015, ITV's investment in first-run UK network news in 2019 declined slightly by 2%, although this still consistently accounted for around [3<] % of its overall UK first-run originations spend over this period.³⁴ Spend increased in 2020, but this was likely due to increased coverage of the Covid-19 pandemic.
- 3.24 In January this year, ITV announced a change to its evening network news output. It has subsequently increased its evening network news programme from 30 minutes to one hour. It said this change would mean further investment in its news coverage with new correspondents hired to provide further coverage from the nations and regions of the UK. We think this is a demonstration of ITV's ongoing commitment to network news.
- 3.25 Channel 5's spend on first-run news programming has generally increased in recent years, with spend in 2019 up 5% nominally on 2015, although this continued to represent a

²⁹ [Ofcom 2020 Covid-19 news and information: consumption and attitudes](#) – see interactive data set.

³⁰ Ofcom 2022 News Consumption Survey.

³¹ BARB, +1 channels excluded. Reach criteria: 3+ consecutive minutes. Channel 3's news adult share of all TV in 2021 was 15%, BBC One's was 25%. Socio-economic group is determined by several factors including income and occupation. In general terms, the highest groups, A and B, are more likely to be well-off, the C1 and C2 groups are in the middle and the lowest groups, D and E, are less likely to be well-off.

³² 'Network' programming refers to programming shown across the UK. Conversely, 'non-network' programming is nations' and regions' programming only shown in specific areas of the UK.

³³ [Ofcom/Broadcasters](#). ITV data excludes news programming aired during ITV Breakfast hours. Quotas are 365 hours for Channel 3 and 280 hours for Channel 5.

³⁴ Ofcom/broadcasters. Data is expressed in nominal terms.

smaller proportion of total first-run UK-originated spend than ITV, at [X]% in 2019. Our News Consumption Survey research showed that Channel 5 remains in the top 20 news sources with 1 in 12 adults using it for news. Of different demographic groups, it performs best among audiences aged 65+ and those from C2DE backgrounds.³⁵

- 3.26 In September 2021, we approved Channel 5's request to vary its news obligation to introduce a new one-hour-long news broadcast from 5pm that it hoped would add breadth and depth to its coverage and further appeal to harder to reach audiences such as women in DE socioeconomic groups. Channel 5's adult news audience is already made up of a high proportion of those in DE socioeconomic groups (35% of those adults watching the evening news are DE). So far, this change is showing positive results as the new one-hour programme has seen an increase in share and average audience, across all ages.³⁶ Similarly to ITV, this change appears to be a good demonstration of licensees ongoing commitment to news, beyond specific licence requirements.

ITV and Channel 5 have increased their investment in current affairs programming

- 3.27 Current affairs programming is defined as programmes which contain explanation and analysis of current events and issues, and investigative journalism.³⁷ All of the PSB channels have experienced a reduction in the total number of people watching current affairs programming in recent years, but ITV's share of viewing remains the largest.
- 3.28 In 2020, ITV produced over three times the amount of current affairs programming than the minimum amount required under its licence. This content forms part of the schedule of programmes shared between STV and ITV under their networking arrangements, alongside STV's own current affairs programming including *Scotland Tonight*, which airs in the evening on Monday to Thursday each week.
- 3.29 In contrast to its news spend, ITV's spend on first-run current affairs programming increased significantly (by [X]%) between 2015 and 2019, with a further smaller increase of [X]% between 2019 and 2020. In 2019, this amounted to a small percentage ([X]%) of ITV's overall first-run UK originated spend.
- 3.30 In recent years, Channel 5 has produced nearly four times the minimum number of hours required in its licence on current affairs programming. [X] percent of Channel 5's total first-run spend in 2019 was on current affairs content, and this spend increased significantly (by [X]%) between 2015 and 2019.³⁸ Channel 5's average current affairs programme viewing share has increased between 2015 and 2021. The share increase is especially strong for C2DE adults, whereas ITV and BBC One's current affairs share decreased for all audience groups over the same period.³⁹

³⁵ BARB.

³⁶ BARB. Includes +1 channels.

³⁷ Current affairs does not include consumer affairs programmes, which are classified separately (as general factual).

³⁸ Ofcom/broadcasters. Data is presented in nominal terms.

³⁹ BARB. Channels include +1s where appropriate.

Regional and national news on Channel 3 remains important for audience choice and serving all audiences across the UK

Channel 3 has largely delivered its regional and national programming quota

3.31 The Channel 3 regional licences include requirements for overall amounts of regional programming, including news, non-news and in some cases current affairs. In this section we explain whether the conditions have been met over the licence period and consider other relevant data, such as viewing of regional and national news. Figures 3.3 and 3.4 summarise the national and regional programming obligations of the Channel 3 licences.

Figure 3.3: Regional programming requirements in England and Border (weekly average)

ITV Area	Regional overall	Regional news	Regional current affairs (if specified)	Regional non-news	Produced in region
Anglia ITV, Central ITV, Meridian ITV, Tyne Tees ITV, Westcountry ITV, Yorkshire ITV	2h 30m	2h 15m	n/a	15m	99%
Channel Television, Granada ITV	3h 20m	3h 5m	n/a	15m	99%
London ITV (Weekday) and LWT (Weekend)	2h 35m (Weekday) 45m (Weekend)	2 h 23m (Weekday) 42m (Weekend)	n/a	12m (Weekday) 3m (Weekend)	99%
Border ITV	3h 20m 4h 35m (Border Scotland sub-region)	3h 5m	1h 7m (of non-news total) (Border Scotland sub-region)	15m 1h 30 (Border Scotland sub-region)	60%

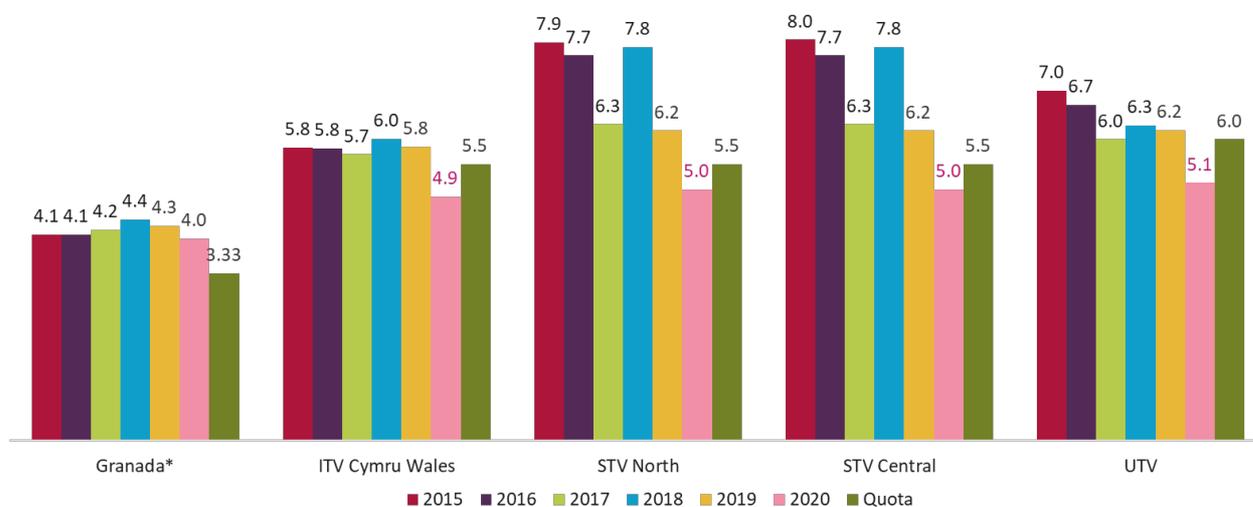
Figure 3.4: Programming requirements in Wales, Northern Ireland, and Central/Northern Scotland (weekly average)

Area	Overall	News	Current affairs (if specified)	Non-news	Produced in nation/region
ITV Cymru Wales	5h 30m	4h	47m (of non-news total)	1h 30m	99%
UTV	6h	4h	33m (of non-news total)	2h	90%
STV	5h 30m	4h	33m (of non-news total)	1h 30	90% (STV Central) 70% (STV North)

- 3.32 In terms of meeting their overall regional programming and news quotas, all of the licensees met their obligations apart from a few instances in 2020. These shortfalls were due to the unique circumstances caused by the Covid-19 pandemic. In response to the first lockdown, we acknowledged the particular challenges faced by programme makers and broadcasters in keeping their workforces safe. We published regular advice for [all broadcasters](#), and set out how we would take a reasonable and pragmatic approach to compliance during this period. We explain the relevant shortfalls by the Channel 3 licensees below.⁴⁰
- 3.33 In addition to news requirements, the Channel 3 licences also have requirements to provide national and regional non-news programming, and these include obligations imposing specific quotas for current affairs in respect of Wales, Northern Ireland and Scotland.
- 3.34 Figure 3.5 shows how Channel 3 has delivered its overall regional/national programming requirements since the start of the licence period in 2015. ITV Cymru Wales (36 mins short), UTV (54 mins short) and STV (30 mins short) all missed their overall regional programming quotas in 2020, where regional news services were prioritised during Covid-19. For ITV Cymru Wales, the shortfall was across non-news and current affairs content, while for UTV the shortfall affected non-news. In the Border region, the non-news and current affairs quota were missed, with ITV delivering over 75% of the quota. For STV, the impact was on non-news and news programming (the latter being just 5 minutes short of the quota).

⁴⁰ We published the following notes to broadcasters regarding the coronavirus which include guidance on broadcast content relating to the coronavirus. [12 April 2021](#); [9 November 2020](#); [26 May 2020](#); [27 April 2020](#) and [23 March 2020](#).

Figure 3.5: Channel 3 performance against overall regional programming requirements (average hours per week)



Source: Ofcom/broadcasters. *We use regional programming data submitted by the Granada licensee (North West region), which has the highest quota for regional programming compared to other licensees in England, as a proxy for each English region’s compliance. Border is not shown separately in this chart.

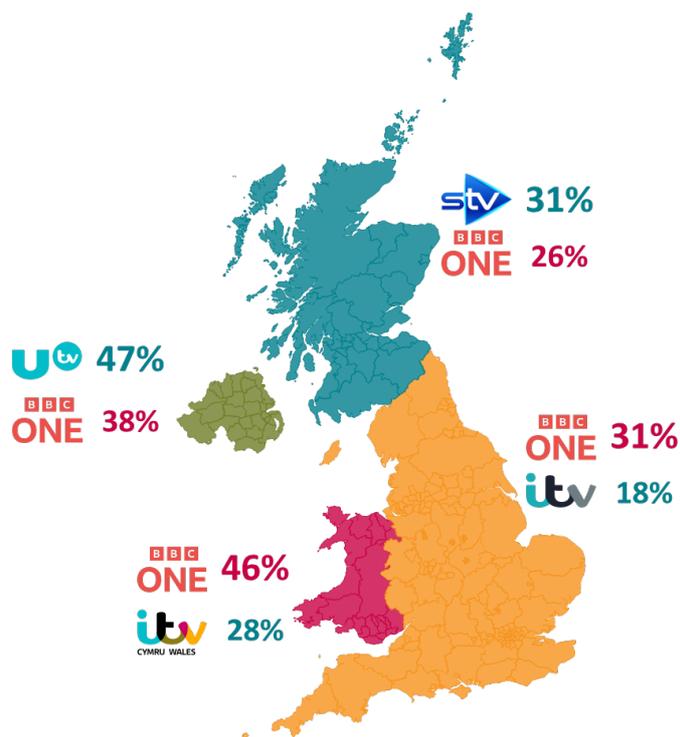
3.35 Some of the regional licences contain sub-regional areas, with quotas in respect of these sub-regional areas. For instance, in the Border licence there is a Border-Scotland sub-region with a quota for first-run regional programmes of particular interest to persons living in the sub-region. Some licences limit the amount of regional programming that can be shared between sub-regions in the licensed area. Across the ITV English regions and Border, there was more content sharing between sub-regions due to the impact of the Covid-19 pandemic which resulted in the quotas for specific sub-regional programming being missed in five sub-regions (out of 13) in 2020.

Channel 3 regional and national news is important for audiences

3.36 The provision of national and regional news through the Channel 3 licences ensures audiences have access to programming relevant to their nation and/or region of the UK. It also makes sure that the PSB system provides a range of editorial voices at the national and regional level, as well as competition to the BBC.

3.37 During the Covid-19 pandemic, the specific role and importance of the Channel 3 licensees in providing news and information across the UK was highlighted when rules and restrictions varied by nation and/or region, and audiences sought out accurate information relevant to them.

Figure 3.6: Most used news sources for audiences accessing news about their region/nation



Source: Ofcom 2022 News Consumption Survey

Question: From which of the following sources do you get news about what is going on in your Nation (Scotland/Wales/Northern Ireland) / Region (England) nowadays?

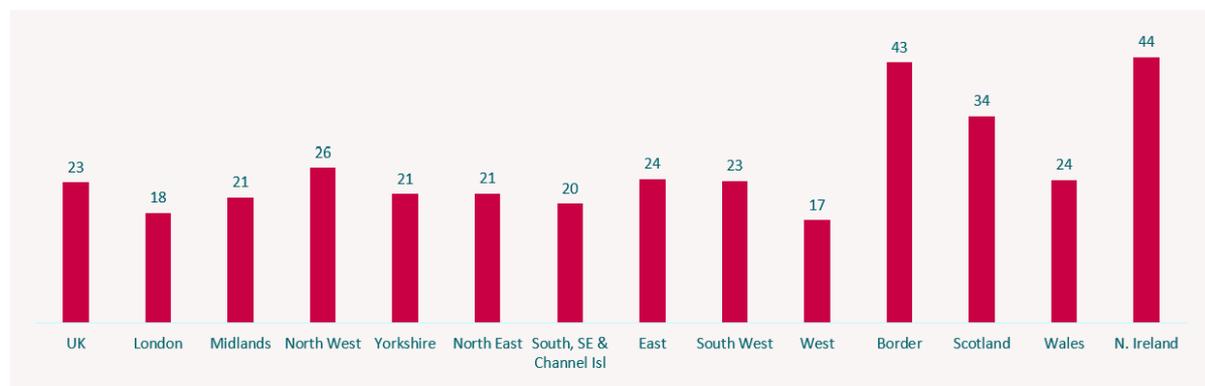
Base: All adults 16+ using TV/Newspapers/Radio/Internet/Magazine for news 2022 - England=1727, Scotland=326, Wales=325, Northern Ireland=287

- 3.38 The licences within Wales, Scotland and Northern Ireland require each licensee to provide more hours of news each year compared to the licensees that cover the English regions. Our News Consumption Survey research shows that STV in Scotland and UTV in Northern Ireland are the most used news sources for audiences looking to access news about their respective nation (across all platforms). ITV is second to BBC One in England and Wales.
- 3.39 In Scotland, although STV’s average weekly reach has declined (by 10pp) since 2015, it has enjoyed slight growth in its non-network news audience over the same period, peaking in 2020 before levelling back to an average audience of 462,000 per broadcast in 2021.
- 3.40 More people in Scotland now watch STV news at 6pm than the UK national news broadcast on BBC One at the same time. This news programme performs particularly well with older audiences from C2DE backgrounds. It has also outperformed the BBC’s own non-network news programme, *Reporting Scotland*, shown on BBC One at 6.30pm in Scotland, with an adult viewing share of 34% during 2021 compared to BBC One’s 32%.⁴¹
- 3.41 Our last report in 2012 showed that the Channel 3 non-network news services in each nation, and the Border region which covers Cumbria, Dumfries and Galloway, the Scottish Borders and Northumberland, enjoyed higher viewing share than in most English regions

⁴¹ BARB.

and the UK as a whole. This continues to be the case apart from Wales, which now sits on par with North West, East and South West English regions.⁴²

Figure 3.7: Early evening Channel 3 regional news bulleting – shares of viewing in all homes (2021)



Source: BARB. Based on regional news programmes start time 1755-1835. 10+ mins. Channel 3 weekdays (excludes +1 channels). UK based on Mon-Fri 1800-1829 time analysis.

3.42 Both STV and ITV identified regional content as an opportunity cost (which we discuss further in the next section of this report). During our recent SS:BD programme of work stakeholders highlighted that the provision of local content would be at risk without requirements on public service broadcasters.⁴³ The licensees have not proposed any reductions to their regional provision and it continues to be an important part of their offering to audiences.

Investment is under pressure, but Channel 3 and Channel 5 continue to focus on original UK content which is vital for audiences

3.43 Our SS:BD research recognised the important role public service broadcasters continue to play in ensuring there is a wide range of high-quality UK content that reflects the diversity of the UK. Specifically, our research found that audiences rated the delivery of ‘a wide range of different types of programmes, such as drama, comedy, entertainment or sport’ and ‘programmes made for UK audiences’ as the features which the public service broadcasters overall provide best.⁴⁴

3.44 The licences include obligations to provide a certain proportion of programming which is originally produced or commissioned for the service in question. This can include new content made for the service (otherwise referred to as ‘first-run originated’), repeated or acquired content. The licensees, including STV, continued to meet their original

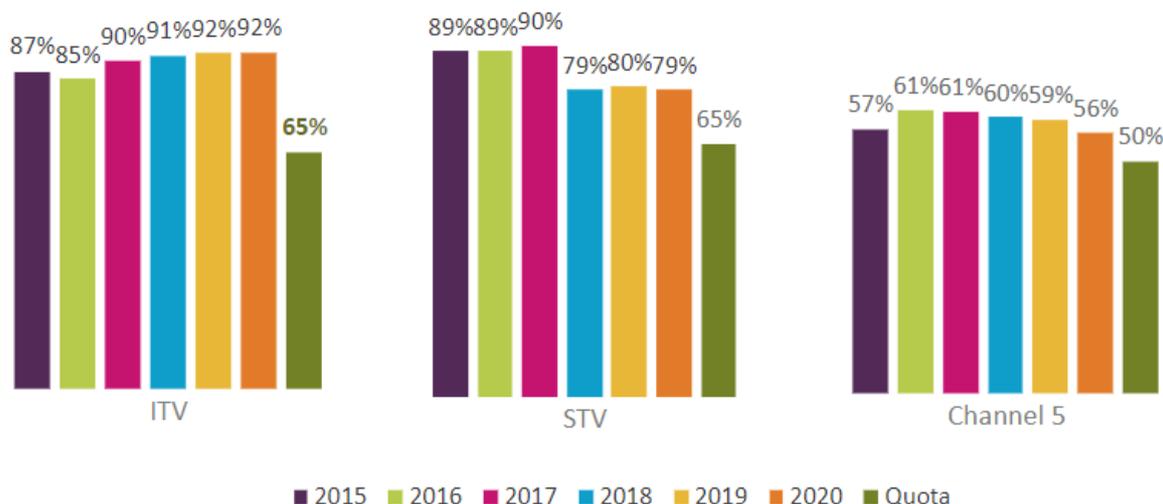
⁴² [Ofcom, Licensing of Channel 3 and Channel 5, A report to the Secretary of State under section 229 of the Communications Act, 2012.](#)

⁴³ For example, [Ofcom’s Advisory Committee for Scotland response to consultation which said](#) “However, local Scottish content, particularly news and current affairs, whilst attracting high local audiences will not deliver commercial profit. It is therefore unlikely to be provided in the future by any of the new global market entrants.” Related points were made in: ; [Ofcom’s Advisory Committee for Northern Ireland](#), p.7-8; [Welsh Government response to consultation](#), p.3.

⁴⁴ Ofcom PSM Tracker 2021.

programming obligation across their channels, and often delivered more than required under the licence, as shown in Figure 3.8. For instance, in 2020, 92% of ITV’s programming (all day) was original content versus the quota of 65%.

Figure 3.8: Original production quotas (all day, %)



Source: Ofcom/broadcasters. Note: Compliance with original production quotas is calculated in running time (i.e. excluding advertisements or promotional material) and where relevant excludes home shopping programming and closedown hours.

Investment in first-run originated content has broadly been maintained

- 3.45 The output of first-run original UK content is a key indicator of how the PSB channels have delivered content that reflects UK culture, lives and interests, as well as supporting a thriving media industry across the UK.
- 3.46 Between 2015 and 2019, public service broadcasters’ UK-wide output of new original UK content remained broadly stable at about 32,000 hours a year in total. This dropped to 29,800 hours in 2020 as PSBs dealt with the repercussions of Covid-19. Over these years though, Channel 3⁴⁵ and Channel 5, combined, consistently provided just over 20% of this original UK content.⁴⁶
- 3.47 Without adjusting for inflation, overall direct spend on first-run UK-wide originations by the PSBs has remained flat at £2.5bn in both 2015 and 2019.⁴⁷ This suggests that despite pressures on budgets, and increasing competition from international commissioners, public service broadcasters are still continuing to produce original content at fairly consistent levels, which in turn supports and promotes the UK’s wider creative and TV

⁴⁵ In this context, we are referring to UK-wide content, therefore this does not include programming made or commissioned specifically for the nations and regions.

⁴⁶ Ofcom/broadcasters. Data covers first-run UK-originated network hours over 2015 to 2020. These exclude regional programming from ITV and STV.

⁴⁷ Note that in real terms, overall direct spend on first-run network UK originations by the public service broadcasters decreased from £2.7bn in 2015 to £2.5bn in 2019. Source: Ofcom/broadcasters. Data in real terms expressed using 2020 prices. Spend is direct spend only so does not include third-party contributions to programming spend.

production sectors. The BBC continues to be the largest investor in original UK content, as shown in Figure 3.9.

Figure 3.9: PSB network spend on first-run originations, by broadcaster (£m)



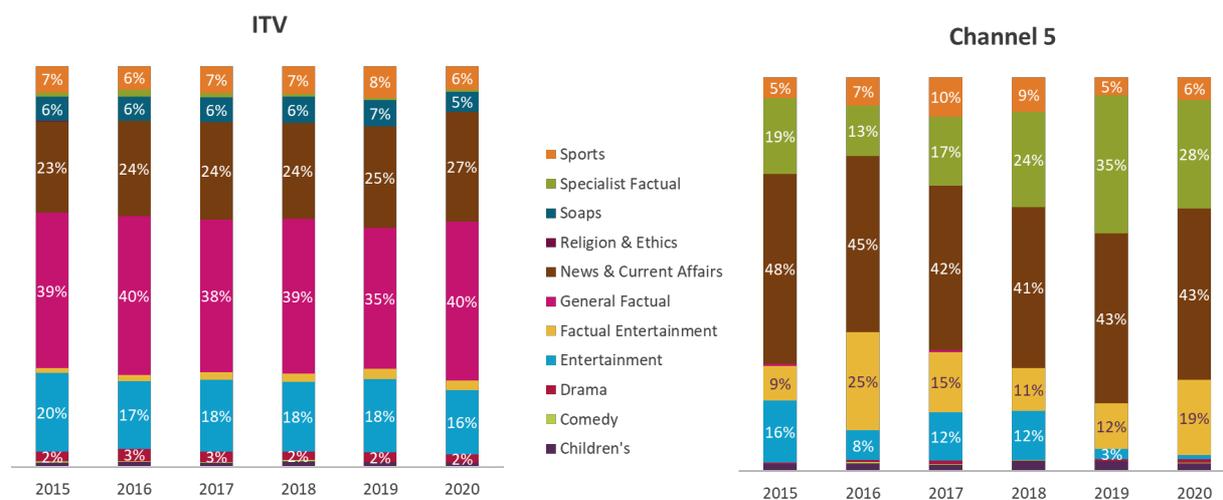
Source: Ofcom/broadcasters. Notes: Data is expressed in nominal terms. Spend figures do not include third-party contributions to spend and do not include programming for the nations and regions.

