Channel 4 licence renewal

Consultation on the proposals for the new Channel 4 licence

Consultation

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1. Overview

The current Channel 4 licence will expire on 31 December 2024. Ofcom is responsible for setting the duration and conditions of a new licence for the Channel 4 Television Corporation (C4C) to provide the public service channel, Channel 4.

Channel 4 remains a key part of the UK's broadcasting ecology, with audiences continuing to rate it, and the broader range of services provided by C4C, highly.[1] C4C continues to deliver content promoting new and diverse voices and perspectives and to play a crucial role in supporting the creative economy outside London.

However, the broadcasting sector has changed significantly since the Channel 4 licence was last renewed. Audiences' viewing habits have rapidly diversified over the last decade, with online video streaming services today playing a central part in most people's everyday lives, while viewing of traditional broadcast TV has seen a long-term and substantial decline. This is particularly true of the younger people who have traditionally formed Channel 4's core audience. At the same time, large international players are increasingly drawing viewers away from the UK's public service broadcasters.

Our recent annual reviews[2] of