First-run original UK content on ITV and Channel 5 covers a wide variety of subject matters and interests

- 3.48 The licensees have different requirements on the volume of original productions, but these requirements do not specify what genres must be produced (except for news and current affairs). However, providing a mix of content to appeal to different audiences' tastes and interests is a key feature of the PSB remit. Accordingly, both ITV and Channel 5 broadcast first-run content across a wide range of genres, though ITV's range is marginally broader.
- 3.49 Our data shows that between 2015 and 2019, ITV's genre mix remained fairly stable, with the largest proportions of first-run hours outside of news and current affairs on general factual and entertainment content. Over the same period Channel 5's first-run originated output has become less broad, pivoting more towards specialist factual content, which comprised 35% of total original hours in 2019, up from 19% in 2015. This has been reflected in Channel 5's investment, which shows a significant reduction in entertainment spend, replaced by specialist factual, which accounted for a significant proportion (35%) of its total first-run investment in 2019, including programmes such as *The Yorkshire Vet*.⁴⁸

⁴⁸ Ofcom/broadcasters.

Figure 3.10: Genre mix of first-run UK originated network programming



Source: Ofcom/broadcasters. Programming is network only so excludes programming for the nations and regions from ITV and STV.

3.50 In addition to broadcasting UK-wide content from ITV (that contributes towards its delivery of the original productions quota), STV also provides its own first-run originated content for Scotland on Channel 3. As of 2019, the vast bulk of first-run originated hours from STV were news hours, at 79%.

3.51 The mix and volume of original content available on Channel 3 and 5 is an important feature of PSB. While subscription video-on-demand (SVoD) services offer a lot of content, they do not offer the same mix of original UK content as broadcast services, as they consist of predominantly US produced drama and comedy programmes.⁴⁹

Some genres, such as content aimed at children, are more limited

3.52 In our PSB review, we highlighted that there is limited provision of certain genres including children’s, religious and formal educational programming.⁵⁰

3.53 As an example, while children’s programming (for those aged under 16) is not a specific obligation in the Channel 3 or Channel 5 licences, all public service broadcasters are required to provide programming that includes a suitable quantity and range of high-quality and original programmes for children and young people as part of their contributions to the PSB remit.

3.54 Consistent with general viewing trends, all PSBs have seen a decline in the average time children spend viewing their dedicated children’s programming. However, this same average time has dropped less than children’s viewing to other types of broadcast programming. Notably, the proportion of children’s viewing to children’s programming increased on Channel 5 but decreased on Channel 3.⁵¹

⁴⁹ [Small Screen: Big Debate – a five-year review of Public Service Broadcasting \(2014 -18\)](#), page 6.

⁵⁰ [Small Screen: Big Debate – a five-year review of Public Service Broadcasting \(2014 -18\)](#), page 18.

⁵¹ Specifically viewing to Channel 3 and not CITV.

- 3.55 Channel 5 saw a 3.8pp increase in its share of viewing to children’s programming from 2015 to 13.8% in 2021.⁵² Of the parents/carers whose children viewed Channel 5’s children’s programming in the last 6 months, 72% rated it highly for high quality programming and 65% rated it highly for a wide range of UK made content for children. Channel 5’s investment in first-run UK originated children’s content has increased since the start of the licence period, reaching around £[3<] in 2019. This has been reflected in an increase in first-run originated children’s hours, for which Channel 5 made a voluntary commitment to produce 50 hours per year by 2021. Channel 5 has worked toward this commitment, producing 30 hours in 2015, 56 hours in 2018 and 46 hours in 2019.⁵³
- 3.56 Channel 3’s share of viewing among 4 to 15 year-olds to children’s programming declined from 5.9% in 2015 to 3.9% in 2021.⁵⁴ However, ITV also provides CITV, a service targeted at children as part of its wider portfolio of services. CITV is a non-PSB channel aimed at six- to 12-year-olds, which both ITV and STV simulcast on their main channels at the weekend. Viewing to CITV has been quite stable over the same period, and our audience research showed that, 73% of those whose children watched CITV in the previous six months rated it highly for ‘*high quality programmes for children*’ and 74% rated it highly for a ‘*wide range of UK-made content for children*’.⁵⁵ ITV, like Channel 5, also made voluntary commitments in response to our review of Children’s content⁵⁶, increasing the budget of CITV by almost 10% in 2019, and developing *The Rundown*, a new online news and current affairs service for 12 to 15 year-olds.

Channel 3 and Channel 5 play an important role in the wider production sector, particularly in the nations and regions

- 3.57 Our SS:BD statement included a recommendation to the UK Government for a new objective to support the UK’s creative economy. This might help ensure the sector continues to flourish, generating sustainable economic value across the UK’s nations and regions. The public service broadcasters play a unique role in promoting the UK’s creative and production sectors. Global players like Netflix are also becoming major commissioners of UK original productions, investing \$1bn (£779m) in them in 2020, 50% more than it spent in 2019.⁵⁷ However, despite such increases in spending from international global players and UK multichannels, PSBs still account for more than half of all primary commissioning revenue for independent producers in the UK.⁵⁸
- 3.58 The public service broadcasters’ support of the UK’s wider production sector is underpinned by two key obligations to ensure that not less than 25% of the total amount of qualifying original programming is allocated to broadcasting a range and diversity of

⁵² BARB. Children 4-15.

⁵³ Ofcom/Broadcasters.

⁵⁴ BARB.

⁵⁵ Ofcom PSM Tracker 2021.

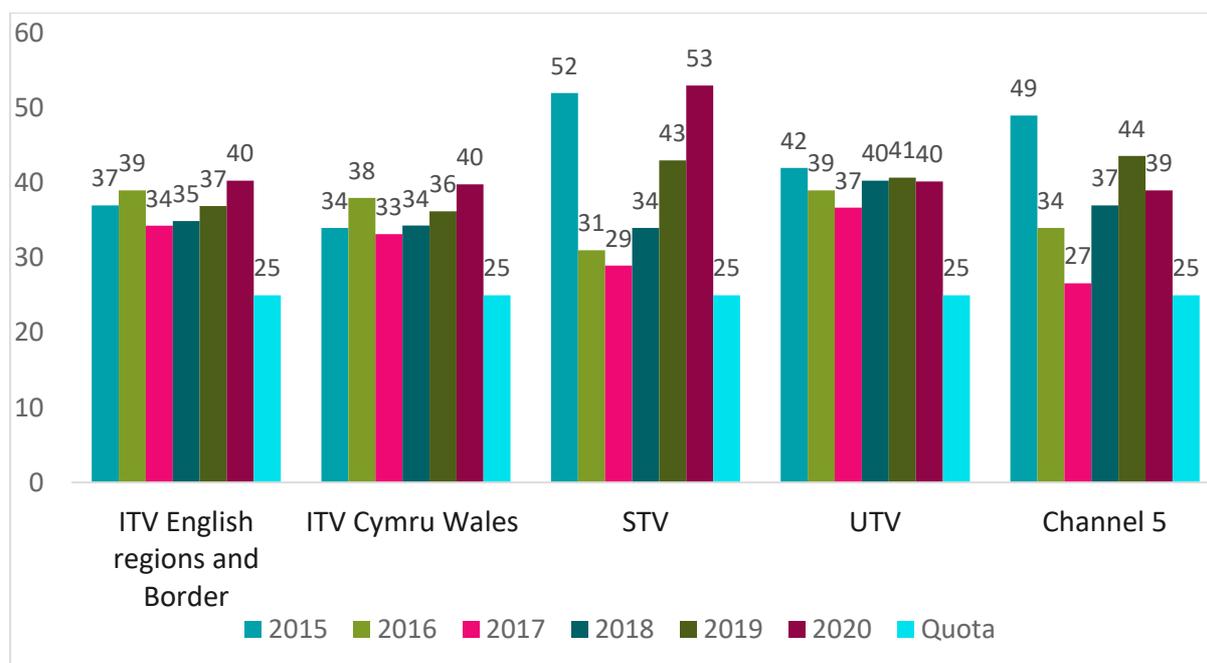
⁵⁶ [Children’s content review - Ofcom](#).

⁵⁷ The Guardian, [Netflix to spend \\$1bn in UK in 2020 on TV shows and films](#), 25 November 2020.

⁵⁸ Oliver & Ohlbaum report for Pact, 2020. UK Television Production Survey: Financial Census 2020.

independent productions.⁵⁹ There are also additional regional production requirements (referred to as Made outside London) established in their licences, which make sure they produce a percentage of qualifying spend and hours outside of the M25. These requirements serve to support and stimulate the creative economies in the UK’s nations and regions and ensure that PSB content reflects the diversity of the UK. Channel 3 and Channel 5 have consistently met, and usually exceeded, both these quotas since 2015.

Figure 3.11: Licensee compliance against qualifying independent production quota (%)⁶⁰

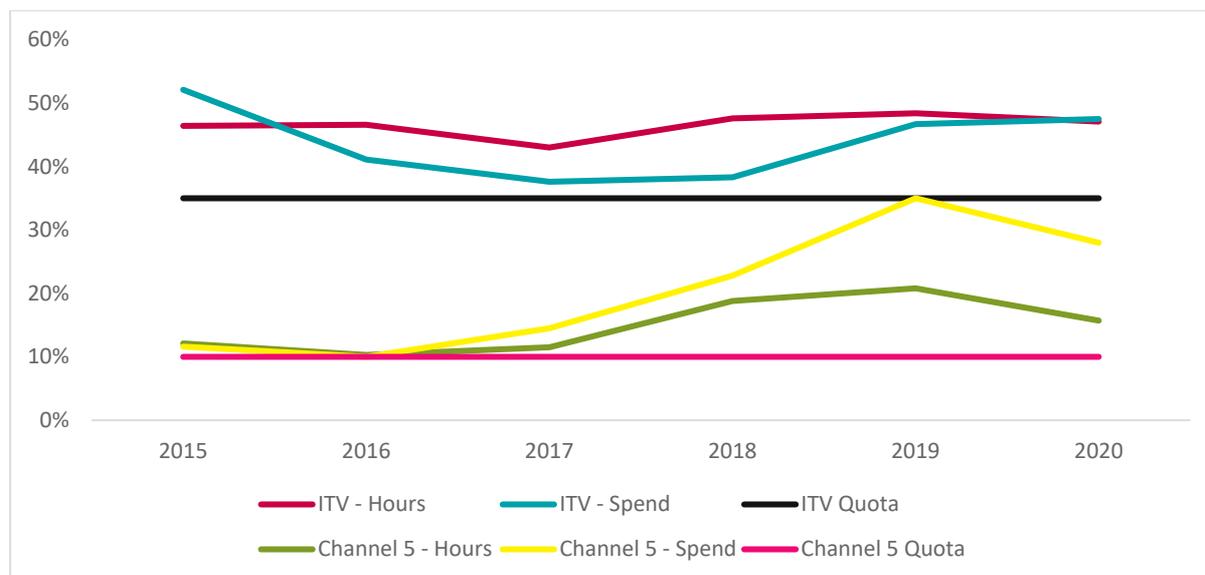


⁵⁹ The criteria for qualifying as an “independent producer” include not being more than 25% owned by a broadcaster operating in the UK or 50% owned by two or more UK broadcasters.

⁶⁰ We use programming data submitted by the Granada licensee, as a proxy for each region’s compliance.

- 3.59 Examples of the licensees’ commitment to production around the UK include:
- a) In 2018, Channel 5 announced an initiative to increase its investment in regional production, which included a regional independent producer’s scheme, where commissioners are paired with small independent producers to help them develop content ideas. There have also been notable successes from Channel 5 in Yorkshire, including commissioning *Our Yorkshire Farm* and *All Creatures Great and Small*.⁶¹
 - b) ITV has relocated a number of productions outside the M25, such as *Tipping Point* which moved to Bristol.⁶²
 - c) STV continues to be a vital part of the Scottish screen and wider production market and has prioritised the growth of its own production arm over the licence period, making programmes such as *Catchphrase* for the Channel 3 network and *Screw* for Channel 4 (which was recently recommissioned for a second series).⁶³
- 3.60 In addition to network production outside London, the regional Channel 3 licences include obligations for regional programming to be primarily produced in the licensed area, particularly relating to regional news and current affairs.⁶⁴ These made in area requirements have all been met.

Figure 3.12: Licensee delivery of made outside of London production quotas (%)



⁶¹ ViacomCBS/Channel 5: evidence to DCMS Select Committee into the Future of PSB, June 2020, page 6.

⁶² [ITV gameshow Tipping Point is moving to Bristol](#), Bristol Live, 2018.

⁶³ STV: [STV Studios prison drama Screw heads back behind bars for a second series on Channel 4](#)

⁶⁴ For most of the licenced areas in England and Wales the requirement is 99%, except for the Border region which has a requirement of 60%. The requirement in Northern Ireland is 90%. STV’s obligation is 90% in its Central region and 70% in its North region. See Figures 3.3 and 3.4.

The role of regional production and programming in on-screen and off-screen diversity

- 3.61 It is important to recognise that in addition to supporting and strengthening the TV production sector and the creative economies of the UK's nations and regions, regional production commissions can also contribute to delivering greater on-screen diversity and a more diverse workforce across the sector. This may either be through a deliberate editorial choice on the part of the programme makers, or simply be a consequence of the production process. Further, Channel 3's regional programming requirements (opt out programmes) are designed to contribute to on-screen representation and portrayal of a specific area, as this content must cover regional subjects and be set in, or feature people known to, or connected to, the region.
- 3.62 We are also mindful of the need for broadcasters' own workforces to be more representative of the UK population so that they can accurately represent and reflect their viewers in their output. As part of Ofcom's wider [Diversity in Broadcasting work](#), we are considering whether to request a geographic split of broadcasters' workforce diversity data. This will shed light on the spread of broadcasting staff across the UK and help broadcasters understand how the diversity of their workforces varies by nation and region within the UK.

4. Sustainability of the Channel 3 and 5 PSB obligations

4.1 In this section we consider whether the Channel 3 and 5 PSB obligations could be commercially sustainable over the next 10-year licence period.

Overall, we think the current PSB obligations could be commercially sustainable, such that the licensees could continue to deliver them over the next licence period. This would be strengthened if proposed reforms to establish new prominence and availability regulation for PSB online TV services are implemented.

Based on our analysis and the information provided by the licensees we think that:

- the Channel 3 PSB obligations could be sustainable over the next licence period as a whole but could represent a small annual net cost towards the end of the period. However, on an individual licensee basis, STV's PSB obligations could represent a small net cost in each year of the next licence period; and
- Channel 5's PSB obligations are likely to be sustainable in the next licence period.

Sustainability of the Channel 3 and 5 PSB obligations could come under increasing pressure in some scenarios, especially if the value associated with licence benefits was lower or declined faster than expected. However, the licences are part of the wider broadcasting and production businesses of ITV, STV and Paramount Global and they may reasonably take this wider context into account when considering the full commercial value of their PSB licences. Information provided by the licensees suggests that they may have strategic reasons to continue as licensed public service broadcasters even where our analysis might suggest that their PSB obligations could represent a small net cost relative to PSB benefits in some years of the next licence period.

4.2 This section is structured as follows:

- Our approach to assessing commercial sustainability
- Commercial sustainability of the Channel 3 licence obligations
- Commercial sustainability of the Channel 5 licence obligations

4.3 In our open letter published in October 2021, we sought views on the sustainability of the Channel 3 and Channel 5 licence obligations in the next licence period. We received submissions from, or on behalf of, the current licensees: ITV, STV and Channel 5, and have factored this evidence into our analysis, as set out below. Annex 2 includes more detailed comments on the submissions received from ITV, STV and Channel 5.

How we have approached our assessment

- 4.4 Under section 229 of the Act, we are required to give our opinion on the capacity of the current licensees to contribute to public service purposes at a commercially sustainable cost over the next 10-year licence period. We have discretion on how we do this.
- 4.5 To help us determine whether contributions are commercially sustainable, we have assessed the estimated cost of specific PSB licence obligations and the value of benefits associated with the Channel 3 and 5 licences.
- 4.6 As outlined earlier in this report, Channel 3 and 5 licensees must comply with obligations such as programming and production quotas. Some of these may represent opportunity costs where costs are higher, or revenues lower, than would be the case if the licensees were not subject to these obligations. The licensees also incur some direct costs from holding PSB licences, such as higher Ofcom licence fees and contributions to the National Television Archive.
- 4.7 The current PSB framework also grants benefits to the Channel 3 and 5 licensees. The principal benefits are the right to reserved capacity on the digital terrestrial television (DTT) platform (Freeview)⁶⁵ and the right to appropriate prominence within electronic programme guides (EPGs) for the main Channel 3 and 5 services. These benefits are valuable as they secure the wide availability of these channels and encourage greater viewing in a way that may be harder, or more costly, to achieve, without such regulatory interventions. As a result, revenues are higher, and some costs are lower, than they would be otherwise.
- 4.8 We generally consider that the licensees' contributions to PSB purposes would be commercially sustainable if the value of benefits exceeds the opportunity cost of PSB obligations.
- 4.9 We need to make assumptions about the counterfactual scenario to estimate the cost of PSB obligations and value of benefits, that is, what licensees would do without the obligation or benefit. There are various approaches we could take to identifying the counterfactual, which could have different implications for the value of benefits and cost of obligations, such as:
- a) assume the Channel 3 and 5 licensees look as they do now and consider what they would deliver if they were not subject to each individual PSB obligation and benefit; or
 - b) assume ITV, STV and Channel 5 no longer hold their Channel 3 and 5 licences (and so are not subject to any of the current obligations and benefits), consider what they would deliver in this case and how this could be affected by replacement Channel 3 and 5 licensees.

⁶⁵ Ofcom awards DTT multiplex licences which give broadcasters the right to use radio spectrum to transmit television services across the UK in a digital format. Channel 3 and 5 licensees have reserved capacity on some of these multiplex licences to broadcast their channels. In the case of Channel 3, licensees also have the right to joint ownership of one of the multiplexes.

- 4.10 Our approach to estimating the counterfactual (and the approach largely adopted by ITV, STV and C5 in their submissions) is essentially scenario a) above. We think this is the simplest and most effective approach for the purposes of this report as scenario b) would require speculative assumptions about what would happen if ITV, STV and Channel 5 no longer held their licences, which could affect the robustness of the analysis.
- 4.11 A consequence of our approach is that we have not included in our analysis, obligations that are an integral part of the statutory scheme, such as the national and regional nature of the Channel 3 licences and the associated networking arrangements (as the arrangements would be the same in the counterfactual as they are now).⁶⁶
- 4.12 Even with our preferred approach to establishing a counterfactual, precisely estimating the cost of PSB obligations and value of benefits is difficult, especially over a new 10-year period in what is a relatively fast-moving industry in terms of audience habits, technology and commercial dynamics. It also requires a degree of judgement, for example:
- without the regional news obligation, would Channel 3 licensees stop producing regional news, what would they replace it with and how much would it cost?
 - Without the right to EPG prominence, what position would the main Channel 3 and 5 services occupy, what impact would this have on audiences and revenues and how could this be affected by the decline in viewing to linear channels?
- 4.13 Applying this approach, we have reviewed the submissions from ITV, STV and Channel 5. The submissions include a series of costs and benefits for individual aspects that are summed to estimate the net financial impact over the next licence period. The net financial impact is used to help assess if PSB obligations are likely to be commercially sustainable. We are assessing the sustainability of PSB obligations over the next licence period as a whole. While the cost of PSB obligations could exceed the value of licence benefits in some years (representing a net cost in those years), if the value of benefits over the period as whole exceeds the cost of obligations, the PSB obligations would be considered sustainable.⁶⁷
- 4.14 Our approach does not explicitly quantify potential strategic costs or benefits that could be associated with holding the licences, for example, revenues that might be lost if the current licensees surrendered their licences and had to compete against new Channel 3 or 5 licensees. We recognise that, when considering whether to renew their licences, ITV, STV and Channel 5 may reasonably consider wider strategic and commercial issues such as those captured by scenario ii) above, e.g. they may form views about what would happen to the Channel 3 and 5 licences if they no longer operated them. In these more speculative scenarios, there could be strategic costs or benefits associated with operating the Channel

⁶⁶ This is because without the national and regional arrangements of the Channel 3 licences and the associated networking arrangements, the current Channel 3 licensees could not look as they do now – i.e. we would need to speculate on what an alternative Channel 3 network might look like.

⁶⁷ We have not undertaken a net present value (NPV) calculation, so the future cost and benefit figures have not been discounted. We do not consider this approach affects our conclusions on sustainability set out below.

3 and 5 licences.⁶⁸ If licensees took account of these, they might conclude that licence obligations are sustainable, or could form part of an overall sustainable business plan, even where our approach to assessing the individual costs and benefits suggests otherwise. While not part of our quantitative analysis, these wider strategic considerations are relevant to an overall assessment of sustainability.

- 4.15 Our assessment of sustainability focuses on the current regulatory framework, but as outlined earlier in this report, reforms proposed in the Government's recent White Paper would enhance PSB benefits, in particular new prominence and availability rules for designated on-demand PSB services. We have therefore commented on whether the proposed reforms could support the sustainability of PSB obligations in the next licence period.

Commercial sustainability of the Channel 3 PSB licence obligations

- 4.16 Below we summarise the submissions from ITV and STV and give our opinion on whether their PSB obligations will be commercially sustainable in the next licence period. We first consider the position under the current framework for each licensee and then consider the potential impact of future reforms proposed by the UK Government.
- 4.17 We have considered the sustainability of PSB obligations to ITV and STV separately, but at the end of this section we also consider the sustainability of the Channel 3 PSB obligations overall. As set out in Section 5, we are not making recommendations for the exercise of the Secretary of State's order-making powers, based on this assessment of the sustainability of the Channel 3 PSB obligations overall and in respect of ITV and STV separately.

Summary of ITV's submission

ITV said that its PSB obligations will not be sustainable over the next licence period

- 4.18 ITV provided a report from Mediatique that assessed the value of benefits and cost of obligations associated with ITV's Channel 3 licences over the period 2025-2034. In its report, Mediatique estimates a value for each identified benefit and obligation, and sums these values to estimate a net benefit or net cost, depending on whether the value of benefits or cost of obligations is higher.⁶⁹
- 4.19 Mediatique's analysis included values associated with the benefit of gifted and reserved DTT capacity along with EPG prominence. Under the current framework, the value of these benefits is connected to levels of linear TV viewing. As linear TV viewing falls, as it is expected to do over the next licence period given strong competition for audience viewing

⁶⁸ For example, if licensees believed that, if they did not renew their licences, there would be replacement Channel 3 and 5 licensees investing in UK content and holding prominent EPG positions, they might conclude this could reduce their profits such that there would be a strategic benefit to renewing the licences. Likewise, if they believed there would not be any replacement Channel 3 and 5 licensees, there could be strategic costs associated with holding the licences (for example, if ITV could exploit its content more profitably than under the current Channel 3 networking arrangements) which could be significant enough to justify not renewing the licences.

⁶⁹ ITV provided us with an updated model from Mediatique on 26 April 2022 which revised its estimates for some costs and benefits. References to Mediatique estimates in this section are taken from this updated model.

time, the value of these benefits will reduce. Given the uncertainty associated with the benefit of EPG prominence in particular, Mediatique estimated a low, central and high value. Mediatique’s analysis indicates that EPG prominence is the most valuable benefit, representing between 60% to 80% of total benefit value, depending on whether the low, central, or high EPG estimate is used.

4.20 Mediatique also included several opportunity costs associated with the licence, as summarised below. The most significant, representing almost 75% of all opportunity costs, were those associated with regional news obligations and ‘broadcasting into Scotland’ (ITV said it is unable to broadcast its main TV channel in STV’s licence areas in Scotland due to the geographic limitation of its regional services and the requirement to agree networking arrangements).⁷⁰ Mediatique also identified opportunity costs associated with the obligations around commissioning from independent producers and making content outside of London, as well as some direct costs of its licences including higher Ofcom licence fees. Mediatique included a central estimate for each of these opportunity costs.

Figure 4.1: Mediatique’s estimate of ITV opportunity costs, % of total opportunity cost

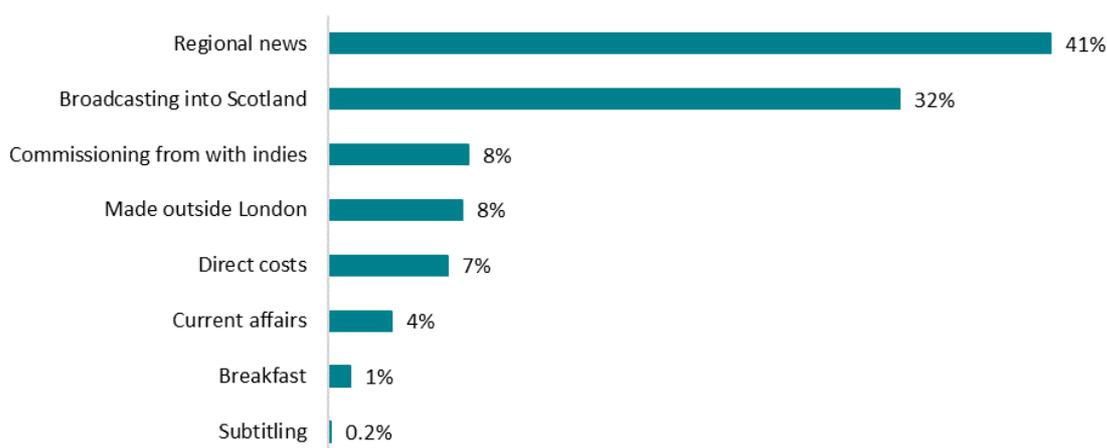
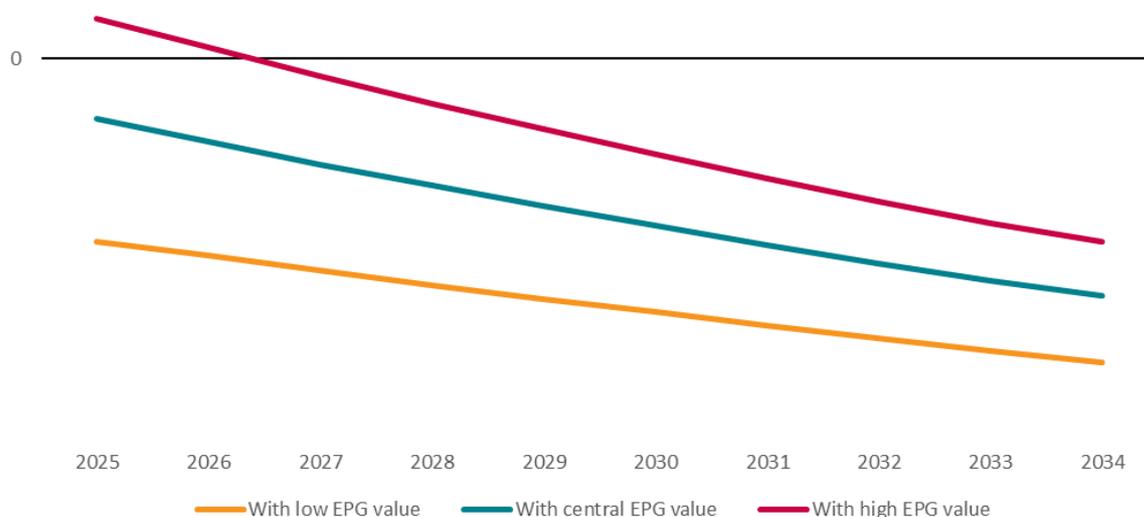


Chart shows average proportion of total costs represented by each category over the period 2025-2034.

4.21 Mediatique’s analysis suggests that, under the current framework, ITV’s PSB obligations could represent a net cost to ITV in each year of the next licence period. This is illustrated below. Each line in the chart below represents the difference between the annual value of ITV’s licence benefits and the annual cost of its PSB obligations assuming a low, central, and high value for EPG prominence. For each year, a negative number means that the cost of PSB obligations exceeds the value of benefits, while a positive number means the value of benefits exceeds the cost of PSB obligations. The lines are downward sloping as the value of benefits is expected to decline over time as linear viewing and advertising revenue move to other platforms.

⁷⁰ Channel 3 licence holders are required to agree networking arrangements. Under current networking arrangements ITV provides network content to STV for a fee. ITV is not able to exploit that content itself in STV’s Channel 3 licence areas.

Figure 4.2: Mediatique estimates of annual net benefit/(cost) of ITV’s licence benefits vs PSB obligations 2025-2034 (under current framework), £m



Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

- 4.22 Based on this analysis, ITV said that, under the current framework, its PSB obligations will not be commercially sustainable over the next licence period.⁷¹
- 4.23 ITV said that an updated prominence regime will be a key licence benefit in future years.⁷² Mediatique estimated a value for online prominence assuming it would cover prominence for PSB players⁷³ and specific ‘top picks’ content, but it recognised the scope of future reforms was uncertain.⁷⁴ Although the value of new prominence rules is difficult to quantify, Mediatique said it could offset some, though not all, of the net cost over the next licence period.
- 4.24 Mediatique also considered that the current cost associated with the rules around commissioning from independent producers could be absent in the next licence period (e.g., if ITV could secure rights to content for longer and on better terms) either because better terms are negotiated or imposed by Ofcom.⁷⁵
- 4.25 After taking account of the potential impact of an updated prominence regime and improved outcomes with independent producers, Mediatique estimated that ITV’s Channel 3 licence obligations could still, in some scenarios, represent an annual net cost for large parts of the next licence period, albeit a much lower net cost than without these reforms. For example, with its central valuation of EPG prominence, the value of ITV’s licence

⁷¹ ITV response to question 2 of our open letter.

⁷² Page 2 of ITV response to our open letter.

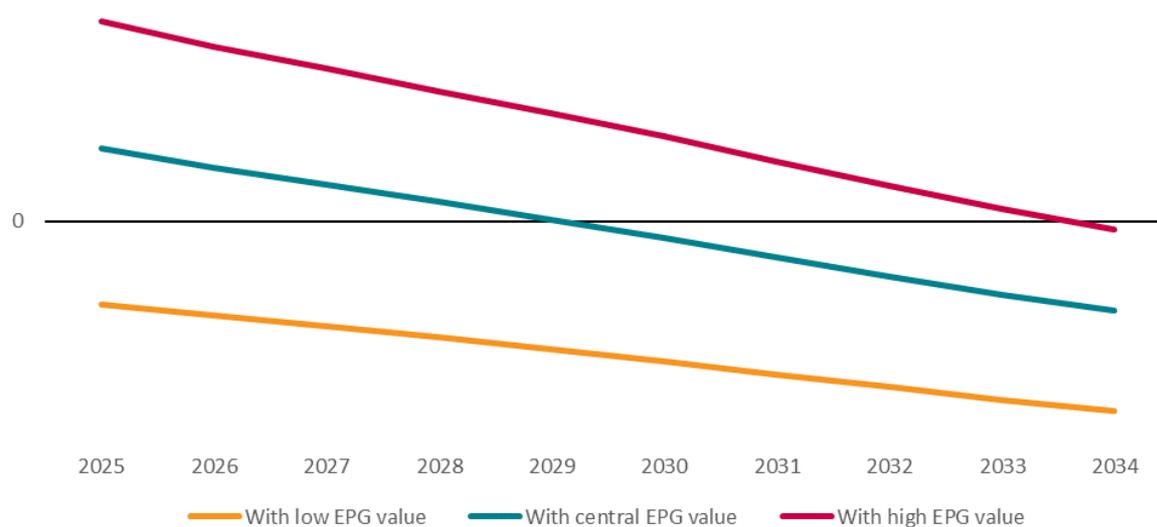
⁷³ Including ITV live stream.

⁷⁴ Note that throughout this section we refer to ‘online prominence’ meaning new rules securing prominence for PSB online TV services.

⁷⁵ Page 8 of Mediatique report.

benefits would exceed the cost of its PSB obligations for half of the next licence period but thereafter the PSB obligations would represent a net cost.

Figure 4.3: Mediatique’s estimated net benefit/(cost) of ITV’s licence benefits vs PSB obligations 2025-2034 (after online prominence and mitigations around commissioning with independent producers), £m



Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

Each line in the chart represents the difference between the value of ITV’s licence benefits and the cost of its PSB obligations assuming a low, central, and high value for EPG prominence. Mediatique also estimated low, central and high estimates for online prominence – these have been included in the low, central and high estimates for EPG prominence respectively.

- 4.26 Mediatique said it was possible ITV would be prepared to take the risk of having the licences remain in modest deficit given the costs and risks involved in relinquishing the licences.⁷⁶ ITV said it was keen to remain a PSB, but not at any cost.⁷⁷
- 4.27 In *Small Screen: Big Debate (SS:BD)*, we recommended new legislation that would protect the wide availability and prominence of PSB content on terms that support PSB sustainability as well as market innovation and consumer choice. ITV indicated that its ability to secure fair value from online platforms would be critical to the sustainability of its Channel 3 licences in future.⁷⁸ Although Mediatique did not place a value on such fair value, it said there were many elements of product, service and functionality that can be traded between public service broadcasters and platforms that need to be safeguarded, especially given the asymmetry between global platforms and domestic operators.⁷⁹

⁷⁶ Page 10 of Mediatique report.

⁷⁷ Page 1 of ITV response to our open letter.

⁷⁸ Page 2 of ITV response to our open letter.

⁷⁹ Paragraphs 5.63 to 5.65 of Mediatique report.

4.28 Mediatique noted that it had not included any potential reforms to our Code on the Scheduling of Television Advertising (COSTA rules) as a potential lever to reduce net costs because there is a lot of uncertainty around the impact of changing the rules. Mediatique and ITV said there may be other changes that could be made to advertising rules that could yield benefits, such as giving commercial public service broadcasters more freedom on where minutage is placed or relaxing rules around product placement and sponsorship. ITV thought these regulatory interventions could be helpful but not transformative given the scale of forecast net costs.⁸⁰

Our assessment of the sustainability of ITV's PSB obligations

We think the cost of ITV's PSB obligations could be lower, and the value of its licence benefits could be higher, than Mediatique estimated

4.29 While Mediatique's approach to estimating the opportunity costs of ITV's current obligations in the next licence period is broadly reasonable, in places we consider that the opportunity cost could be lower, and the value of benefits could be higher, than Mediatique estimated.

4.30 In relation to the cost of PSB obligations, we have excluded estimated costs associated with the current affairs quota, broadcasting into Scotland, and the rules around commissioning with independent producers for the following reasons:

- **Current affairs.** ITV currently broadcasts significantly more hours of current affairs than it is required to under its quota.⁸¹ In general, if, in the counterfactual, ITV would choose to broadcast more current affairs hours than is required under the quota, we would not consider that the quota imposes an opportunity cost. Mediatique suggests that, without the obligation, ITV would reduce the hours of current affairs it shows. However, even then, the number of current affairs hours ITV would broadcast would remain significantly above the current quota. As such, we do not consider the obligation imposes an opportunity cost on ITV as Mediatique's analysis suggests it would continue to exceed the quota in the absence of the obligation. Removing this cost reduces ITV's opportunity costs by around 4%.
- **Broadcasting in Scotland.** As explained above, our approach to the counterfactual is to assume that the Channel 3 licensees look as they do now and consider what they would deliver if they were not subject to each individual obligation. Without obligations such as the networking arrangements, the current Channel 3 licensees could not look as they do now, and we would need to speculate on what an alternative Channel 3 network might look like. Consequently, we have excluded this opportunity cost from our analysis.⁸² Removing this cost reduces ITV's opportunity costs by around

⁸⁰ Page 6 of ITV response to our open letter.

⁸¹ For example, our [PSB annual compliance report 2021](#) shows that in 2020 ITV broadcast almost 150 hours of current affairs content versus a quota of 43 hours.

⁸² We also note that Mediatique did not include an equivalent benefit to STV associated with the networking arrangements.

one-third and, absent any other changes, reduces the average annual net cost of ITV's PSB obligations by almost 80%.

- **Commissioning from independent producers.** ITV (and other PSBs) must publish codes of practice, approved by Ofcom, which set out how they will commission from independent producers. It is not clear that there is a significant opportunity cost associated with this licence obligation as the codes of practice are relatively high level and do not preclude specific outcomes or deals being made. To the extent there are costs associated with the codes of practice, we consider there are ways to address or mitigate these, such as licensees proposing changes to their code of practice.⁸³ Mediatique assumed any opportunity cost associated with commissioning from independent producers could be absent in the next licence period such that it did not impact on the sustainability assessment. On the basis that we think any costs associated with this obligation could be small, and there are ways to mitigate any cost, we have not included any cost in our sustainability analysis. Removing this cost reduces ITV's opportunity costs by around 8%.

4.31 ITV's current licence benefits include reserved capacity on DTT Multiplex 2⁸⁴, the licence for which it (alongside STV) jointly owns alongside Channel 4, and linear EPG prominence.⁸⁵

4.32 We think the value of ITV's benefit of DTT capacity could be higher than Mediatique estimated. One benefit of reserved capacity on Multiplex 2 is the higher coverage it provides (98.5% of the UK population) compared to a commercial multiplex (90%). This means Channel 3 licence holders can generate viewing and advertising revenue from a larger coverage area than would be the case without the benefit. Without the benefit, the reduction in revenue may be less than the difference in coverage would suggest as i) households in PSB multiplex areas (and not commercial multiplex areas) are in less populated parts of the country and less sought after by advertisers and ii) some of those households could migrate to other platforms (or means of accessing ITV content) were they to lose access to ITV via DTT. To reflect this, when estimating the additional revenue associated with higher coverage, Mediatique argued it was appropriate to multiply the advertising revenue associated with the additional DTT coverage by 75%, but in its calculations, it actually used a figure of 50%. We adjusted Mediatique's calculations to reflect its arguments for a 75% factor which increases the value of licence benefits by around 20% over the next licence period.

4.33 In relation to EPG prominence, our Code of Practice on Electronic Programme Guides, requires EPG providers (Freesat, Freeview, Sky and Virgin Media O2) to ensure that Channel 3 is in the third EPG slot. We recognise there is significant uncertainty around the value of EPG prominence and there are several factors that could contribute to the value of this benefit, including the assumed EPG slot that ITV would occupy without this benefit,

⁸³ In paragraph 7.16 of SS:BD, we said that "PSM providers can seek approval from Ofcom to make changes to their Codes. Ofcom will approve suitable changes and update our guidance if necessary".

⁸⁴ The current Multiplex 2 licence, which is held by Digital 3&4 Ltd, a consortium owned by ITV, STV and Channel 4 Television Corporation, has been renewed with effect from 19 December 2022 until 31 December 2034, pursuant to The Television Multiplex Services (Renewal of Multiplex Licences) Order 2021.

⁸⁵ Mediatique also included a small benefit associated with ITV's HD capacity on Multiplex 3 (owned by BBC).

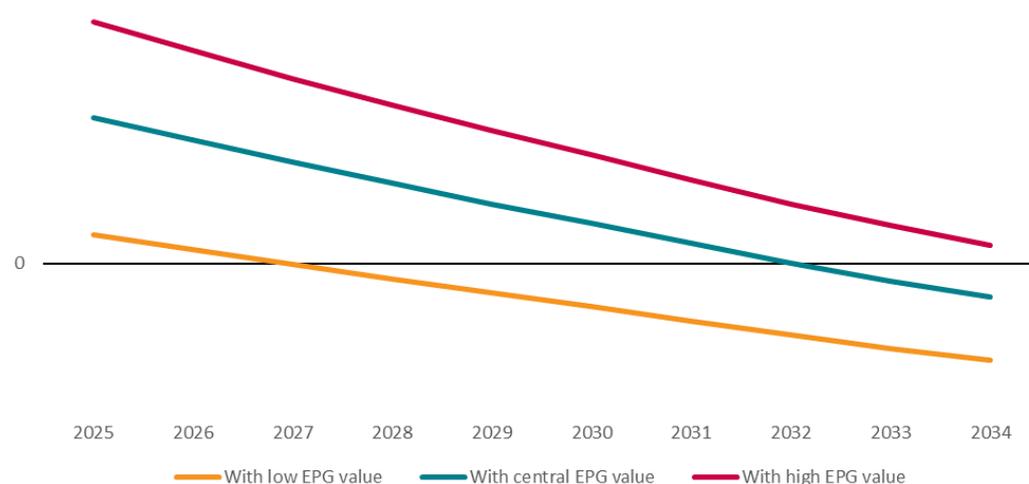
the impact on viewing from a change in EPG slot (including the extent to which ITV’s popular content could be affected), and the impact on advertising revenue of any change in viewing.

4.34 Mediatique’s analysis was informed by previous studies of the impact of EPG moves, and it assumed that ITV’s most popular content would not be affected by a loss of EPG prominence. We have compared Mediatique’s estimates of EPG value to our own estimates using an approach to EPG valuation we have taken in recent decisions.⁸⁶ We think this comparison indicates the range of values associated with EPG prominence is wide, but we consider Mediatique’s central estimate is reasonable, taking account of the uncertainty in estimating a value for EPG prominence.

Based on our analysis, we think the value of ITV’s licence benefits could exceed the cost of its PSB obligations for most of the next licence period

4.35 After adjusting Mediatique’s estimates of opportunity costs and the benefit of DTT capacity as explained above, the chart below illustrates that whether the value of licence benefits exceeds the cost of ITV’s PSB obligations under the current framework depends on the value placed on EPG prominence. Under Mediatique’s central estimate of the value of EPG prominence, the value of ITV’s licence benefits exceeds the cost of its PSB obligations for most of the next licence period. However, in this scenario, its licence obligations represent a small net cost in years towards the end of the next licence period, though over the period as a whole, the value of licence benefits exceeds the cost of PSB obligations.

Figure 4.4: Net benefit/(cost) of ITV’s licence benefits vs PSB obligations 2025 – 2034, £m (under current framework and after Ofcom adjustments)



Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

⁸⁶ Specifically our November 2021 [BBC Three television channel competition assessment](#) and [Review of rules for prominence of BBC Three](#), as explained in Annex 2.

- 4.36 In Annex 2 we provide a more detailed assessment of Mediatique’s analysis of the benefits and opportunity costs associated with ITV’s Channel 3 licences.

Implementation of proposed prominence and availability reforms will help strengthen sustainability

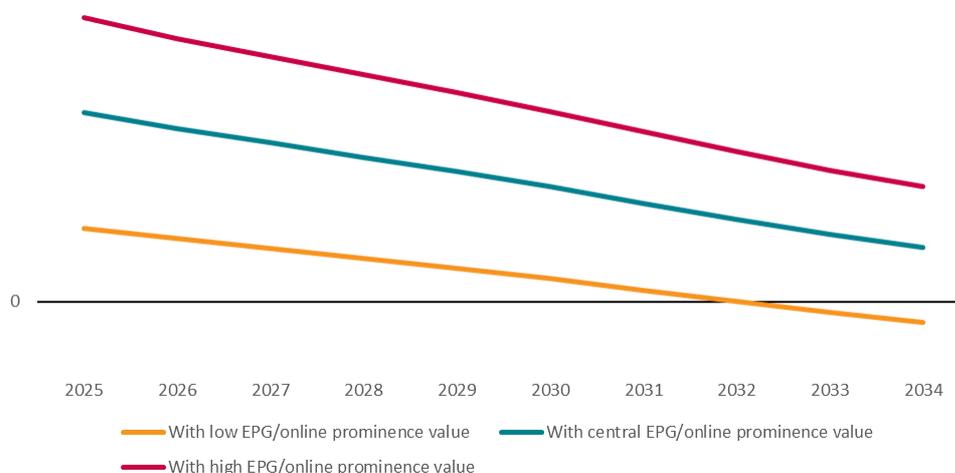
- 4.37 In SS:BD we said that our recommendations for new prominence and availability rules were to help ensure UK audiences can continue to access live and on demand public service media content in prominent positions on commonly used TV platforms. We said that this would also help underpin the future commercial sustainability of public service broadcasting.
- 4.38 In line with our recommendations, the UK Government’s White Paper outlined its intention to introduce a new prominence regime.⁸⁷ The regime would make sure designated PSB on demand services are made available on terms that are consistent with the sustainable delivery of PSB obligations but which also do not place disproportionate restrictions on consumer choice or TV platforms’ ability to innovate.⁸⁸
- 4.39 The value of new prominence rules is difficult to estimate at this stage, as the precise features of the new regime cannot be known until new legislation is introduced and its passage through Parliament complete. However, it is reasonable to assume a new prominence and availability regime will help strengthen the sustainable delivery of ITV’s Channel 3 licence obligations in the next licence period. Mediatique’s analysis indicates that the value could be significant, but it is likely to depend on factors like which platforms the regime will apply to, the position of the PSB’s player on those platforms, and the extent to which prominence extends to ‘top picks’ and other areas within a user interface.
- 4.40 Given this uncertainty, we have illustrated the potential impact of the updated prominence regime in Figure 4.5 using the lowest annual estimates implied by Mediatique’s analysis.⁸⁹ Each line in this chart includes Mediatique’s estimates of the impact of the updated prominence regime, essentially shifting up the lines from those shown in Figure 4.4. Mediatique made low, central and high estimates of the updated prominence regime which have been included in the relevant line in the chart below. For example, the line illustrating the difference between the annual value of ITV’s licence benefits and the annual cost of its PSB obligations assuming a central value for EPG prominence also includes Mediatique’s central value for online prominence.

⁸⁷ [Up Next: The Government’s vision for the broadcasting sector](#), page 7. The UK Government also proposed other reforms which could represent future benefits, such as making qualification for the listed events regime a PSB-specific benefit.

⁸⁸ [Up Next: The Government’s vision for the broadcasting sector](#), page 24. This proposal could address ITV’s comments that securing fair value from online platforms would be critical to the sustainability of its Channel 3 licence obligations in future.

⁸⁹ Mediatique included sensitivities for where ITV’s on-demand player could be positioned on connected devices and which types of devices could be included in the regime. We have adopted its lower estimates based on these sensitivities.

Figure 4.5: Net benefit/(cost) of ITV’s licence benefits vs PSB obligations (after Ofcom adjustments and prominence reforms) 2025 – 2034, £m



Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

4.41 The chart illustrates that prominence reforms, while difficult to fully evaluate at this stage, could enhance the sustainability of ITV’s PSB obligations in the next licence period.⁹⁰

In conclusion, ITV’s current obligations could be commercially sustainable over the next licence period and this would likely be strengthened by implementation of proposed legislative reforms

4.42 The sustainability of ITV’s PSB obligations under the current framework largely depends on the value placed on EPG prominence. Placing weight on Mediatique’s central EPG valuation, the value of ITV’s licence benefits exceeds the cost of its PSB obligations for most of the next licence period, although the net benefit falls over time as linear viewing and advertising revenue declines. ITV’s PSB obligations could represent a small annual net cost towards the end of the next licence period.

4.43 Under this scenario, as the value of licence benefits exceeds the cost of PSB obligations over the period as a whole, we consider ITV’s PSB obligations would be sustainable. However, we recognise there are some scenarios where the PSB obligations would be less sustainable, particularly if the value of EPG prominence is lower than the central estimate or if the value of licence benefits declines faster than expected.

4.44 Even in scenarios where ITV’s PSB obligations impose a net cost in the next licence period as a whole, the following factors suggest they could be commercially sustainable:

- Our calculations indicate that any net cost is likely to be small relative to the size of ITV’s main channel revenues. For example, under the current framework and using Mediatique’s central EPG valuation, the net cost in years towards the end of the next licence period is a very small percentage (<1%) of forecast revenues and even with a low value on EPG prominence the annual net cost in any year is a

⁹⁰ Mediatique’s analysis considered the potential impact of online prominence but did not quantify other potential reforms announced by the UK Government, such as making qualification for the listed events regime a PSB-specific benefit.

modest percentage (3%) of forecast revenues. This suggests that any annual net cost of ITV's PSB obligations may not have a significant impact on its overall financial position.

- There may be wider strategic reasons to continue as a licensed public service broadcaster. It is possible that ITV would be prepared to continue operating its licences even if its PSB obligations imposed a net cost, given the costs and risks involved in relinquishing the licences.⁹¹ ITV said that being a PSB is in its DNA and it is keen to remain a PSB, albeit not at any cost.⁹²

4.45 On this basis, we consider that ITV's current PSB obligations could be commercially sustainable, such that it could continue to deliver them over the next licence period. This position would be strengthened by implementing proposed legislative reforms that would establish new regulatory protections around the prominence and availability of PSB online TV services.

Summary of STV's submission

STV said that its PSB obligations would not be sustainable over the next licence period

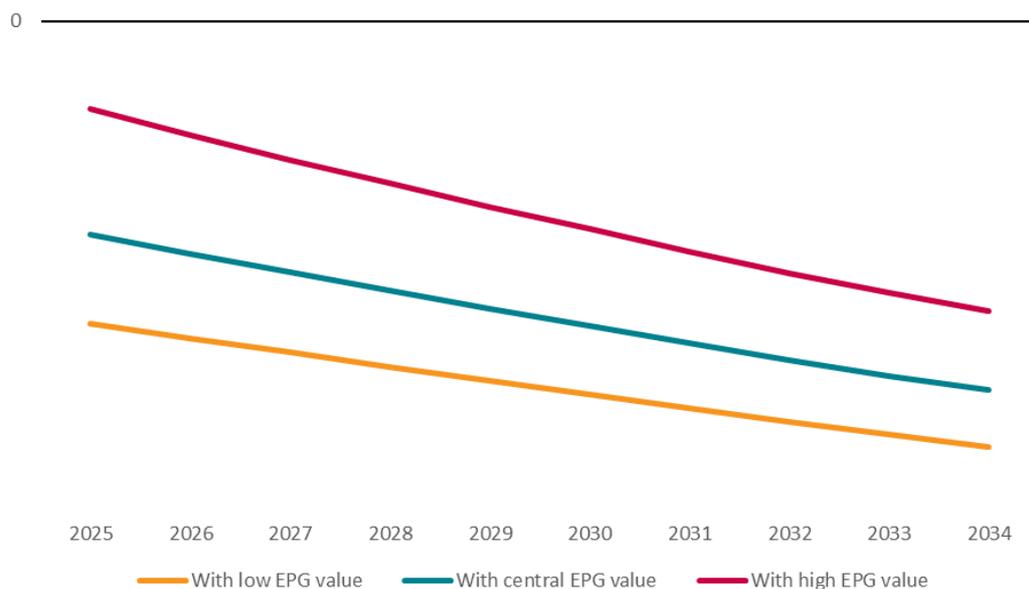
- 4.46 STV provided a report from Mediatique that assessed the value of benefits and cost of obligations associated with STV's Channel 3 licences over the period 2025-2034. Mediatique's analysis was informed by its work for ITV, summarised above, and in many places it apportioned ITV's outputs to STV using a ratio of Scottish/UK households.
- 4.47 As with ITV, Mediatique's analysis included values associated with the benefit of gifted and reserved DTT capacity along with low, central and high estimates of EPG prominence.
- 4.48 Mediatique also included several opportunity costs associated with STV's PSB obligations. The most significant, representing over 80% of all opportunity costs, were those associated with regional news.⁹³
- 4.49 As with ITV, Mediatique's analysis suggests that, under the current framework, STV's PSB obligations could represent a net cost in each year of the next licence period (as the cost of PSB obligations could exceed the value of licence benefits). This is the case under each of its low, central and high valuations on EPG prominence, as illustrated in Figure 4.6.

⁹¹ITV told us that, assuming UK Government reforms are delivered and any remaining net cost is small, its decision about whether to continue holding its licences would depend on a number of factors including the costs and risks of ceasing to be a public service broadcaster (including how certain the financial implications were of no longer being a public service broadcaster), the likelihood of another operator holding its Channel 3 licences, contractual implications and any reputational impact. ITV response dated 11 April 2022 to question 19 of our information request dated 30 March 2022.

⁹² ITV response to our open letter, page 1.

⁹³ Other costs included commissioning from independent producers (around 7% of total costs), regional non-news and current affairs (5%), direct costs (6%) and subtitling (<1%).

Figure 4.6: Mediatique’s estimated net benefit/(cost) of STV’s licence benefits vs PSB obligations 2025-2034 (under current framework), £m



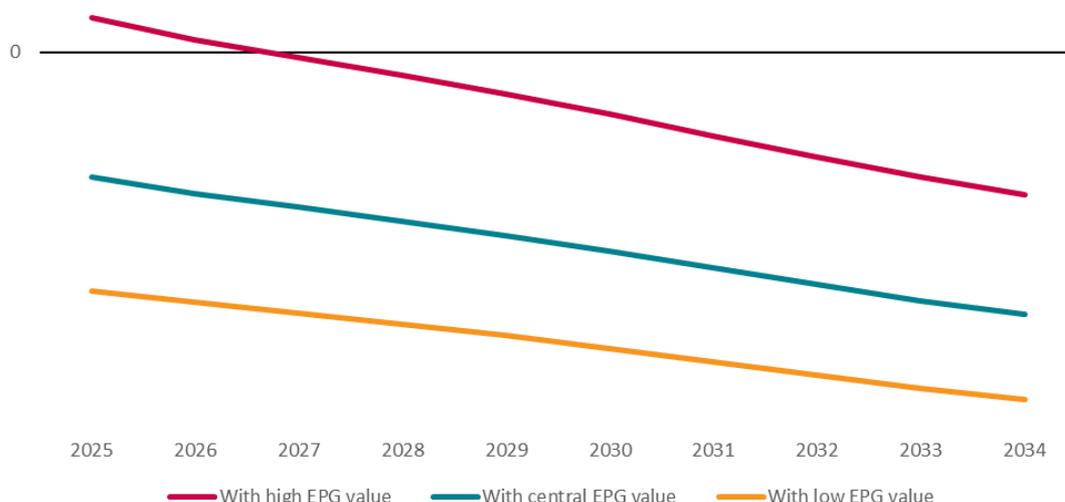
Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

4.50 Based on this analysis, STV said that the current framework could not be considered commercially sustainable and that it was clear that committing to deliver licence obligations would represent a significant risk over the next licence period.⁹⁴

4.51 Consistent with its analysis for ITV, Mediatique considered whether new prominence rules and improvements to outcomes with independent producers could mitigate some of the estimated net costs. After taking account of these, Mediatique estimated that STV’s licence obligations could still represent an annual net cost over the next licence period, albeit a lower net cost than without these reforms. This is illustrated in Figure 4.7.

⁹⁴ Page 10 of STV response to our open letter.

Figure 4.7: Mediatique’s estimated net benefit/(cost) of STV’s licence benefits vs PSB obligations 2025-2034 (after online prominence and mitigations around commissioning with independent producers), £m



Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

4.52 Although Mediatique’s analysis suggests STV’s licence obligations could impose a net cost in the next licence period even after reforms to prominence rules, STV said its licences could still form part of a successful commercial business plan, thereby rendering the PSB obligations sustainable for a future licence term.⁹⁵ STV said the sustainability of its licence obligations depended on i) UK Government reforms, in particular updated prominence rules, being introduced as soon as practicable and ii) Ofcom giving consideration to additional benefits that could flow to licence holders such as liberalising the COSTA rules and creating incentives to generate increased TV production in the nations and regions.⁹⁶

4.53 Beyond online prominence, Mediatique said the ability of STV to receive ‘fair value’ is a key potential source of upside in future, though, as with its analysis for ITV, it did not place a value on this potential benefit. STV said the ability to access fair value for its content and related functionality online could unlock additional returns against its public service commitments and further reduce the net cost across the next licence period.⁹⁷

Our assessment of the sustainability of STV’s PSB obligations

We think the cost of STV’s PSB obligations could be lower, and the value of its licence benefits could be higher, than Mediatique estimated

4.54 Mediatique’s estimates of the opportunity costs of current obligations in the next licence period are broadly reasonable, but we consider the opportunity costs could be lower and the value of benefits higher.

⁹⁵ Page 6 of STV response to our open letter.

⁹⁶ Page 4 of STV response to our open letter.

⁹⁷ Page 6 and 9 of STV response to our open letter.

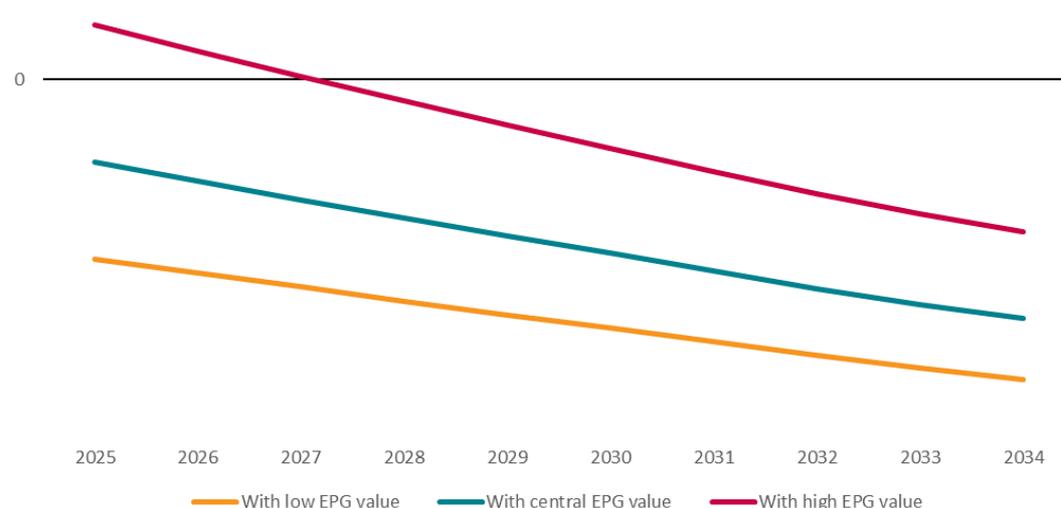
4.55 In relation to the cost of PSB obligations, we have excluded the cost associated with commissioning from independent producers for the same reasons given above for ITV. We have also removed the small cost Mediatique associated with STV’s regional current affairs quota because, based on the evidence provided in the Mediatique report, and given STV’s current delivery against this quota, we do not consider the obligation represents an opportunity cost to STV. These changes reduce STV’s opportunity costs by around 10%.

4.56 In relation to licence benefits, as part of the Channel 3 network, STV enjoys joint ownership of DTT Multiplex 2 and Mediatique has apportioned to STV a percentage of the value estimated for ITV. We have increased the value of this benefit to STV consistent with our approach to ITV. This increases STV’s licence benefits by around 40%. Mediatique’s approach to estimating the benefit of EPG prominence for STV was consistent with the approach it took for ITV, and as explained above, we consider its central estimate is reasonable, taking account of the uncertainty in estimating a value for EPG prominence.

Based on our analysis, we think that STV’s PSB obligations could represent a small annual net cost over the next licence period

4.57 After adjusting Mediatique’s estimates of opportunity costs and the benefit of DTT capacity as explained above, Figure 4.8 illustrates that STV’s PSB obligations could represent a small net cost in each year of the next licence period. Only with a high value on EPG prominence do the value of licence benefits exceed the cost of PSB obligations, but only for a couple of years of the next licence period.

Figure 4.8: Net benefit/(cost) of STV’s licence benefits vs PSB obligations 2025 – 2034, £m (under current framework and after Ofcom adjustments)



Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

4.58 As a proportion of STV’s main channel revenues, the potential net costs are relatively small. For example, using Mediatique’s central EPG valuation, the net cost to STV is between [X]% and [X]% of forecast revenues in each year of the next licence period.

This suggests that any net cost of STV's PSB obligations may not have a significant impact on its overall financial position.

- 4.59 In Annex 2 we provide our more detailed assessment of Mediatique's analysis of the benefits and opportunity costs associated with STV's Channel 3 licences.

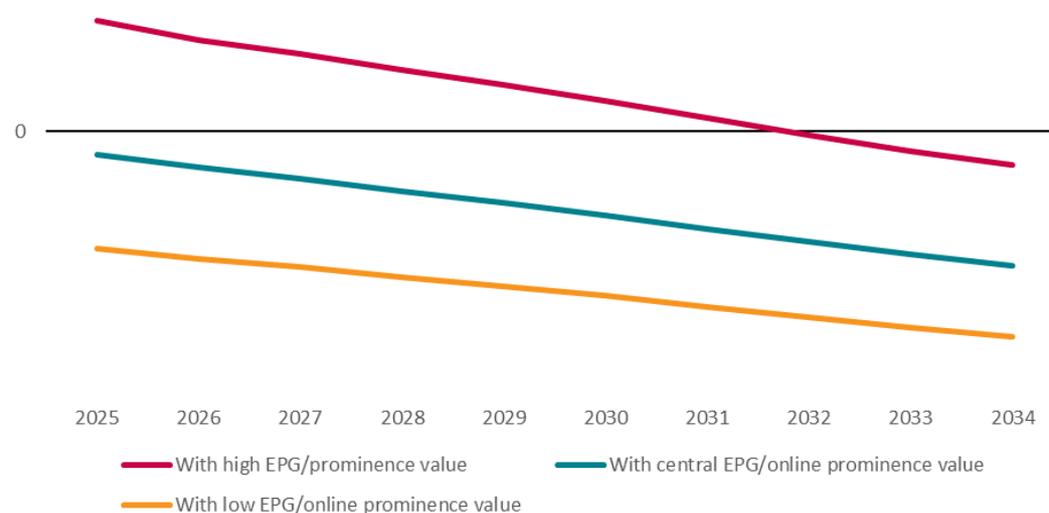
Implementation of proposed prominence and availability reforms will help strengthen sustainability

- 4.60 Consistent with our comments for ITV, new prominence and availability regulations will help to protect the benefits of PSB for audiences increasingly moving online. It might also enhance the sustainability of STV's PSB obligations in the next licence period. Mediatique's analysis suggests the value of online prominence, although difficult to estimate, could reduce the net cost to STV of meeting its PSB obligations in the next licence period.⁹⁸
- 4.61 Figure 4.9 includes Mediatique's estimates of the potential impact of prominence reforms. It illustrates that the sustainability of STV's PSB obligations following Government reforms may largely depend on the value placed on EPG prominence. Under Mediatique's central estimate of the value of prominence (including EPG prominence and future online prominence), the cost of STV's PSB obligations exceed the value of licence benefits in each year of the next licence period, though the net cost in each year is relatively small (between [X] and [X%] of STV's forecast revenues over the period). However, with a high value on prominence the value of STV's licence benefits exceeds the cost of PSB obligations in most of the next licence period, though again, the net benefit in each year is relatively small (no more than [X]% of STV's forecast revenues).⁹⁹

⁹⁸ Mediatique's analysis of the value of online prominence for STV was consistent with its analysis for ITV, and our comments in relation to the ITV analysis apply here as well.

⁹⁹ As with ITV, Mediatique's estimated the impact of online prominence but did not quantify other potential reforms announced by the UK Government, such as making qualification for the listed events regime a PSB-specific benefit.

Figure 4.9: Net benefit/(cost) of STV’s licence benefits vs PSB obligations (after Ofcom adjustments and prominence reforms) 2025 – 2034, £m



Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

In conclusion, given any net cost is relatively small, and taking account of wider strategic benefits of holding the PSB licence, we think STV’s PSB obligations could be sustainable. This position may be strengthened by implementation of proposed reforms

4.62 As with ITV, the sustainability of STV’s PSB obligations under the current framework largely depends on the value placed on EPG prominence. Placing weight on Mediatique’s central EPG valuation, the cost of STV’s PSB obligations exceeds the value of its licence benefits over next licence period, resulting in a small net cost each year.

4.63 However, the following factors suggest STV’s PSB obligations could be commercially sustainable in the next licence period, even where our analysis suggests they could impose a net cost over the next licence period as a whole.

- Our calculations indicate that any net cost associated with PSB obligations is likely to be small relative to the size of STV’s main channel revenues, which suggests they may not have a significant impact on STV’s overall financial position.
- There may be wider strategic reasons to continue as a licensed public service broadcaster. STV indicated that a small net cost could still form part of a successful commercial business plan such that its PSB obligations would be sustainable.¹⁰⁰

4.64 On this basis, we consider that STV’s current PSB obligations could be commercially sustainable, such that it could continue to deliver them over the next licence period; a position that would be strengthened by implementation of the UK Government’s proposed

¹⁰⁰ STV also told us that, when considering whether the licences overall are sustainable, it would take account of the margin for error in its above analysis, any potential future benefits as well as the risks of no longer holding Channel 3 licences (as noted above in relation to ITV). STV response dated 5 April 2022 to Question 4 of our information request dated 22 March 2022.

legislative reforms to extend prominence and availability benefits to PSB online TV services.¹⁰¹

Overall, the Channel 3 PSB obligations could be sustainable, such that they can continue to be delivered over the next licence period

- 4.65 As the Secretary of State can only block licence renewal for all Channel 3 regional licences or the UK-wide breakfast licence, we think it is appropriate to consider whether the Channel 3 PSB obligations overall will be sustainable in the next licence period.
- 4.66 As set out above, under the current regulatory framework, the value of ITV's licence benefits is likely to exceed the cost of its PSB obligations for most of the next licence period, such that its obligations could be commercially sustainable. While the sustainability of STV's PSB obligations is more challenging, any net cost is likely to be small.
- 4.67 Together, for the Channel 3 licences overall, the value of PSB benefits is likely to exceed the cost of PSB obligations over the next licence period and so, we think that the Channel 3 PSB obligations could be commercially sustainable over this period. However, we also acknowledge that our analysis is based on broad ranges and over a period where it is likely there will be continuing change in audience habits, market dynamics and technological developments.
- 4.68 As noted above, we agree with the licensees that implementation of the prominence and availability reforms proposed to be taken forward by the UK Government, could help strengthen sustainability of the Channel 3 licence obligations. However, we also recognise that it is difficult to fully evaluate the impact these changes will have at this stage and licensees may need to factor in wider strategic and commercial considerations when approaching any application for renewal.

Commercial sustainability of the Channel 5 licence

Summary of Channel 5's submission

Channel 5 said that its licence could be sustainable, though it could come under pressure in certain scenarios

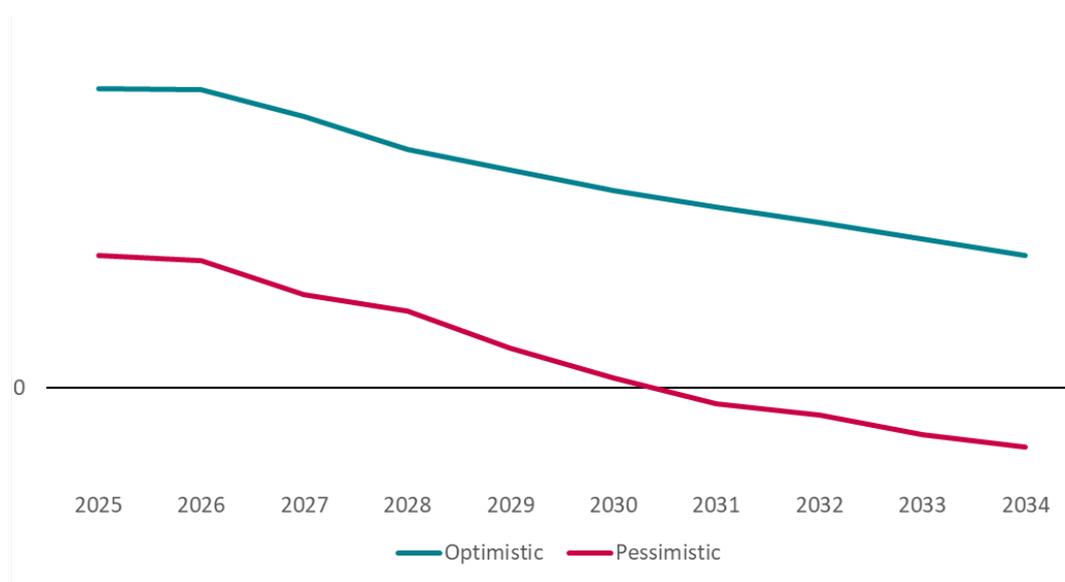
- 4.69 In its submission, Channel 5 set out its view of the value of benefits and cost of obligations currently associated with its licence over the period 2025-2034. Channel 5 considered the main benefits were associated with linear EPG prominence¹⁰² and its reserved capacity on PSB Multiplex 2 while the main costs were those associated with content obligations, the COSTA rules, and direct costs such as contributions to the National Television Archive.

¹⁰¹ Extending the benefit of prominence to online TV services will, based on Mediatique's estimates, reduce the net cost of STV's PSB obligations and, in some scenarios, would result in the value of licence benefits exceeding the cost of PSB obligations, such that STV obligations would be sustainable in the next licence period.

¹⁰² Our Code of Practice on Electronic Programme Guides, requires EPG providers (Freesat, Freeview, Sky and Virgin Media O2) to ensure that Channel 5 is in the fifth EPG slot.

- 4.70 Given the uncertainty of forecasting viewing and advertising revenues to 2034, Channel 5 assessed an optimistic and pessimistic scenario. In its optimistic and pessimistic scenarios, the cost of content obligations represented about 75% of total opportunity costs¹⁰³ while the value of EPG prominence represented around 90% of the total benefit.
- 4.71 Channel 5 said the key driver of change over the next licence period will be the evolution of the TV advertising market, driven by the change in viewing behaviour, which has a direct impact on the value of the benefits associated with EPG prominence and DTT capacity as well as the opportunity cost of the advertising minutage rules.¹⁰⁴
- 4.72 Channel 5 said it expects to see a further reduction in linear TV advertising revenues as viewers continue to shift away from linear TV to SVOD and other online services. While some of the lost linear advertising may be captured by broadcasters' own video-on-demand (VOD) services, the extent of this depends on whether VOD services can attract viewing and monetise audiences.¹⁰⁵
- 4.73 In its optimistic scenario, Channel 5's analysis suggests that the value of licence benefits will exceed the cost of PSB obligations in each year of the next licence period. Its pessimistic scenario suggests the value of licence benefits will exceed the cost of PSB obligations in the first six years of the new licence period, but the PSB obligations will represent a net cost in the rest of the licence period.¹⁰⁶ This is illustrated in Figure 4.10.

Figure 4.10: Channel 5's estimated net benefit/(cost) of licence benefits vs PSB obligations 2025-2034, £m



Note: data labels and Y-axis labels have been redacted in the non-confidential version of this report.

¹⁰³ The remaining 25% was made up of costs associated with the COSTA rules and direct costs.

¹⁰⁴ Channel 5 response to our open letter, page 7.

¹⁰⁵ Channel 5 response to our open letter, page 7.

¹⁰⁶ The main differences between the scenarios are i) the pessimistic scenario forecasts linear advertising revenue will fall quicker, and VOD revenue will grow slower compared to the optimistic scenario and ii) the pessimistic scenario assumes the viewing impact of EPG prominence is lower compared to the optimistic scenario.

- 4.74 Channel 5 said its analysis indicated that, during the next licence period, there was a risk that costs could outweigh benefits and that the marginal benefit to holding its licence is likely to come under significant pressure.¹⁰⁷
- 4.75 However, Channel 5 recognised its analysis was based on the current regulatory framework and said the UK Government’s proposed reforms would support the future commercial sustainability of public service broadcasting. Channel 5 said it was supportive of these proposals, particularly reforms around i) securing availability and prominence for online public service content across all major TV services and platforms and ii) reformed regulation of the independent production sector.¹⁰⁸
- 4.76 Channel 5 argued that its licence should be renewed and did not consider that another operator could offer more commitment to original content, or other important areas of public service content, than Channel 5.¹⁰⁹

Our assessment of the sustainability of Channel 5’s PSB obligations

The value of Channel 5’s licence benefits are likely to exceed the cost of its PSB obligations over the next licence period

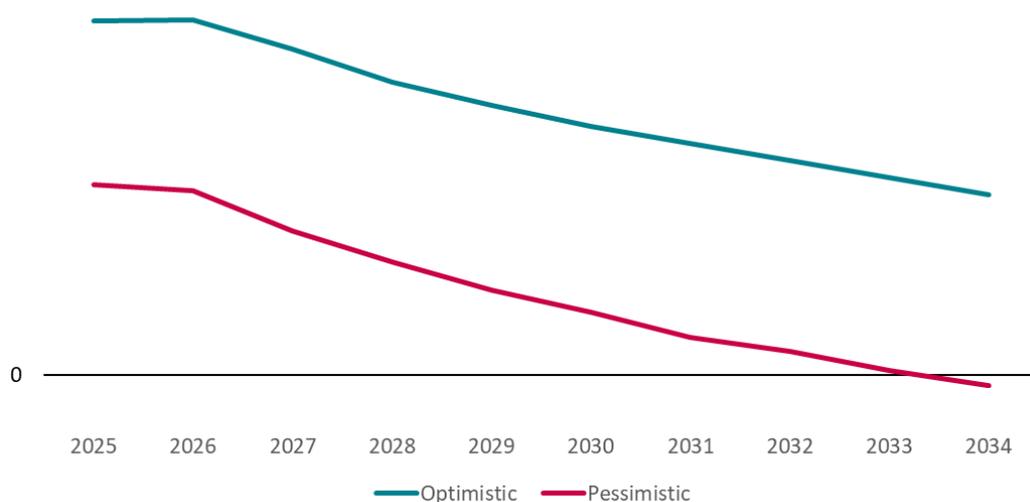
- 4.77 While Channel 5’s approach to estimating opportunity costs is broadly reasonable, we consider the cost associated with content obligations could be around 20% lower than Channel 5 estimates, based on the evidence it provided. However, we also consider the value of reserved DTT capacity could be lower than Channel 5 estimated, which offsets some of the reduction in the cost of content obligations.
- 4.78 Whether or not Channel 5’s obligations are sustainable largely turns on the value put on EPG prominence, as explained earlier in this section. There is significant uncertainty around the value of the benefit of EPG prominence. The range of values associated with EPG prominence is wide, but Channel 5’s optimistic and pessimistic EPG valuations reflect this uncertainty.
- 4.79 After making the adjustments to the cost of content obligations and benefit of DTT capacity described above, our analysis indicates that the value of Channel 5’s benefits will exceed the cost of its PSB obligations over the next licence period in both its optimistic and pessimistic scenarios, as illustrated in Figure 4.11. The annual net benefit is relatively modest, averaging [X]% to [X]% of Channel 5’s main channel advertising revenue over the licence period in the optimistic scenario, and [X]% to [X]% in the pessimistic scenario.

¹⁰⁷ Channel 5 response to our open letter, page 8.

¹⁰⁸ Channel 5 response to our open letter, page 9.

¹⁰⁹ Channel 5 response to our open letter, page 1.

Figure 4.11: Estimated net benefit/(cost) of Channel 5’s licence benefits vs PSB obligations 2025-2034 (after Ofcom adjustments), £m



Note: data labels and Y-axis labels have been redacted in the non-confidential version of this report.

4.80 In Annex 2 we provide a more detailed assessment of Channel 5’s submission on the benefits and opportunity costs associated with its licence.

Channel 5’s PSB obligations are likely to be sustainable and this would be strengthened by implementation of reforms to prominence and availability regulations

4.81 Overall, we broadly agree with Channel 5 that, under the current framework, its licence will be marginally sustainable in the next licence period. Sustainability could come under pressure in some scenarios, especially if the value associated with EPG prominence was lower than expected.

4.82 As with ITV and STV, we consider that the implementation of reforms to the prominence and availability regime for PSB online TV services could strengthen the sustainability of the Channel 5 licence in the next licence period.

5. Conclusions

- 5.1 In this section we summarise our conclusions in this report and look ahead to next steps in the relicensing process.

Our key conclusions

- The current licence obligations are the minimum contributions to PSB that we expect for audiences, and Channel 3 and Channel 5 have a good track record in delivering them.
- Over and above the specific licence obligations, Channel 3 and Channel 5 licensees contribute more broadly to the PSB purposes and objectives, for instance by investing in a wide range of original UK content that meets different audiences needs and interests. Our research shows that the channels continue to be valued by audiences.
- The current obligations could be commercially sustainable, such that the licensees could continue to deliver them over the next licence period; a position that would be strengthened by implementation of the Government's proposed legislative reforms to establish new prominence and availability regulation for relevant PSB online TV services.

Our analysis suggests that the licences could be commercially sustainable, however this might come under increasing pressure as linear viewing declines

- 5.2 This report considers contributions to the PSB purposes and the associated costs and benefits of delivering those obligations over a new ten-year licence period ending in 2034. Our analysis, and the information provided by licensees to support that, is necessarily based on a series of assumptions, forecasts, and broad value ranges.
- 5.3 Based on our analysis, and the information provided by the licensees, we think the licence obligations could be sustainable overall. However, the audio-visual and broadcasting sector is fast-moving, where audience trends and needs change rapidly. Over the last decade linear viewing has fallen by 28%,¹¹⁰ as audiences spend more time watching content online. This trend is likely to continue and could decline at a faster rate than licensees assume in their analysis, putting the sustainability of the licence obligations under more pressure.
- 5.4 In our *Small Screen: Big Debate* programme of work we said that the PSB framework needed urgent reform to continue to protect audience needs as they continue to move online. To ensure PSB remains relevant to audiences, we recommended an overhaul to the regulatory framework to give, amongst other things, the public service broadcasters more flexibility to deliver their PSB services across broadcast and on demand. We also restated

¹¹⁰ BARB.

our 2019 recommendations that the Government should introduce legislation to secure prominence for live and on demand public service content as well as making new recommendations on how to secure the wide availability of PSB content on connected TV platforms.

Reforms to the PSB framework, in particular to the prominence and availability regime are crucial for audiences, and will strengthen the sustainability of the Channel 3 and 5 licences

- 5.5 The UK Government has now published its proposals to reform the broadcasting sector and plans to introduce a media bill into Parliament later this year. The proposed reforms include taking forward our recommendations to extend the prominence and availability regime to designated PSB on demand services, and enabling broadcasters to deliver their PSB obligations across broadcast and on demand services.
- 5.6 Alongside the audience benefits such reform will bring, we agree with the licensees that implementation of these proposals will be an important development to strengthen the sustainability of the licence obligations, through the enhancement of PSB benefits. We recognise that it is not yet clear how valuable any new benefits will be to the licensees.
- 5.7 We also note that the public service broadcasters are collectively responsible for delivering the PSB purposes, which includes providing balanced television services in terms of nature and subject matter to meet the needs and satisfy the interests of audiences across the UK. It is important that the overall PSB regulatory framework remains coherent, so that together, the public service broadcasters, continue to deliver a wide and varied range of high-quality services that audiences value and want to watch.
- 5.8 We will continue to carry out a periodic review of PSB performance. This is an important way for us to engage with audiences and industry on how the PSB remit and purposes are being fulfilled.¹¹¹

There is a good case to proceed with licence renewal

- 5.9 Overall, we think, the current licensees could continue to contribute to the fulfilment of the PSB purposes at a commercially sustainable cost in the next licence period, taking account of the potential wider strategic benefits of the licences.
- 5.10 As noted, the proposed legislative reforms that the UK Government expects to make later this year should strengthen the sustainability of the licences in the next licence period by enhancing PSB benefits.
- 5.11 For these reasons, we are not making a recommendation that the Secretary of State uses their order-making powers to amend or remove the conditions that must be included in the licences or to block renewal of the licences.

¹¹¹ The timing of the next review is not yet determined given the legislative changes proposed but note that we typically do these at 5 yearly intervals.

The Secretary of State has until 30 June 2023 to make orders in relation to renewal or licence conditions

- 5.12 Upon receipt of this report, even without a recommendation from us, the Secretary of State may make an order that the regional Channel 3 licences, and/or the Channel 3 breakfast licence and/or the Channel 5 licence, are not to be renewed. Alternatively, the Secretary of State can exercise their order-making powers to remove, or in some cases amend certain statutory requirements in relation to obligations that must be included in the Channel 3 and Channel 5 licences.
- 5.13 In the absence of an order from Secretary of State blocking renewal, and upon receipt of applications from the licensees for renewal of their licences (which must be received by 30 April 2023), we will proceed to consider whether to renew the licences. The grounds on which we may decide not to renew the licence are set out in the Act.¹¹² They include where we are not satisfied that the licensee would provide a service complying with the statutory requirements in relation to the public service remit and programming quotas.
- 5.14 Licences must be renewed on the same terms and conditions, save that, in respect of Channel 3 services, we may make changes to the hours and (in the case of the regional Channel 3 licences) the areas for which the services are provided. We must also determine the financial terms on which the Channel 3 and Channel 5 licences will be renewed. If we do not renew one or more licences (for example, if the licensee rejects the financial terms of the new licence) then we would need to re-advertise the licence for the service in question. Any new licence would need to be granted by 31 December 2024.

We will work closely with the UK Government, licensees, and others to implement changes to the licences arising because of any new legislation

- 5.15 There are likely to be various changes that will need to be reflected in the Channel 3 and 5 licences once new legislation implementing the Government's proposals for reform is passed by Parliament. We do not have clarity on exactly what those changes will be at this stage.
- 5.16 The relicensing process described above may coincide with implementation of legislative changes that need to be reflected in the licences. We recognise that there may be a scenario where broader changes to the licences arising from new legislation are not implemented before renewal. We will work with the UK Government, the licensees, and other stakeholders to consult on, and implement, relevant changes in a pragmatic and timely way.

¹¹² Sections 216 (5) to (7) of Act.

A1. Legal framework

A1.1 In this annex, we explain:

- our specific duties as they are set out in section 229 of the Communications Act 2003 ('The Act'); and
- the process following our submission, including the options open to the Secretary of State.

The Act places a duty on Ofcom to provide its opinion to the Secretary of State as to whether the existing Channel 3 and Channel 5 licence holders will be able to contribute, at a commercially sustainable cost, to the fulfilment of the public service purposes set out in the Act in the ten years from 1 January 2025.

Ofcom's role is to assess two separate but overlapping issues: whether the licensees could continue to make a sufficient contribution to the fulfilment of public service purposes, and whether those contributions would be commercially sustainable over the next licence period.

Once the Secretary of State has received our report, they are then able to use their order-making powers to intervene in the relicensing process. In addition to their order-making powers to block licence renewal, the Secretary of State may also make orders to amend the public service remits of the relevant service and remove, suspend or amend some of the obligations placed on the licensees.

Ofcom's general duties – Section 3 of the Act

A1.2 Under the Act, our principal duty in carrying out our functions is to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition. In doing so, we are required to secure a number of specific objectives and to have regard to a number of matters set out in section 3 of the Act. These include (amongst other things) to secure the availability throughout the United Kingdom of a wide range of television and radio services which (taken as a whole) are both of high quality and calculated to appeal to a wide variety of tastes and interests and the maintenance of a sufficient plurality of providers of different television and radio services.¹¹³

A1.3 In performing our duties, we are also required to have regard to a range of other considerations, as appear to us to be relevant in the circumstances. These include:

- the desirability of promoting the fulfilment of the purposes of public service television broadcasting in the United Kingdom; and

¹¹³ Section 3(2) of the Act.

- the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the UK and of persons living in rural and urban areas.¹¹⁴

Ofcom's duties under Section 229 of the Act

- A1.4 Under section 229 of the Act, Ofcom is required to prepare a report for the Secretary of State about the effect of licence conditions and other arrangements on the capacity of the existing Channel 3 and Channel 5 licence holders to contribute, in the next licensing period, to the fulfilment of the purposes of public service television broadcasting in the United Kingdom at a cost to the licence holders that is commercially sustainable.
- A1.5 The Act states that we should also include in our report recommendations (if any) that we have as to whether the Secretary of State should exercise the following powers:
- to make an order preventing renewal of either all of the licences or one or more categories of licence;¹¹⁵ or
 - to make statutory instruments under Chapter 4, Part 3 of the Act¹¹⁶, notably to remove or, in some cases, amend certain licence obligations which are required under the Act.
- A1.6 With one exception, orders made in exercise of the Secretary of State's Chapter 4 powers are subject to the affirmative resolution procedure, which requires both Houses of Parliament to approve the draft order before it is made.¹¹⁷
- A1.7 The Act stipulates that our report must be submitted to the Secretary of State no later than 30 months from the end of the current licensing period. As the current licensing period expires on 31 December 2024, the report must be submitted to the Secretary of State by 30 June 2022.
- A1.8 In carrying out our functions under section 229 of the Act, we are also required to fulfil the public sector equality duty in section 149 of the Equality Act 2010 and section 75 of the Northern Ireland Act 1998. We have carried out an equality impact assessment¹¹⁸ and do not consider that our analysis and decisions set out in this report have equality implications under the 2010 Act or the 1998 Act.

¹¹⁴ Section 3(4) of the Act.

¹¹⁵ Decisions relating to the renewal of Channel 3 licences cannot differentiate between individual licences within a category: i.e. any decision in respect of the regional Channel 3 licences must apply to all such licences; there may be a separate decision in respect of the Channel 3 national breakfast licence and a separate decision in respect of the Channel 5 licence.

¹¹⁶ See sections 263 (4), 271, 277 (4) and (8), 278 (6), 282, 283, 306 and 310 (5) of the Act.

¹¹⁷ The Secretary of State's powers under section 310 to make an order adding or removing a service to the list of public service channels which are to have appropriate prominence under the EPG Code are subject to the negative resolution procedure.

¹¹⁸ We have given careful consideration to whether our assessment in this report will have a particular impact on persons sharing protected characteristics (broadly including race, age, disability, sex, sexual orientation, gender reassignment, pregnancy and maternity, marriage and civil partnership and religion or belief in the UK and also dependents and political opinion in Northern Ireland), and in particular whether they may discriminate against such persons or impact on equality of opportunity or good relations. Further detail is set out in section 149 of the Equality Act 2010 and section 75 of the Northern Ireland Act 1998.

The Channel 3 and Channel 5 licence obligations and benefits

- A1.9 As public service broadcasters, and in return for specific benefits, the holders of the Channel 3 and Channel 5 licences are subject to a number of licence conditions not placed on other television licensees. These additional obligations are designed to ensure that, in return for their special status, the Channel 3 and Channel 5 licence holders contribute to the purposes of public service broadcasting set out in section 264 of the Act.¹¹⁹
- A1.10 The purposes of PSB are designed to secure the delivery of a wide and balanced range of high-quality programmes which meet the needs and satisfy the interests of as many different audiences as practicable. The Act states that those purposes, which are intended to be achieved by the PSBs collectively rather than by any individual licensee, can be fulfilled by, among other things, the provision of comprehensive and authoritative news coverage, high quality and original programmes for children, and programming which reflects the lives and concerns of different communities in the UK.¹²⁰
- A1.11 In return for fulfilling obligations designed to secure these aims, the Channel 3 and Channel 5 licence holders receive benefits in the form of prominence within EPGs and privileged access to spectrum (digital terrestrial television or DTT). This exchange of obligations and benefits is sometimes referred to as the ‘PSB compact’.

Options open to the Secretary of State following this report

- A1.12 The Secretary of State has three alternative options in relation to the licensing of Channel 3 and Channel 5.
- A1.13 Upon receipt of this report, but not before, the Secretary of State may make an order that the licences, or specific types of licence, are not to be renewed. Even in the absence of a recommendation from Ofcom in the report to make such an order, the Secretary of State may still make the order where they consider it would be appropriate to do so. Any such order must be made no later than 30 June 2023 and would be subject to the affirmative resolution procedure.
- A1.14 Alternatively, the Secretary of State may decide not to intervene so as to allow Ofcom to proceed with the relicensing process set out in the Act. Accordingly, it would be for Ofcom to decide whether to grant any renewal applications submitted by existing licence holders.¹²¹
- A1.15 In addition, the Secretary of State is able to exercise their order-making powers under Chapter 4, Part 3 of the Act. Among other things, these powers enable the Secretary of State to amend the public service remit of the Channel 3 and Channel 5 licences, to remove or suspend the inclusion of any licence condition required by the Act, to amend the

¹¹⁹ References throughout this document to ‘PSB purposes’ relate to the broadcasting purposes specified in section 264(4) of the Act.

¹²⁰ Section 264(6) of the Act.

¹²¹ The grounds on which we may decide not to renew a licence are set out in s.216 (5) to (7) of the Act.

independent production quotas included in the licences and to amend the specification of original productions for the purposes of the original productions quota in the licences.

Renewal of Channel 3 and Channel 5 licences – Section 216 of the Act

- A1.16 The current licence period for the Channel 3 and Channel 5 licences is due to expire on 31 December 2024.¹²² The Channel 3 and Channel 5 licence holders may apply to Ofcom to renew their licence for a period of ten years from the expiry date.¹²³ The deadline to apply for renewal of a Channel 3 or Channel 5 licence is 30 April 2023.¹²⁴ Where Ofcom receives a renewal application from a licence holder, and in the absence of an order blocking renewal, Ofcom must decide whether to renew the licence and notify the applicant of their decision.¹²⁵
- A1.17 Ofcom may decide not to renew the licence on the grounds set out in the Act.¹²⁶ These include if they are not satisfied that the applicant, if their licence were renewed, would provide a service which would comply with conditions relating to:
- a) the public service remit for the licensed service;
 - b) programming quotas;
 - c) news and current affairs programmes; and
 - d) programme production and regional programming.¹²⁷
- A1.18 Where Ofcom decide to renew the licence, it must be renewed on the same terms and conditions¹²⁸, except in the case of a Channel 3 service where Ofcom must determine the area for which the licence would be renewed. In the case of this determination, the area must comprise all or part of the area for which the current licence is granted and may include all or part of another licensed area provided the holder of the licence for that area has given consent.¹²⁹ For every case Ofcom must also determine the financial terms on which the licence will be renewed.¹³⁰
- A1.19 Where the licensee accepts the terms notified, Ofcom must grant the renewal as soon as reasonably practicable.

¹²² The current [Channel 3 and Channel 5 licences](#) are available on Ofcom's website.

¹²³ Section 216(1) of the Act.

¹²⁴ Ofcom published a [notice](#) under section 216(3)(b) of the Act to the Channel 3 and Channel 5 licences regarding the deadline for applications for licence renewal.

¹²⁵ Section 215(4) of the Act.

¹²⁶ See sections 216(5) – (7) of the Act.

¹²⁷ Section 216(6) of the Act.

¹²⁸ Section 216(10) of the Act.

¹²⁹ Section 216A.

¹³⁰ Section 216(4A) of the Act.

A2. Our assessment of licensee submissions on PSB costs and benefits

- A2.1 In this annex, we provide further detail on our approach to assessing the sustainability of the PSB obligations for Channel 3 and Channel 5, as summarised in section 4 of this report. Part of that assessment is to determine the net costs or benefits of the rights and obligations attached to the licences. To inform that assessment we invited the licensees to provide estimates of those costs and benefits.
- A2.2 In this annex we consider whether the licensees' estimates provide a reasonable starting point for our assessment of the sustainability of the Channel 3 and 5 PSB obligations. As explained below, we consider that their estimates generally provide a reasonable starting point, subject to some adjustments as follows:
- ITV has included an opportunity cost associated with broadcasting into Scotland that we have excluded in line with our approach to assessing sustainability set out in Section 4 of the report;
 - ITV and STV have included an opportunity cost associated with the rules around commissioning from independent producers – we explain below why we do not consider that these requirements impose a significant opportunity cost;
 - ITV and STV included opportunity costs associated with obligations associated with current affairs. Based on the evidence provided we do not consider that these represent an opportunity cost;
 - ITV and STV included estimates of the value of reserved DTT multiplex capacity. We consider these estimates are understated and have increased them;
 - We have reduced Channel 5's estimates of the cost of content obligations and value of reserved DTT capacity;
- A2.3 We recognise that estimating the value of EPG prominence is difficult but consider that licensees' estimates of the value of this benefit provides a reasonable approach and we have included their estimates in our assessment.

Review of submission from ITV

- A2.4 Mediatique’s report for ITV models how the value of benefits and cost of obligations could evolve over the next licence period.¹³¹
- A2.5 Mediatique used 2019 as a base year to avoid distortions from the Covid-19 pandemic on production and viewing trends. Forecasts of costs and benefits to 2034 were informed by ITV’s 5-year business plan, and beyond that Mediatique used a combination of average growth rates and its own internal forecasts.
- A2.6 Mediatique’s revenue forecasts for ITV’s main channel, which are used to estimate the value of some of the licence benefits, include an adjustment from 2023 for the expected impact of the ban on advertising HFSS products. Mediatique’s model includes a high and low impact of this ban. We think it is more appropriate to use the lower impact as [X] and this is consistent with the Government’s recent announcement to postpone the introduction of these additional advertising restrictions.¹³²
- A2.7 Mediatique provided estimates of the costs and benefits associated with ITV’s Channel 3 licences under the current framework and considered the potential impact of future Government reforms to the availability and prominence regime. In this annex, we focus on the costs and benefits under the current framework. We comment on the potential impact of future Government reforms in Section 4 of this report.

Cost of PSB obligations

- A2.8 The table below summarises our assessment of Mediatique’s estimates of the direct and opportunity costs associated with ITV’s PSB obligations.

Table 2.1: Summary of our assessment of the opportunity cost of ITV’s PSB obligations

Obligation	% of total opportunity cost	Average annual opportunity cost (Mediatique), £m	Average annual opportunity cost (Ofcom), £m	Summary of our assessment
Regional news	41%	[X]	[X]	This is a reasonable estimate of the opportunity cost.
Broadcasting into Scotland	32%	[X]	-	Consistent with our approach to considering the sustainability of licences under the current legislative

¹³¹ ITV provided us with an updated model from Mediatique on 26 April 2022 which revised its estimates for some costs and benefits. References to Mediatique estimates in this annex are taken from this updated model.

¹³² As ITV explained in its response dated 11 April 2022 to question 1 of our information request dated 30 March 2022. The choice of low or high impact does not affect our overall conclusions in this report. In May 2022 the [Government announced the ban on advertising HFSS would now come into effect in 2024 rather than 2023](#). This does not have an impact on the conclusions in this report.

Licensing of Channel 3 and Channel 5

Obligation	% of total opportunity cost	Average annual opportunity cost (Mediatique), £m	Average annual opportunity cost (Ofcom), £m	Summary of our assessment
				framework we have excluded this cost.
Made outside London	8%	[X]	[X]	Based on the evidence provided, we consider there could be an opportunity cost, but it could vary in size over the next licence period.
Commissioning from independent producers	8%	[X]	-	We have removed this cost. Though an opportunity cost may exist, we consider it would be lower than Mediatique's estimate and there are ways to address any cost.
Direct costs	7%	[X]	[X]	This includes costs associated with higher Ofcom fees, contributions to the National Television Archive and regulatory oversight costs. This is a reasonable estimate of the opportunity costs.
Current affairs	4%	[X]	-	Based on the evidence provided, we do not consider this represents an opportunity cost.
Breakfast licence	1%	[X]	[X]	This is a reasonable estimate of the opportunity cost.
Subtitling	<1%	[X]	[X]	This is a reasonable estimate of the opportunity cost.
Total	100%	[X]	[X]	

Figures derived from annual averages over the next licence period. Totals may not sum due to rounding.

- A2.9 Below, we explain why we have removed from our assessment costs associated with broadcasting into Scotland, commissioning from independent producers and current affairs.
- A2.10 Although we have not adjusted Mediatique's opportunity cost estimates for regional news and the Made outside London (MOL) obligation, we comment on these because regional news is the largest opportunity cost and ITV did not include an opportunity cost associated with the MOL obligation when we last considered licence renewal in 2012.
- A2.11 For all other costs, which are relatively small, we think that Mediatique's approach and estimate of the opportunity cost is reasonable and do not discuss these further.

Regional news

- A2.12 ITV's Channel 3 services must provide a specified number of hours of regional news each week. Mediatique argues the cost of providing regional news in each of ITV's licence areas is higher than the cost of network content it would broadcast without this obligation.
- A2.13 Mediatique calculated the opportunity cost by taking the sum of the following:
- The current cost of providing regional news, including associated overheads *less*
 - The cost of replacement content *less*
 - Additional costs that ITV's network news service would incur if it did not have access to the current regional news infrastructure.
- A2.14 Mediatique forecast the opportunity cost by applying the growth rate in ITV's long term business plan. The largest elements of this calculation are the current costs of regional news and the estimated cost of replacement content.
- A2.15 Mediatique's estimate of the current cost to ITV of providing regional news includes direct costs as well as a proportion of overheads that could fall away if ITV did not have this obligation. ITV told us that the current cost of regional news in this calculation is lower than that included in its annual returns to Ofcom as these include an allocation of central costs associated with its news operations.¹³³ For the purposes of this analysis, we think it is appropriate to use the lower estimate as Mediatique has done, as not all central costs would necessarily be saved if ITV did not have a regional news obligation.
- A2.16 In relation to the cost of replacement content, ITV indicated to Mediatique that this could cost between £[redacted] per hour (for low-cost programming and repeats) and £[redacted] per hour (for high quality original content).¹³⁴ Given observed content inflation in many genres, and that ITV aims to produce programming that contributes to on demand content as well as the linear broadcast schedule, Mediatique assumed an hourly cost at the top end of this

¹³³ ITV response dated 11 April 2022 to question 2 of our RFI dated 30 March 2022.

¹³⁴ Mediatique report for ITV, paragraph 3.7.

range. We think this is a reasonable assumption and consistent with the implied hourly cost of original content reported in our Communications Market Reports.¹³⁵

- A2.17 Overall, we agree with Mediatique's approach to estimating the opportunity cost of ITV's regional news obligations and consider its estimate is reasonable.

Broadcasting into Scotland

- A2.18 Channel 3 licensees are required to agree networking arrangements. Under the current arrangements, ITV shares network programming with STV. ITV receives a fee from STV for this content, but ITV cannot then exploit that content itself in STV licence areas.
- A2.19 Mediatique argued that, without its Channel 3 licences, ITV would not supply STV with its main channel content but would instead broadcast into STV's licence areas (as well as into all of ITV's current licence areas). As a result, ITV would generate the entirety of STV's broadcast revenues, given STV would lose access to ITV's main channel schedule.¹³⁶
- A2.20 Mediatique says this is an opportunity cost as the additional revenues ITV could generate from STV's licence areas in Scotland would exceed the fee STV pays for the content under the networking arrangements. Mediatique estimates that the average annual opportunity cost is significant, at £[>] over the next licence period.¹³⁷
- A2.21 Under our approach to assessing the counterfactual, we have excluded Mediatique's estimate of the opportunity cost associated with broadcasting into Scotland. We explained in section 4 that our counterfactual assumes the licensees look as they do now and considers what they would deliver if they were not subject to each individual obligation and benefit. However, without obligations such as the networking arrangements, the current licensees could not look as they do now, and we would need to speculate on what an alternative Channel 3 network might look like.
- A2.22 We recognise that, when considering whether to renew its licences, ITV may take account of wider strategic issues, such as what could happen to its Channel 3 licences if it no longer operated them, and what impact this could have on its business. ITV told us that the possibility of a replacement licensee would be one factor that it would take account of in any consideration of ceasing to be a Channel 3 licensee.¹³⁸ In these more speculative scenarios, there could be strategic costs or benefits associated with operating the Channel 3 licences and this could include the impact of the networking arrangements.
- A2.23 There could be some scenarios where, without its Channel 3 licence and with no need to share its content with STV, ITV could more profitably broadcast its main channel into Scotland. For example, if there was no replacement Channel 3 operator in ITV's licence areas, such that STV no longer had access to shared content and became a smaller broadcaster as a result, the revenue ITV gained in Scotland could be higher than the fee it

¹³⁵ The [interactive data for our 2021 Communications Market Report](#) includes hours and spend by ITV (and other PSBs) on first run origination content.

¹³⁶ Mediatique report for ITV, paragraph 3.28.

¹³⁷ Mediatique reduced STV's broadcast revenues to account for i) lost EPG prominence and ii) reduced coverage on DTT multiplexes if ITV broadcast into Scotland without the benefits of holding Channel 3 licences.

¹³⁸ ITV response dated 11 April 2022 to Question 19 of our information request dated 30 March 2022.

currently receives from STV. However, there could also be scenarios where giving up its Channel 3 licences and broadcasting into Scotland would not be more profitable. For example, if there was a replacement Channel 3 operator in ITV's licence areas, such that STV would continue to have access to shared content and potentially look similar to today, the revenue ITV gained from Scotland could be lower than the fee it currently receives from STV (and it may also lose business to the replacement Channel 3 operator in its previous licenced areas in other parts of the UK).

- A2.24 While these are factors ITV and other licensees can take account of as part of their renewal decisions, we do not consider they are part of our assessment of sustainability for the specific purposes of this report and advice to the Secretary of State. We also note that Mediatique did not include an offsetting benefit to STV associated with the networking arrangements in its report for them. STV said that it had not ascribed any PSB cost or benefit to the requirement to have in place networking arrangements and did not think this was necessary where licensees had agreed these commercially.¹³⁹

Made outside London obligations

- A2.25 ITV's regional Channel 3 licences require 35% of originated network programmes to be made outside London (MOL), by both hours and spend.
- A2.26 Based on 2019 data, Mediatique estimated that it was more expensive (on a cost per hour basis) to make some genres of content outside of London than in London (based on its 2019 analysis, those genres were [X]).
- A2.27 Mediatique said that, without a MOL obligation, some content within these genres would be relocated to London as they would be cheaper to produce. This content represented about [X%] of total originated hours in 2019.¹⁴⁰ Mediatique also provided examples of shows which became more expensive to produce when relocated outside of London ([X]).¹⁴¹
- A2.28 The opportunity cost was calculated by multiplying the difference in cost per hour for content within the genres that would be relocated to London by the number of hours associated with that content in 2019. Mediatique assumed this opportunity cost would increase over time in line with content inflation, and it uplifted the cost by around one-third to account for 'additional regional costs'.¹⁴² Mediatique estimated an average annual opportunity cost of the MOL obligation of £[X] over the next licence period.
- A2.29 The MOL quota is limited to spend and hours across all ITV's originated network content – i.e. there are no requirements to make a percentage of certain genres outside of London. However, based on the data provided for 2019, we agree the MOL obligation could represent an opportunity cost where it would be cheaper to relocate some programmes to

¹³⁹ STV response to our open letter, pages 11 and 12.

¹⁴⁰ ITV response dated 29 April 2022 to question 9 of our information request dated 30 March 2022.

¹⁴¹ Mediatique report for ITV, page 33.

¹⁴² ITV said that the unpredictable nature of TV productions means that additional costs can be incurred where unexpected one-off costs arise as it seeks to meet its MOL obligations. ITV response dated 29 April 2022 to question 11 of our information request dated 30 March 2022.

London and if doing so would breach the quotas. ITV said that if it had relocated some content associated with these genres to London in 2019, it would have breached the MOL quotas on an hour and spend basis.¹⁴³

A2.30 We think the case for an opportunity cost could be stronger where specific shows have seen costs increase when they moved out of London, as the costs per hour at a genre level may not be directly comparable if the programmes made in and outside London are dissimilar.¹⁴⁴ However, ITV told us that there were a number of factors that could increase the costs of regional productions compared to a London production, including reduced supplier choice, higher costs of talent, and compliance and reporting.¹⁴⁵ Even if it was appropriate to consider the cost per hour in and outside London at a genre level, the opportunity cost may vary year to year where the cost per hour changes depending on the types of programmes commissioned.

A2.31 We asked ITV to repeat the 2019 analysis for 2021 to see if this supported the 2019 results. The 2021 analysis gave similar results in that it appears more expensive to make some genres of content outside of London, and that without the obligation, it may be possible to relocate these to London and reduce costs. However, it also indicates that the difference in cost per hour and the genres affected are not necessarily stable over time, something that ITV recognised.¹⁴⁶ However, [X].

A2.32 ITV said that absent a MOL quota – and the associated extensive guidance and associated compliance and reporting requirements – it would be free to adopt a different approach to commissioning across all genres, and avoid costs associated with [X].¹⁴⁷

A2.33 On balance, we think there is some reasonable evidence for an opportunity cost, so we have not adjusted Mediatique’s estimate, but we consider the size of any opportunity cost could vary over time. It is also possible that production cost dynamics could change over the next licence period. Mediatique’s report notes that the expansion of the SVODs has encouraged a clustering of talent in London which has also led to less resource and higher production costs outside of London.¹⁴⁸ However, some broadcasters such as Channel 4¹⁴⁹ and the BBC¹⁵⁰ have recently signalled their intention to increase the proportion of programmes made outside London, which, if this trend persists, could change some of the cost dynamics over the next licence period and affect the calculation of any opportunity cost.

¹⁴³ ITV response dated 29 April 2022 to question 9 of our information request dated 30 March 2022.

¹⁴⁴ For example, an entertainment show made outside London may have a higher cost per hour than an entertainment show made in London for reasons other than its geographical location (such as more expensive talent used for that particular show).

¹⁴⁵ ITV response dated 29 April 2022 to question 10 of our information request dated 30 March 2022.

¹⁴⁶ ITV response dated 29 April 2022 to question 10 of our information request dated 30 March 2022.

¹⁴⁷ ITV response dated 29 April 2022 to question 10 of our information request dated 30 March 2022.

¹⁴⁸ Mediatique report for ITV, paragraph 3.40.

¹⁴⁹ [Channel 4 press release](#), 15 March 2022. The press release said that in 2021, a record 66% of C4’s main channel content was commissioned from the nations and regions and that this demonstrates C4’s commitment to increasing commissions from the nations and regions.

¹⁵⁰ The [‘BBC Across the UK’](#) sets out the BBC’s plans to increase nations and regions commissions to 60% of the total, from 50% today.

Commissioning from independent producers

Current framework

- A2.34 The current framework requires public service broadcasters to have in place Codes of Practice for commissioning from independent producers which secure the seven statutory objectives and have been approved by Ofcom. The statutory objectives include: sufficient clarity about the categories of rights that are being sold; sufficient transparency about the amounts being paid in respect of each category of rights; and satisfactory arrangements about the duration and exclusivity of these rights.
- A2.35 Section 285 of the Act also requires Ofcom to have in place guidance to assist public service broadcasters in drawing up Codes of Practice. Our published guidance is of a general nature and is designed to provide the framework for individual PSB's Codes of Practice. The guidance does not specify particular terms to be included in commissioning agreements.¹⁵¹
- A2.36 The guidance states: *"At a minimum the Codes need to address the seven [statutory objectives] in order to establish a broad framework within which more detailed terms of trade and the detail of the commissioning process can be established."*¹⁵²
- A2.37 In relation to providing clarity about the categories of rights being sold, the guidance says:
- qualifying independent producers should retain rights in the programmes they make unless these are explicitly sold to a public service broadcaster and/or other party¹⁵³;
 - public service broadcasters should not make commissioning conditional on ultimate ownership of all rights¹⁵⁴; and
 - public service broadcasters should not seek to include rights in perpetuity as a matter of course.¹⁵⁵
- A2.38 The guidance also states that the Codes of Practice should not preclude a broadcaster from acquiring different or additional rights packages should they wish to do so and should the independent producer wish to make them available. A broadcaster should always be able to seek to secure more rights packages subject to commercial negotiation.¹⁵⁶
- A2.39 The Codes are intended to be available to producers when negotiating deals. In practice, the main public service broadcasters have each generally agreed a set of standard terms (known as the Terms of Trade) with Pact, the largest trade association for the production sector. They have then submitted revised Codes of Practice to us incorporating the individual agreements reached with Pact.
- A2.40 The first Terms of Trade negotiations were in 2004. The primary rights negotiated by public service broadcasters were mainly for linear services. Since then, the public service broadcasters and Pact have agreed changes to Terms of Trade agreements with individual

¹⁵¹ This is in line with the statutory prohibition in section 285(7) of the Act.

¹⁵² Paragraph 10 of the [Guidance](#).

¹⁵³ Paragraph 18 of the Guidance.

¹⁵⁴ Paragraph 27 of the Guidance.

¹⁵⁵ Paragraph 39 of the Guidance.

¹⁵⁶ Paragraph 28 of the Guidance

broadcasters generally seeking different rights arrangements to suit their circumstances and business strategy. In recent years, these negotiations have generally seen public service broadcasters seeking to extend the length of time programmes are available on their on-demand platforms.

ITV's submission

- A2.41 In its report for ITV, Mediatique argues that the current Terms of Trade result in reduced revenues and strategic flexibility as ITV consequently:
- pays away a greater share of net receipts from a specific programme than it would were it not a PSB;
 - has to abide by limits on the length of programming exclusivity that affects its ability to engage with audiences within and across windows and platforms; and
 - pays for further usage (for additional secondary usage beyond the primary broadcast window).¹⁵⁷
- A2.42 Mediatique said that other broadcasters have no obligation to share or cede rights with producers and can seek to secure rights across multiple windows.¹⁵⁸ As a result, Mediatique argues that i) PSBs are at a disadvantage when commissioning content and building VOD propositions as they are unable to secure rights to non-broadcast and non-catch-up windows without additional payment or value sharing and ii) there is a cost associated with this disadvantage.¹⁵⁹
- A2.43 Mediatique assumed that without the Terms of Trade, ITV could secure better terms with independent producers for content outside of the broadcast window and first 30 days of transmission.
- A2.44 Mediatique assumed that at the start of the next licence period, [X]% of programme value would be outside of the broadcast window and first 30 days of transmission, rising to [X]% by the end of the licence period, reflecting increasing use of 'always available' content via SVOD.¹⁶⁰ Mediatique then assumed ITV could secure a [X]% improvement in returns for content exploitation after the broadcast window and first 30 days of transmission.¹⁶¹ Mediatique estimated an annual opportunity cost by multiplying the assumed spend on external commissions from qualifying independent producers (c.£[X]¹⁶²) by the proportion of programme value outside of the broadcast window and first 30 days of transmission and the assumed returns uplift. On average, over the licence period, Mediatique estimated an average annual opportunity cost of £[X].

¹⁵⁷ Paragraph 3.35 of Mediatique's report for ITV.

¹⁵⁸ Paragraph 3.36 of Mediatique's report for ITV.

¹⁵⁹ Paragraph 3.36 of Mediatique's report for ITV.

¹⁶⁰ Paragraph 3.37 of Mediatique's report for ITV.

¹⁶¹ Paragraph 3.37 of Mediatique's report for ITV.

¹⁶² Mediatique assumes the 2019 spend on external commissions is maintained throughout the next licence period.

A2.45 Mediatique said that the opportunity cost associated with the Terms of Trade could be *“absent in ITV’s next licence period, in the event that better terms are likely to be negotiated or, failing that, improved by Ofcom.”*¹⁶³

Our assessment

A2.46 The obligation associated with ITV’s Channel 3 licences is to publish a Code of Practice, which we have approved by reference to our guidance. There is not a licence obligation to agree Terms of Trade with Pact or any other independent producer, though any negotiations should be consistent with published Codes of Practice.

A2.47 As explained below, we are not persuaded that the requirement to publish a Code of Practice imposes a significant cost. To the extent there are costs associated with the requirement, we consider there may reasonably be ways to address or mitigate these.

A2.48 Requiring ITV to publish a Code of Practice provides transparency to qualifying independent producers around the principles that ITV will apply when agreeing commissions.¹⁶⁴ While the current guidance and Codes of Practice require that certain outcomes (e.g. the acquisition of additional rights) are subject to separate negotiation and agreement, they do not prevent parties reaching agreement in respect of some or all rights. While a requirement to publish a Code of Practice could reduce the flexibility ITV has when negotiating commissions (as its starting point for negotiations is publicly available), it is not clear this would impose a significant cost as the Codes of Practice are relatively high level and do not preclude specific outcomes or deals being made. If there were significant costs associated with the Code of Practice requirements, we might expect ITV’s share of qualifying hours produced by qualifying independents to be closer to the 25% quota, but the share has been around 35%-40% for the last few years.¹⁶⁵

A2.49 We asked ITV for further explanation about which parts of the Code of Practice, or our guidance, imposed an opportunity cost. ITV said that our guidance means blanket “all rights” deals are not permitted and that: *“Even where the producer is prepared to sell those rights, the assumption under Ofcom’s guidance is that they have to be contracted for separately and the producer will expect a separately itemised fee for such rights beyond the increasingly narrow initial broadcast and catch-up window.”*¹⁶⁶ ITV contrasts this with other commissioners like Sky and Netflix who can find producers prepared to sell them all rights for *“an all-in rights fee or to make a much broader and/or longer rights grant for a single commissioning fee.”*, i.e. *“our competitors are therefore able, effectively and economically, to do things that, because of the terms of trade, we are not”*.¹⁶⁷ ITV also noted that, while

¹⁶³ Mediatique report for ITV, Page 8.

¹⁶⁴ The definition of an ‘independent producer’ is one who 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% (or in which two or more broadcasters have aggregate shareholdings greater than 50%).

¹⁶⁵ [PSB Annual compliance report 2021](#). This shows that the percentage of qualifying hours ITV commissioned from independent producers was 38% in 2015, 38.2% in 2016, 34.3% in 2017, 34.9% in 2018, 36.9% in 2019 and 40.3% in 2020. We recognise that ITV may need to ‘aim up’ to some extent to ensure the quota is hit.

¹⁶⁶ ITV response dated 11 April 2022 to question 7a of our information request dated 30 March 2022.

¹⁶⁷ ITV response dated 11 April 2022 to question 7a of our information request dated 30 March 2022.

Netflix can walk away from a commission if they cannot acquire all the rights they want, ITV has to contract with the independent sector to satisfy the Channel 3 indie quota.

- A2.50 While our guidance sets out some conditions that public service broadcasters should not seek as part of its negotiations (such as not seeking all rights as a matter of course) it also says that broadcasters should be able to secure more rights subject to commercial negotiation. Over time, the agreements ITV (and other public service broadcasters) have reached with independent producers have changed, which indicates that the guidance and Codes of Practice can encompass a range of outcomes.¹⁶⁸ Mediatique also noted that there could be scope for ITV to negotiate better terms. If ITV could achieve more favourable terms through negotiation, this suggests the obligation to publish a Code of Practice may not impose a significant cost.
- A2.51 If ITV considers its Code of Practice does stop it agreeing particular deals, it can propose changes to its Code of Practice for our approval.¹⁶⁹ On this basis, even if there are material costs associated with the Code of Practice, these could be addressed or mitigated by licensees proposing suitable changes to their Codes of Practice.
- A2.52 When we asked ITV what prevents it proposing changes to its Code of Practice to address the parts that, in its view, impose an opportunity cost, it said [redacted].¹⁷⁰
- A2.53 We do not agree [redacted]. We would consult on any proposed change to ITV's Code of Practice and take account of all stakeholder responses in reaching our decision. Our decision about whether to approve any changes would be assessed on the merits of specific proposals, taking account of evidence of their potential impact, and in accordance with our statutory duties.
- A2.54 If we did approve changes to ITV's Code of Practice, ITV would then need to negotiate terms of trade with independent producers based on its revised Code of Practice. ITV's ability to profitably secure additional rights will depend on the outcome of those commercial negotiations.
- A2.55 Finally, to the extent an opportunity cost exists in relation to the requirement to publish a Code of Practice, there is limited evidence to determine its significance. Even if non-public service broadcasters (i.e. those not required to publish Codes of Practice) have been able to secure longer-term rights than ITV, it is challenging to identify what payments they have made to independent producers to establish whether overall they have actually secured a 'better deal'. Similarly, even if ITV were able to secure longer terms rights without the Code of Practice, that would only improve its financial position if the additional revenues from those rights outweighed the additional cost of purchasing them – and ultimately this would depend on the outcome of negotiations.¹⁷¹

¹⁶⁸ ITV's most recent agreement is on its website here: [ITV & Pact memorandum of understanding 2018](#).

¹⁶⁹ In paragraph 7.16 of SS:BD, we said that "PSM providers can seek approval from Ofcom to make changes to their Codes. Ofcom will approve suitable changes and update our guidance if necessary".

¹⁷⁰ ITV response dated 11 April 2022 to question 7a of our information request dated 30 March 2022.

¹⁷¹ Similarly, even if the requirement to publish a Code of Practice restricts the rights ITV can buy, if the cost it pays for those rights reflects those restrictions, the obligation is not necessarily 'costly'.

- A2.56 Overall, we consider that if there is a cost associated with the requirement to publish a Code of Practice, it is likely to be small, and/or could be largely addressed by licensees proposing changes to their Codes of Practice for our approval.
- A2.57 Mediatique assumes that any cost associated with this obligation could be addressed in the next licence period by ITV negotiating better terms or Ofcom improving the terms. We agree that mechanisms exist to address any cost (e.g. by negotiation or by licensees proposing changes to Codes of Practice). Therefore, while we have not concluded on the precise scale of any cost associated with the requirement to publish a Code of Practice, we consider there are ways to mitigate its impact such that, in the next licence period, it will not have a significant impact on the overall sustainability assessment. We have therefore excluded the opportunity cost estimated by Mediatique from our analysis.

Current affairs

- A2.58 Under the terms of its Channel 3 licences, ITV is required to broadcast at least 43 hours of current affairs programming per year.
- A2.59 Mediatique assumes that without the obligation, ITV would replace a proportion of its current affairs content with a lower-cost alternative. It therefore estimates the opportunity cost by considering i) the annual cost of ITV's existing current affairs content (£[X]) in 2019, ii) the annual cost of replacing this content (£[X] - held constant throughout the period) and iii) the proportion of current affairs content that would be replaced ([X]%).¹⁷² Based on this, Mediatique estimates an annual opportunity cost of £[X].
- A2.60 In general, if in the counterfactual, ITV would choose to broadcast more current affairs hours than is required under the quota, we would not consider that the quota imposes an opportunity cost.¹⁷³ ITV currently broadcasts significantly more current affairs content than it is required to under the quota.¹⁷⁴ Mediatique's analysis suggests that, in the counterfactual, ITV would continue to broadcast significantly more current affairs hours than required under the quota. Therefore, based on the evidence provided, we do not agree that the current affairs obligation imposes an opportunity cost on ITV as Mediatique's analysis suggests it would continue to exceed the quota in the absence of the obligation.

Value of licence benefits

- A2.61 The table below summarises our assessment of Mediatique's estimates of the value of ITV's licence benefits.

¹⁷² Mediatique said that this assumption was consistent with a 2017 report for ITV by EY. In that report EY say the proportion of content that would be replaced was based on a bottom-up analysis of the programming schedule.

¹⁷³ We recognise that ITV may need to 'aim up' to some degree to ensure it meets the quota (e.g. because production of some programmes could be delayed).

¹⁷⁴ Our [PSB annual compliance report 2021](#) showed that, in the period 2017-2020, ITV broadcast between 130-150 hours of current affairs content each year, compared to the quota of 43 hours.

Table 2.2: Summary of our assessment of the value of ITV's licence benefits

Benefit	% of total benefit	Average annual value (Mediatique) £m	Average annual value (Ofcom) £m	Summary of our assessment
EPG prominence	75%	[X]	[X]	We agree that Mediatique's estimates are within a reasonable range, though value could be higher or lower depending on assumptions.
DTT Multiplex 2	23%	[X]	[X]	We agree with the methodology but have amended one part of the calculation which doubles the value of the benefit.
HD DTT capacity	2%	[X]	[X]	This is a reasonable estimate of the value of this benefit.
Total	100%	[X]	[X]	

Note: Percentages are derived from the average annual benefit over the next licence period. The EPG prominence percentage is based on Mediatique's central valuation.

A2.62 Below we explain our comments on EPG prominence and DTT multiplex 2. As the benefit associated with HD DTT capacity is small and we consider Mediatique's approach and estimate is reasonable for the purposes of this report, we do not discuss this further.

EPG prominence

A2.63 Under our Code of Practice on Electronic Programme Guides, EPG providers must ensure that Channel 3 is in the third EPG slot. A channel with high EPG prominence is likely to attract higher audiences and advertising revenues than a channel with low EPG prominence.

A2.64 Mediatique said that valuing the benefit of EPG prominence has been historically complex and challenging. To reflect this, it estimated low, central, and high valuations.

A2.65 Mediatique estimated its 'high' EPG valuation of £[X] in 2019 by assuming the following:

- Without the benefit of EPG prominence, ITV's main channel would move to the next available ITV owned slot on the EPG (e.g. it would move to ITV2's position on Freeview, which is a fall of three slots). Mediatique also factored in the impact on other ITV channels if the Channel 3 service occupied on of their slots.

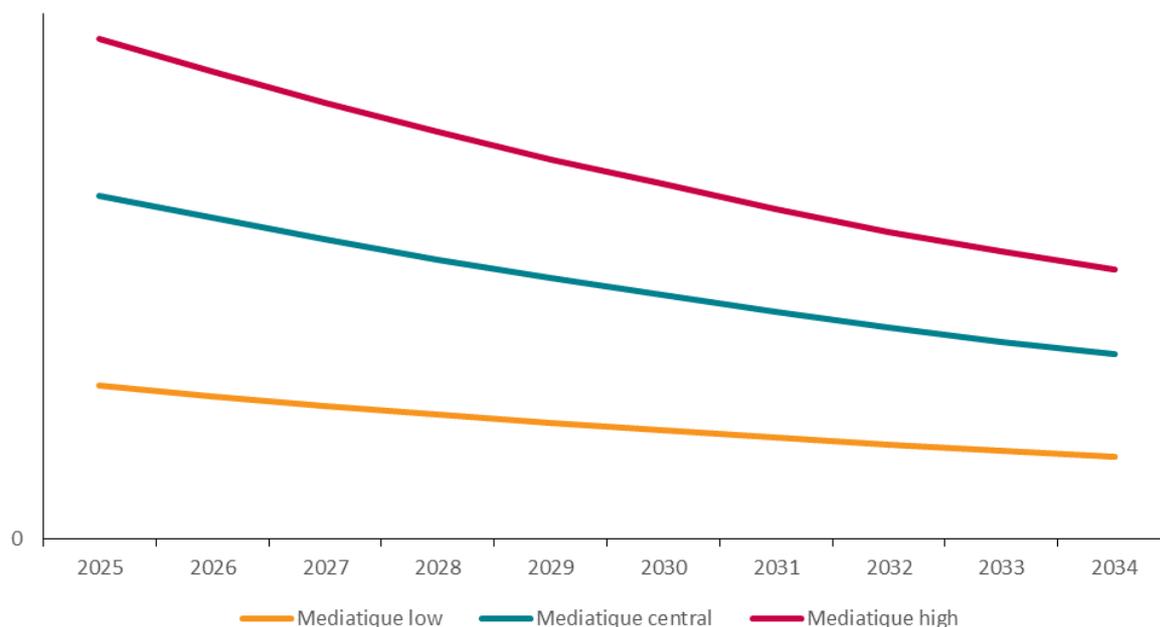
- The viewing impact of moving a slot on the EPG would be 1%. Mediatique converted this to a change in commercial impacts based on 2019 data.
- Its high EPG valuation was based on multiplying the percentage change in commercial impacts by advertising revenues on ITV’s Channel 3 and other digital services.

A2.66 To derive its central EPG valuation of £[redacted] in 2019, Mediatique assumed that a proportion of ITV viewing would be protected from a move down the EPG, i.e. there would be some ‘premium content’ that viewers would find even without prominence rules.¹⁷⁵ Working with ITV, Mediatique determined that, in 2019, [redacted]% of viewing on ITV’s Channel 3 service would be unaffected by an EPG move, representing [redacted]% of commercial impacts. It further added a [redacted]% ‘premium airtime’ value to these commercial impacts on the basis that ITV’s ‘premium content’ has a more desirable target audience, which is traded at a premium to the average. This has the effect that the revenue adjustment to derive the central EPG valuation is greater than the content’s absolute share of viewing. This revenue adjustment was applied to the high EPG valuation to estimate the central EPG valuation.

A2.67 Mediatique’s low EPG valuation of £[redacted] in 2019 was informed by our upper-case estimate of £40m in the 2012 s229 report¹⁷⁶, adjusted for changes in NAR since then.

A2.68 For all three EPG valuations, Mediatique assumed value of EPG prominence would fall in line with broadcast revenue forecasts and its forecast reduction in live viewing. As a result, Mediatique forecast that value of EPG prominence could [redacted].

Figure 2.3: Mediatique’s estimate of the value of ITV’s EPG prominence 2025-2034, £m



Note: data labels and Y-axis labels have been omitted in the non-confidential version of this report.

¹⁷⁵ For example, first run entertainment shows, soaps, first-run drama and live sport.

¹⁷⁶ Paragraph 6.67, 2012 s229 report.

- A2.69 We agree that the value of EPG prominence will likely decline over the next licence period as viewers move away from linear viewing to other forms of viewing like SVOD. We also recognise that estimating a precise value for this benefit is difficult as it depends on several assumptions. This difficulty is especially acute in relation to channels on the first page of the EPG (like Channels 3 and 5).¹⁷⁷
- A2.70 In recent work on valuing EPG movements, we considered the revenue impact of EPG moves by reference to i) the number of slots moved ii) the viewing impact per slot move and iii) a pricing offset for a given change in viewing.¹⁷⁸ This was broadly the approach Mediatique took to estimating the value of EPG prominence to ITV, though Mediatique also included the potential impact on other ITV services and assumed that some ITV content would be unaffected by an EPG move.
- A2.71 In relation to this last point, we recognise that much of the evidence used to assess the audience impact of EPG moves necessarily relates to channels which have much smaller audiences than ITV. While the evidence indicates that a move down the EPG reduces viewing, it is not clear to what extent these conclusions could be extrapolated to ITV's most popular content.¹⁷⁹
- A2.72 To assess whether Mediatique's EPG value range is reasonable we have estimated the benefit of EPG prominence using an approach consistent with our recent work and using the following assumptions:
- ITV's Channel 3 service would move down to the next ITV-owned channel on different EPGs (e.g. DTT, Cable and Satellite).¹⁸⁰ Given ITV's 2020 viewing shares on different platforms, we estimated this equates to a weighted average reduction in slots of 7.9.
 - The viewing impact per channel move would range from 1% to 1.5%.¹⁸¹ We have assumed the change in commercial impacts would be the same as the change in viewing.
 - The impact on the price of advertising could be proportionately less than the impact on viewing. We have assumed the pricing impact would range from 33% to 67% of the viewing impact.¹⁸² Applying the pricing effect to the viewing effect gives a revenue impact of the EPG move.

¹⁷⁷ For example, in our 2019 [Review of prominence for public service broadcasting](#), we noted the difficulty in valuing slots on page one of the EPG (see Annex 4 of that statement, page 9).

¹⁷⁸ Most recently in our November 2021 [BBC Three television channel competition assessment](#) and [Review of rules for prominence of BBC Three](#).

¹⁷⁹ Page 61 of the [2013 FEH Media Insight report](#) also recognised that extending the empirical evidence on the viewing impact of EPG moves to all of ITV's content was not necessarily implausible, but it is less grounded in the evidence and therefore more speculative.

¹⁸⁰ On Freeview we assume it would move down 3 places to ITV2's slot, on Virgin we assume it would move down 8 places to ITV+1's slot and on Sky we assume it would move down 15 places to ITV2 HD's slot.

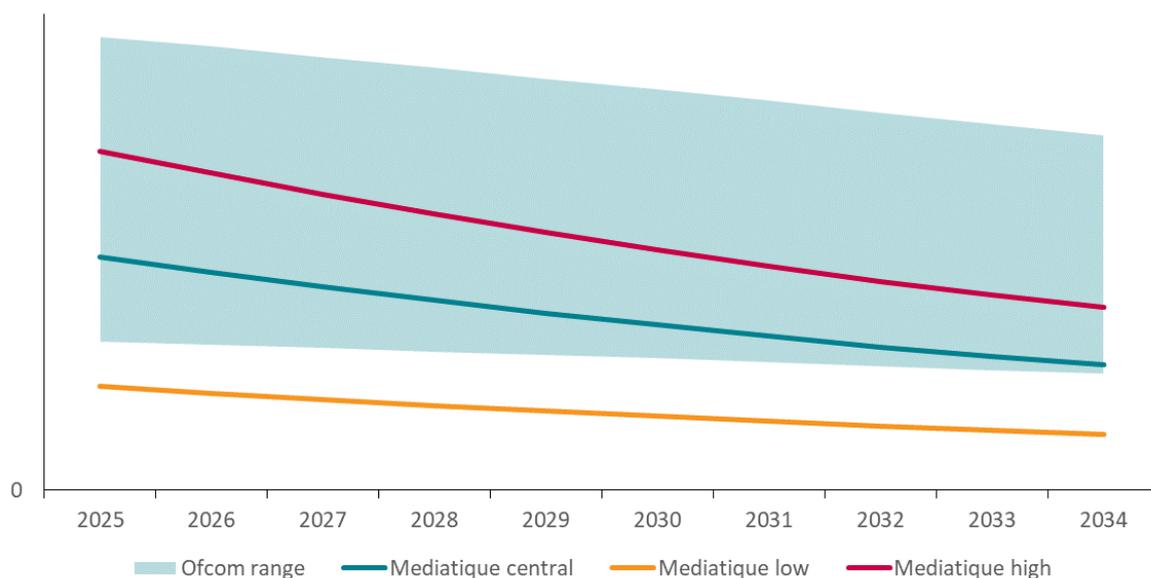
¹⁸¹ In our recent work we assumed a viewing impact of 1.5% per EPG slot move. See paragraph A1.64 of the annex to our November 2021 [BBC Three television channel competition assessment](#). We have extended the range to 1% to reflect the possibility that ITV content could be less affected by an EPG move compared to less popular content.

¹⁸² This is consistent with the assumptions used in our competition assessment of BBC Three (paragraphs A1.106 to A1.111 of the annex to our November 2021 [BBC Three television channel competition assessment](#)). We said that, following a reduction in viewing, it is likely that total advertising spend will fall, but by proportionately less than the fall in viewing, as the volume decrease will be partially offset by an increase in price, reflecting increased scarcity. While it was difficult to

- The resulting revenue impact is applied to Mediatique’s forecasts of ITV’s linear advertising revenue to estimate the benefit of EPG prominence.
- As our estimate only applies to the main ITV channel, we have uplifted our estimate to capture the impact on other ITV channels that may need to move EPG slots, applying the same ratio implied by Mediatique’s analysis (around [X]%)

A2.73 The resulting EPG valuation ranges are shown below alongside Mediatique’s low, central, and high estimates. The EPG valuation range is wide, reflecting the difficulty in deriving precise estimates for this benefit. The chart illustrates that Mediatique’s central and high estimates sit within our range, but that the EPG value could plausibly be higher or lower than these estimates. Although Mediatique’s low EPG value is below the bottom of our range, we do not completely rule it out, as our range is sensitive to assumptions, and alternative assumptions could support a lower estimate.¹⁸³

Figure 2.4: Mediatique’s EPG value estimates for ITV compared to our estimated range 2025-2034, £m



Note: Y-axis labels have been omitted in the non-confidential version of this report.

A2.74 Assuming viewing to ITV’s most popular content would be affected by a move down the EPG might point towards generally higher valuations, while assuming viewing to its popular content would be somewhat isolated from any impact would point towards generally lower valuations. As it is difficult to know how ITV’s most popular content would be affected, we place weight on estimates towards the lower end of the range. When combined with uncertainty about the price impact of any change in viewing and the general future trend in linear audiences and advertising revenue, we consider Mediatique’s

model the precise relationship between viewing and advertising revenue, we considered it was appropriate to model a plausible range and assumed the percentage change in revenue would be one-third to two-thirds of the percentage change in viewing. We noted this was also consistent with our approach in our [2015 market impact assessment](#) and [2018 BBC Scotland competition assessment](#).

¹⁸³ For example, adopting a lower viewing impact per EPG slot move would reduce the bottom end of our range.

central estimate of EPG value is reasonable, taking account of the uncertainty in estimating a value for EPG prominence.

Right to operate DTT Multiplex 2

A2.75 Channel 3 licence holders have the right to reserved capacity on PSB Multiplex 2¹⁸⁴ the licence for which they jointly own alongside Channel 4.¹⁸⁵ This means that Channel 3 licence holders only need to pay their share of the multiplex costs to secure carriage rather than the market rate they would be charged on a commercial multiplex.

A2.76 An additional benefit associated with PSB Multiplex 2 is the higher coverage it provides. Multiplex 2 covers around 98.5% of the UK population, compared to 90% coverage for commercial multiplexes. This means that Channel 3 licence holders can generate viewing and advertising revenue from a larger coverage area than would be the case without the benefit.

A2.77 The Channel 3 licence holders must reserve capacity on Multiplex 2 for the Channel 5 service, for which they receive a carriage fee.

A2.78 Mediatique estimated the value of this benefit as:

- The additional revenue from broadcasting on a multiplex with higher coverage *plus*
- Carriage fees avoided on commercial multiplexes *plus*
- Payment received from Channel 5 for carriage on Multiplex 2 *plus*
- Avoided capex cost of regionalising Multiplex A (owned by ITV via its subsidiary SDN) *less*
- Share of Multiplex 2 running costs.

A2.79 Mediatique estimated that the value of this benefit in 2025 will be £[X] per year, falling to £[X] by 2034. The main reasons for the decline in the value of the benefit over the next licence period are the reduced advertising associated with higher coverage on Multiplex 2 (as viewing moves away from linear television) and inflation-linked increases in the running costs of Multiplex 2. [X].

A2.80 We broadly agree with Mediatique's methodology for estimating the value of this benefit. However, we have increased Mediatique's estimate of the additional revenue from broadcasting on a PSB multiplex with higher coverage, to be consistent with the narrative in its report. To estimate the additional revenue from higher coverage, Mediatique's original model multiplied the advertising revenue associated with the additional DTT coverage (which it got from ITV) by 75%. The multiplication by 75% was to reflect a view that the revenue impact of broadcasting to fewer people would be less than the difference in coverage would suggest because i) households in PSB multiplex areas (and not commercial multiplex areas) are in less populated parts of the country and less sought

¹⁸⁴ [The Television Multiplex Services \(Reservation of Digital Capacity\) Order 2008](#) says that Channel 3 licences have 48.5% of the capacity on Multiplex 2, less sufficient capacity required by the Channel 5 service.

¹⁸⁵ The current licence, which is held by Digital 3&4 Ltd, a consortium owned by ITV, STV and Channel 4 Television Corporation, has been renewed with effect from 19 December 2022 until 31 December 2034, pursuant to [The Television Multiplex Services \(Renewal of Multiplex Licences\) Order 2021](#).

after by advertisers and ii) some of those households could migrate to other platforms (or means of accessing ITV content) were they to lose access to ITV via DTT.¹⁸⁶

- A2.81 Mediatique said that, while some households in PSB multiplex areas and not commercial areas will be less attractive to advertisers (thus reducing the potential revenue loss to ITV), they are also likely to be heavy consumers of TV and less likely to have access to complementary SVOD services. Mediatique said they will also contribute to the ability of certain ITV content to achieve national mass-market distribution, underpinning ITV's broad premium pricing (and hence increasing the potential loss to ITV if they reduce or stop watching ITV).¹⁸⁷
- A2.82 Mediatique added that, if it is accepted that a number of viewers may switch in pursuit of ITV content, they may be less likely to do so in the period after 2025 by means other than IP. The areas where incremental DTT coverage on PSB multiplexes is available are those where high-speed broadband is less penetrated. Accordingly, the decision to seek out other methods of receiving ITV in such circumstances may be more demanding than it was in the past.¹⁸⁸
- A2.83 Mediatique said for these reasons, it had retained 75% of the PSB-commercial coverage difference in its calculation of the revenue impact of higher coverage, rather than 50% used in the past.¹⁸⁹ Mediatique noted that ITV regarded this as an aggressive assumption.
- A2.84 The rationale provided above for a 75% figure appears reasonable, though we recognise that there is a large element of judgement in assessing the revenue impact of higher coverage. However, on investigating the figures provided by ITV, we found that the adjustment for the revenue impact of higher coverage had been double counted – ITV had included a figure of 50% in the information provided to Mediatique, and Mediatique had subsequently applied a 75% figure as well. Mediatique corrected this in its revised model, but it retained the 50% adjustment rather than the 75% it had argued for in its report.¹⁹⁰
- A2.85 We have adjusted Mediatique's calculations to reflect its arguments for a 75% adjustment, as set out in its report. This almost doubles the value of the DTT benefit over the licence period.
- A2.86 Mediatique's other assumptions appear reasonable and supported by evidence where available.¹⁹¹
- A2.87 There is a range of wider market changes that may impact the value associated with the DTT platform over the next licence period. We recently renewed the Multiplex 2 licence until 2034. We can, after consultation and with the agreement of the Secretary of State, revoke multiplex licences for spectrum management reasons, though we must give a

¹⁸⁶ Mediatique report for ITV, paragraph 4.7.

¹⁸⁷ Mediatique report for ITV, paragraph 4.7.

¹⁸⁸ Mediatique report for ITV, paragraph 4.7.

¹⁸⁹ Mediatique said it has seen emails between EY and ITV from 2009 where a figure of 50% was discussed.

¹⁹⁰ ITV response dated 26 April 2022 to our follow up question to question 14 of our information request dated 30 March 2022.

¹⁹¹ For example, ITV provided evidence of recent commercial multiplex carriage fees in its response dated 11 April 2022 to question 12 of our information request dated 30 March 2022.

notice period of 5 years and revocation cannot take effect earlier than 31 December 2030.¹⁹² ITV said that revoking the Multiplex 2 licence ahead of expiry of the new licence in 2034 would significantly reduce the value of licence benefits associated with DTT.¹⁹³ We recognise any revocation could affect the value of this right in the later years of the next licence period, depending on how we decided to exercise our spectrum management functions.

Review of submission from STV

- A2.88 Mediatique’s analysis for STV was informed by its work for ITV, summarised above, and in places it apportions ITV’s outputs to STV using a ratio of Scottish/UK households. As with its analysis for ITV, Mediatique used 2019 as a base year and forecasts of costs and benefits were informed by STV’s business plan.
- A2.89 As Mediatique’s advertising revenue forecasts for STV were informed by its ITV model, we have ensured consistency in growth rates to account for the assumed impact of the ban on HFSS products. Although, as previously noted, these new HFSS restrictions have been postponed to 2024.
- A2.90 Mediatique provided estimates of the costs and benefits associated with STV’s Channel 3 licences under the current framework and considered the potential impact of future Government reforms to the availability and prominence regime. In this annex we focus solely on the costs and benefits under the current framework.

Opportunity cost of obligations

- A2.91 The table below summarises our assessment of Mediatique’s estimates of the direct and opportunity costs associated with STV’s PSB obligations.

Table 2.5: Summary of our assessment of the opportunity cost of STV’s PSB obligations

Obligation	% of total opportunity cost	Average annual opportunity cost (Mediatique), £m	Average annual opportunity cost (Ofcom), £m	Summary of our assessment
Regional news	82%	[X]	[X]	This is a reasonable estimate of the opportunity cost.
Regional Current affairs	3%	[X]	-	Based on the evidence provided, we do not consider this represents an opportunity cost.

¹⁹² As set out in the Television Services (Renewal of Multiplex Licences) Order 2021.

¹⁹³ ITV response to our open letter, page 5.

Obligation	% of total opportunity cost	Average annual opportunity cost (Mediatique), £m	Average annual opportunity cost (Ofcom), £m	Summary of our assessment
Regional non - news	2%	[£<]	[£<]	This is a reasonable estimate of the opportunity cost.
Commissioning from independent producers	7%	[£<]	-	We have removed this cost. Though an opportunity cost may exist, but we consider it would be lower than Mediatique's estimate and there are ways to address any cost.
Direct costs	6%	[£<]	[£<]	This is a reasonable estimate of the opportunity cost.
Subtitling	<1%	[£<]	[£<]	This is a reasonable estimate of the opportunity cost.
Total	100%	[£<]	[£<]	

Figures derived from annual averages over the next licence period. Totals may not sum due to rounding.

A2.92 Below, we explain why we have removed costs associated with regional current affairs from our assessment. Our rationale for removing the cost of commissioning from independent producers is the same as set out above for ITV.

A2.93 For all other costs, we think that Mediatique's approach and estimate of the opportunity cost is reasonable and do not discuss these further. We note that Mediatique's approach to estimating the opportunity cost of regional news, the largest opportunity cost, is consistent with its approach to estimating this cost to ITV, as discussed above and therefore we do not discuss it further here.

Regional current affairs

A2.94 Under the terms of its Channel 3 licences, STV, is required to broadcast at least 33 minutes per week of regional current affairs programming.

A2.95 Mediatique assumed that, without the obligation, STV would replace a proportion of its regional current affairs content with a lower-cost alternative. It estimates the opportunity cost by considering i) the annual cost of STV's existing current regional affairs content (£[£<] in 2019), ii) the annual cost of replacing this content (£[£<] – this is pro-rated from the £[£<] replacement cost of ITV's network current affairs content), and iii) the proportion of regional current affairs content that would be replaced ([£<]% – the same

assumption as used for ITV’s network current affairs). Based on this, Mediatique estimates an average annual opportunity cost of £[redacted] over the next licence period.

A2.96 As with our assessment of the current affairs cost for ITV, if in the counterfactual STV would choose to broadcast more current affairs hours than is required under the quota, we would not consider that the quota imposes an opportunity cost.

A2.97 STV currently broadcasts significantly more regional current affairs content than it is required to under the quota.¹⁹⁴ Mediatique’s analysis suggests that, in the counterfactual, STV would continue to broadcast significantly more current affairs hours than required under the quota. Therefore, based on the evidence provided, we do not agree that the current regional affairs obligation imposes an opportunity cost on STV as Mediatique’s analysis suggests it would continue to exceed the quota in the absence of the obligation.

Value of benefits

A2.98 The table below summarises our assessment of Mediatique’s estimates of the value of STV’s licence benefits.

Table 2.6: Summary of our assessment of the value of STV’s licence benefits

Benefit	% of total benefit	Average annual value (Mediatique) £m	Average annual value (Ofcom) £m	Summary of our assessment
EPG prominence	71%	[redacted]	[redacted]	We agree that Mediatique’s estimates are within a reasonable range, though value could be higher or lower depending on assumptions.
DTT Multiplex 2	26%	[redacted]	[redacted]	We have increased the value of the benefit consistent with our adjustment to ITV above.
HD DTT capacity	3%	[redacted]	[redacted]	This is a reasonable estimate of the value of this benefit.
Total	100%	[redacted]	[redacted]	

Note: Percentages are derived from the average annual benefit over the next licence period. The EPG prominence percentage is based on Mediatique’s central valuation. Figures may not sum due to rounding.

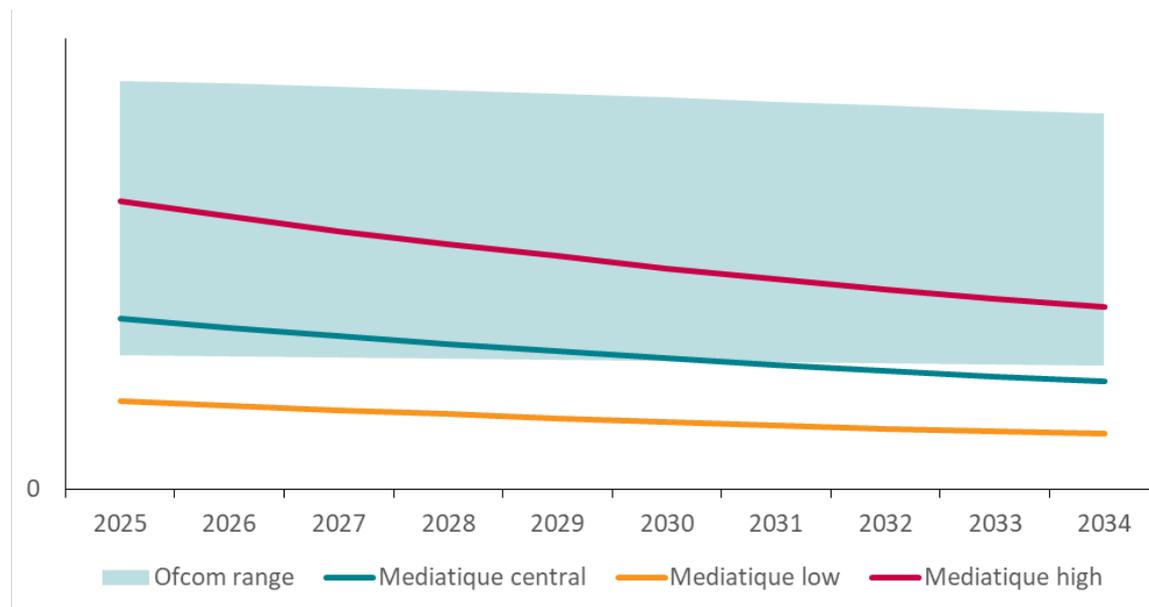
A2.99 As Mediatique’s approach to estimating the value of these benefits was consistent with its approach for ITV, our comments in relation to ITV apply to STV as well. Below, we briefly comment on Mediatique’s EPG valuation for STV and the adjustment we made to the value associated with DTT Multiplex 2.

EPG prominence

¹⁹⁴ Based on annual returns data provided by STV.

- A2.100 Mediatique estimated a high, central and low EPG valuation for STV in 2019 on a basis consistent with its approach to ITV, described above.¹⁹⁵
- A2.101 Following the approach described in the ITV section, we compared Mediatique’s EPG valuations with our own estimates using an approach consistent with recent work. The resulting EPG valuation ranges are illustrated below alongside Mediatique’s low, central and high estimates for STV.
- A2.102 The chart illustrates that Mediatique’s central and high estimates generally sit within our range (though the central estimate falls below our range towards the end of the period), but that the EPG value could plausibly be higher or lower than these estimates. Although Mediatique’s low EPG value is below the bottom of our range, we do not completely rule it out, as our range is sensitive to assumptions, and alternative assumptions could support a lower estimate.
- A2.103 As we noted above for ITV, as it is difficult to know how the most popular Channel 3 content would be affected, we place weight on estimates towards the lower end of the range. When combined with uncertainty about the price impact of any change in viewing and the general future trend in linear audiences and advertising revenue, we consider Mediatique’s central estimate of EPG value is reasonable, taking account of the uncertainty in estimating a value for EPG prominence.

Figure 2.7: Mediatique’s EPG value estimates for STV compared to our estimated range 2025-2034, £m



Note: Y-axis labels have been omitted in the non-confidential version of this report.

¹⁹⁵ Mediatique’s high estimate of £[redacted] in 2019 assumed STV’s service would move to ITV 2’s slot (e.g. a move of three slots on Freeview). Other assumptions were the same as for ITV. Mediatique’s central estimate of £[redacted] in 2019 assumed that some viewing would be protected from a move down the EPG (it assumed the same proportion as ITV). Mediatique’s low estimate of £[redacted] in 2019 was derived by pro-rating the low valuation for ITV. For each of the three EPG valuations, Mediatique assumed the value of EPG prominence would fall over the next licence period in line with broadcast revenue forecasts and its forecast reduction in live viewing, consistent with its approach to ITV.

DTT Multiplex 2

- A2.104 As part of the Channel 3 network, STV has the right to reserved capacity on PSB Multiplex 2 as well as joint ownership of the multiplex alongside Channel 4.
- A2.105 Mediatique's approach to estimating the value of this benefit to STV was consistent with its approach to ITV, though each element of the calculation was apportioned to STV on a relevant basis.¹⁹⁶
- A2.106 We explained above that we increased Mediatique's estimate of the revenue associated with greater coverage for ITV. As this forms an input to the STV calculation, our adjustment also increases the value of the benefit to STV.

Review of submission from Channel 5

- A2.107 Channel 5's submission modelled how the value of benefits and cost of obligations were likely to evolve over the next licence period.
- A2.108 Channel 5 said that in 2020 it asked Mediatique to assess the contribution of Channel 5 to PSB outcomes, which included an assessment of the costs and benefits associated with the Channel 5 licence.¹⁹⁷ Channel 5 said its submission updated the analysis undertaken by Mediatique in 2020, using internal forecasts of advertising revenues and content costs.
- A2.109 Given the uncertainty of forecasting to 2034, Channel 5 assessed an optimistic and pessimistic scenario. The main difference between the scenarios related to forecast linear and video on demand (VOD) advertising revenue. For the period to 2025 Channel 5 used revenue forecasts from its long-term business plan, and beyond 2025 it forecast revenues based on discussions with its sales team.¹⁹⁸ Channel 5 forecast that linear revenues would continue to decline while some of this decline would be captured by increased VOD revenues.
- A2.110 The path of linear and VOD revenues over the next licence period is uncertain, especially as the new licence period will not begin until the end of 2024. We consider that basing forecasts on pre-existing business plans where possible and extrapolating these based on internal expertise is a reasonable approach.
- A2.111 Channel 5 provided estimates of the costs and benefits associated with its licence under the current framework. We consider these in the next sections.

Opportunity cost of PSB obligations

- A2.112 The table below summarises our assessment of Channel 5's estimates of the direct and opportunity costs associated with its PSB obligations.

¹⁹⁶ For example, the additional revenue from broadcasting on a multiplex with higher coverage was apportioned based on households in STV licence areas and the share of Multiplex 2 running costs was based on STV's actual contributions.

¹⁹⁷ The contribution of Channel 5 to PSB outcomes, A report for ViacomCBS, Mediatique, 29 June 2020 ("2020 Mediatique report").

¹⁹⁸ Channel 5 response dated 31 March 2022 to question 1 of our RFI dated 16 March 2022.

Table 2.8: Summary of our assessment of the opportunity cost of Channel 5's PSB obligations

Obligation	% of total opportunity costs	Average annual opportunity cost (C5), £m	Average annual opportunity cost (Ofcom), £m	Summary of our assessment
Content obligations	75%	[<]	[<]	Although the methodology is reasonable, we think the estimate could be around 20% lower based on the data provided by Channel 5.
Advertising minutage rules	17%	[<]	[<]	We recognise there could be an opportunity cost and think this is a reasonable estimate for the purposes of our assessment.
Direct costs	8%	[<]	[<]	This is a reasonable estimate of the opportunity cost.
Total opportunity costs	100%	[<]	[<]	

Note: percentages and £m figures derived from Channel 5's optimistic scenario. The percentages are similar in Channel 5's pessimistic scenario. Figures may not sum due to rounding.

A2.113 Below, we explain our adjustment to Channel 5's estimate of the cost associated with its content obligations. Although we have not adjusted Channel 5's opportunity cost estimate associated with the advertising minutage rules, we comment on this as it represents a relatively large opportunity cost. We think Channel 5's estimate of the direct costs associated with its licence (including contributions to the National Television Archive and regulatory oversight costs) is broadly reasonable and do not discuss this further below.¹⁹⁹

Content obligations

A2.114 Channel 5 said the opportunity cost of content obligations represents the additional cost of commissioning and scheduling PSB-oriented content rather than commercial content which would generate a more attractive commercial return.

A2.115 Channel 5's analysis indicated that, if it did not hold its licence, it would stop broadcasting news and reduce the amount of children's content.²⁰⁰ Channel 5 said it would largely replace this with more profitable factual programming, though it would also slightly increase the proportion of acquired and drama content. Channel 5 estimated this change

¹⁹⁹ While we disagree with some of the direct costs Channel 5 included, there could be other direct costs Channel 5 incurs from having its licence which it did not include (such as higher Ofcom fees). Overall, we think Channel 5's direct cost estimate was reasonable.

²⁰⁰ Channel 5 must broadcast 280 hours of news each year (20 of which must be in peak time). It has also committed to broadcast 600 hours each year of children's content and 50 hours of UK original children's content.

in genre mix would result in an uplift to revenue of [X]% and an uplift to profit of [X]%. It estimated the opportunity cost by applying the [X]% figure to revenue.²⁰¹

A2.116 Channel 5's calculations were based on assuming that, if it did not have content obligations, the genre mix would change but the revenue and cost per hour of each genre would stay the same. However, Channel 5 said that if it did not have content obligations it would expect to share more content across other Paramount-owned services and its content costs could therefore be lower (and the profit uplift higher).²⁰²

A2.117 We consider that estimating the uplift in profit of a different genre mix is a reasonable approach to take, but, as Channel 5 estimates the opportunity cost by reference to revenue, the uplift in profit should be converted to a revenue impact when estimating the opportunity cost. Based on the data provided by Channel 5, we consider it would be more appropriate to apply a lower figure of [X]% to revenue when estimating the opportunity cost.²⁰³ However, we recognise there might be some uncertainty about the cost base in the counterfactual so, to reflect Channel 5's suggestion that it may have opportunities to lower its cost base by sharing content with other services if it did not have content obligations, we have applied a figure of [X]% to revenue to estimate the opportunity costs as this sits at the midpoint of the [X]% and [X]% figures described above. This reduces the opportunity cost estimated by Channel 5 by around 20% per annum.

Advertising minutage rules

A2.118 Channel 5 included an opportunity cost associated with complying with the minutage rules in our Code on the Scheduling of Television Advertising (COSTA). The minutage rules in COSTA set limits on the amount of advertising for PSB channels (including Channel 3 and Channel 5) and all other commercial broadcasters. The effect of the minutage rules is to reduce the maximum number of advertising impacts that are available for sale on Channel 3 and Channel 5 services compared to a non-PSB alternative.²⁰⁴

A2.119 If it was not subject to the PSB minutage rules, Channel 5 could broadcast more adverts across the day. Channel 5 assumes that, if that were the case, it could increase linear advertising revenues by [X]%. As linear advertising revenues are expected to reduce over time, so does Channel 5's forecast of this opportunity cost over the next licence period.

A2.120 Channel 5 did not explain in detail how it derived the [X]% figure, though it said it had used an internal model to estimate the additional commercial impacts it could generate if it was able to schedule more advertising minutes.²⁰⁵ Channel 5's estimate is similar to that set out in the 2020 Mediatique report, which considered in an "optimistic case" Channel 5

²⁰¹ Channel 5 response dated 31 March 2022 to our information request dated 16 March 2022. This was a revision to its original submission where it estimated the opportunity cost by applying the [X]% figure to revenue.

²⁰² Channel 5 response dated 31 March 2022 to our information request dated 16 March 2022

²⁰³ While the uplift to profit of a different genre mix would be [X]%, this uplift in profit equates to a [X]% uplift in revenue.

²⁰⁴ For example, the COSTA rules restrict the maximum average number of minutes of advertising per hour to 7 minutes on commercial PSB channels and 9 minutes on other commercial channels.

²⁰⁵ Channel 5 response dated 31 March 2022.

could increase revenues by [X]% if it could increase its advertising minutes.²⁰⁶ In that report, Mediatique noted that this outcome (i.e. what would happen to revenue if commercial PSB broadcasters showed more advertising) was subject to much debate.

A2.121 We agree that if Channel 5 was not subject to the minutage restrictions, then it might be able to increase the number of advertising minutes on its service and consequently its commercial impacts. If the price per commercial impact reduced by a less than proportionate amount, Channel 5’s revenue would increase, implying the minutage rules impose an opportunity cost. There is however much uncertainty about how the price per impact would be affected if the number of commercial impacts increased, and the effect could vary between Channel 3 and Channel 5 services.²⁰⁷ Even if the revenue impact of COSTA is hard to measure, we recognise that the rules could impose some costs on commercial PSB broadcasters via reduced flexibility when scheduling adverts and responding to changes in demand.

A2.122 For the purposes of this analysis, we consider Channel 5’s estimate is a reasonable assessment of the potential opportunity cost, but we note it is sensitive to assumptions about the relationship between the price and supply of commercial impacts.

Value of licence benefits

A2.123 The table below summarises our assessment of Channel 5’s estimates of the value of its licence benefits.

Table 2.9: Summary of our assessment of the value of Channel 5’s licence benefits

Benefit	% of total benefit	Average annual value (C5), £m	Average annual value (Ofcom), £m	Summary of our assessment
EPG prominence	89%	[X]	[X]	Channel 5’s estimates are within a reasonable range and the value could be higher or lower depending on assumptions
DTT capacity	11%	[X]	[X]	We broadly agree with C5’s methodology but have reduced the size of the benefit.
Total benefits	100%	[X]	[X]	

Note: percentages and £m figures derived from Channel 5’s optimistic scenario. The percentages are similar in Channel 5’s pessimistic scenario. Figures may not sum due to rounding.

²⁰⁶ Page 59 of the 2020 Mediatique report. Mediatique based this estimate on AnalysysMason’s 2010 report, commissioned by Ofcom, [An econometric analysis of the TV advertising market](#). [X]

²⁰⁷ As noted in paragraph 3.8 of our 2011 statement [“Regulating the quantity of advertising on television”](#).

EPG prominence

- A2.124 Under our Code of Practice on Electronic Programme Guides, EPG providers must ensure that Channel 5 is in the fifth EPG slot.
- A2.125 Channel 5 has assumed that in the optimistic scenario the benefit of EPG prominence is worth [X]% of its linear advertising revenues and [X]% in its pessimistic scenario. These figures are derived from the [2013 FEH report](#). The 2013 FEH report concluded that Channel 5 could lose 5.9% to 26.3% of linear viewing if it suffered a significant loss of prominence.²⁰⁸ Channel 5 has taken the [X] and [X] percentiles of this range for the purposes of its optimistic and pessimistic scenarios. Channel 5 applied its percentage assumptions to forecasts of linear advertising revenues to estimate the benefit of EPG prominence.
- A2.126 We agree that the value of EPG prominence will potentially decline over the next licence period as viewers move away from linear viewing to other forms of viewing like SVOD. However, estimating a precise value is difficult as it depends on assumptions like the trend in linear viewing and advertising revenues, the EPG position that Channel 5 would occupy without the benefit of prominence and the impact this lower position would have on viewing and revenues.
- A2.127 We commissioned the 2013 FEH report to help inform the value of the benefit of EPG prominence to Channel 3 and 5, so we consider it is reasonable for Channel 5 to reference this report to inform its ranges.
- A2.128 We have considered whether Channel 5's valuations are reasonable by estimating the benefit of EPG prominence consistent with the approach taken in recent work (consistent with our approach to ITV and STV above). We used the following assumptions:
- Channel 5's main channel would move down to the next Paramount-owned channel on different EPGs (e.g. DTT, Cable and Satellite).²⁰⁹ Given Channel 5's 2020 viewing shares on different platforms, we estimated this equates to a weighted average reduction in slots of 13.5.
 - The viewing impact per channel move would range be 1% to 1.5% (consistent with our approach described above). We have assumed the change in commercial impacts would be the same as the change in viewing.
 - The pricing impact would range from 33% to 67% of the viewing impact (consistent with our approach described above). Applying the pricing effect to the viewing effect gives a revenue impact of the EPG move.
 - The resulting revenue impact is applied to Channel 5's forecasts of linear advertising revenue in its optimistic and pessimistic scenarios to estimate the benefit of EPG prominence.
- A2.129 The resulting EPG valuation ranges are shown below alongside the estimates Channel 5 submitted. Our EPG valuation range is wide (ranging from around £[X] per year),

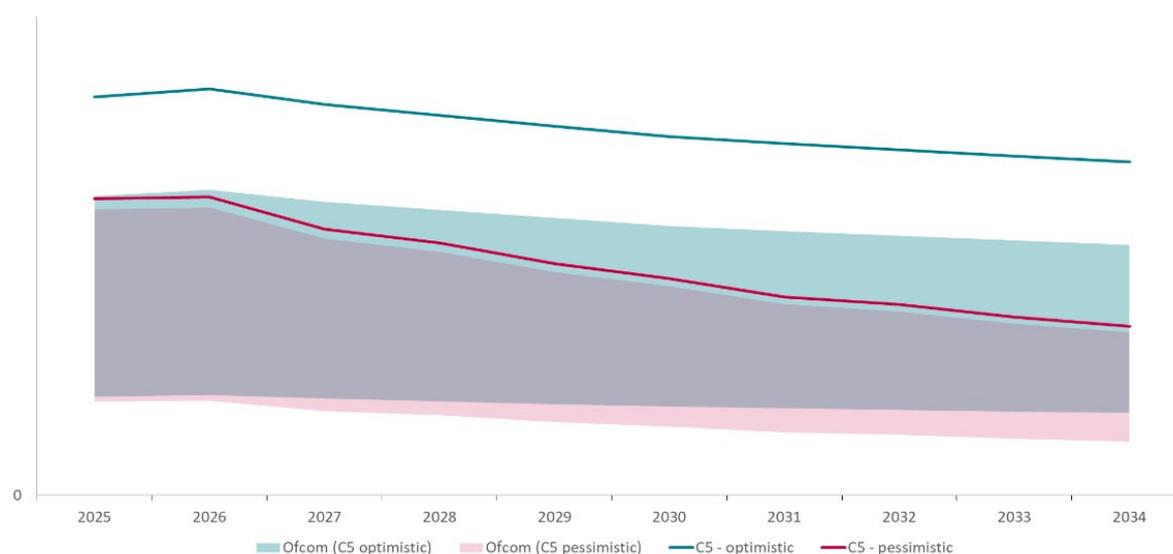
²⁰⁸ Page 4 of the 2013 FEH report.

²⁰⁹ On Freeview we assume it would move down 16 places to 5 USA's slot, on Virgin we assume it would move down 23 places to Comedy Central's slot and on Sky we assume it would move down 7 places to Comedy Central's slot. If Channel 5 was to move down to other 'Channel 5' group channels (e.g. 5USA, 5Star) the loss in prominence would be greater.

reflecting the difficulty in deriving precise estimates for this benefit. The chart illustrates that Channel 5’s pessimistic estimate sits within our range, but that the EPG value could plausibly be higher or lower than this.

A2.130 Channel 5’s optimistic estimate is above than the top end of our range, and there could be a case for reducing it somewhat, though our range does not include any additional impacts on other Channel 5 services which might have to move down the EPG if the main Channel 5 service took one of their slots, which would increase the top of our range. As this is Channel 5’s ‘optimistic’ scenario we have not adjusted its valuation, and we note that reducing the optimistic estimate to the top of our range would not impact our overall conclusions on sustainability set out in this report.

Figure 2.10: Channel 5’s EPG value estimates compared to our estimated range 2025-2034, £m



Note: Y-axis labels have been omitted in the non-confidential version of this report.

Note: we have estimated an EPG value range for each of Channel 5’s optimistic and pessimistic scenarios. Our EPG value ranges for each scenario overlap.

DTT capacity

A2.131 The Channel 5 licence holder has the right to reserved capacity on Multiplex 2 for its main channel. Multiplex 2 is a ‘PSB multiplex’ which has a higher coverage of the UK (98.5%) compared to commercial multiplexes (90%).

A2.132 The Channel 5 licence holder also has reserved capacity on Multiplex A.²¹⁰ Multiplex A is a ‘commercial multiplex’ and has lower coverage than a PSB multiplex.

A2.133 Unlike the Channel 3 licences, the Channel 5 licence does not grant the right to own and operate part of a multiplex. Instead, the Channel 5 licence holder must agree commercial

²¹⁰ The Television Multiplex Services (Reservation of Digital Capacity) Order 2008 provides that where there is capacity reserved for Channel 5 on Multiplex 2, the licence for Multiplex A should have conditions requiring the provision to Channel 5 of capacity equivalent to 50% of its capacity less the capacity required to broadcast Channel 5 in standard definition.

carriage fees with the owners of Multiplex 2 (Digital 3 & 4 Ltd – jointly owned by ITV and Channel 4) and Multiplex A (owned by ITV via its subsidiary SDN). While the right to reserved capacity delivers long term security of carriage for the main Channel 5 service and its other digital channels, the value of the right to reserved DTT capacity is significantly lower for the Channel 5 licence holder than for the Channel 3 licences.

- A2.134 Channel 5 included a benefit associated with its reserved capacity on Multiplex 2. In its optimistic and pessimistic scenarios, Channel 5 estimated this benefit as the additional revenue from broadcasting on a multiplex with higher coverage (98.5% vs 90% coverage) less the additional cost of carriage on Multiplex 2 versus a commercial multiplex.²¹¹ In its pessimistic scenario it has additionally considered the impact of DVB-T2 take up (DVB-T2 is a type of transmission standard).²¹²
- A2.135 We broadly agree with Channel 5's methodology for estimating the benefit of reserved DTT capacity but we have considered two adjustments:
- **Additional cost of carriage on Multiplex 2 vs a commercial mux.** In relation to the additional cost of carriage on Multiplex 2 that would be avoided if Channel 5 did not have this benefit, Mediatique (for ITV and STV) and Channel 5 include forecast carriage fees for i) Channel 5's payment to Digital 3&4 Ltd and ii) a service on a commercial multiplex. We would expect the contracted fee paid by Channel 5 to be easier to forecast than the commercial fee. The forecasts from Mediatique and Channel 5 are reasonably similar but in general, using Mediatique's assumptions reduces the annual value of the DTT benefit to Channel 5. For the purposes of this analysis, we have adopted Mediatique's assumptions on carriage fees (which were provided by ITV) to ensure a consistent approach across the licensees.²¹³
 - **DVB-T2 take up.** In its pessimistic scenario, Channel 5 included an assumption about take-up by commercial multiplexes of the DVB-T2 transmission standard. Most DTT multiplexes use a DVB-T standard as not all TVs are compatible with DVB-T2 (though the majority are). Moving to the DVB-T2 standard would increase capacity on commercial multiplexes, enabling them to broadcast more channels, though there is a risk that fewer people would be able to receive the signals. In Channel 5's pessimistic scenario it assumes commercial multiplexes move to this standard in 2028 and this would have the effect of i) reducing the commercial carriage fee on those multiplexes and ii) increasing the coverage and equipment penetration differential between PSB multiplexes (which Channel 5 assumes remain on the old standard) and commercial multiplexes. Overall, given Channel 5's assumptions, this reduces the value of the

²¹¹ In the pessimistic scenario the revenue uplift associated with greater coverage is lower than in the optimistic scenario as it is applied to lower forecast revenues.

²¹² Channel 5 did not include a benefit associated with its reserved capacity on Mux A. While this benefit may give some advantage in terms of reduced contracting costs, as Channel 5 has to negotiate commercial fees with the multiplex owner any benefit is likely to be relatively small and would not affect our assessment of sustainability in this report.

²¹³ For consistency with Mediatique's calculations for ITV and STV, we could also reduce the estimate of the additional revenue associated with broadcasting on Multiplex 2 (e.g. apply the 75% assumption Mediatique used). As Channel 5 did not make an argument for such an adjustment, and any adjustment necessarily requires some judgement, we have not amended Channel 5's calculations in this case. However, we note that doing so would not change our overall conclusions on sustainability for Channel 5.

benefit of reserved DTT capacity. Although we agree with the potential impact that such a switch to DVB-T2 could have on the value of the DTT benefit, we are not aware of any firm plans by commercial multiplexes to switch to DVB-T2 and as a result we have removed the impact of this assumption. This has the effect of slightly increasing the benefit estimated by Channel 5 in its pessimistic scenario.

A2.136 The net effect of making these adjustments is to reduce the average annual benefit of DTT capacity by around 20% in the optimistic scenario and 5% in the pessimistic scenario.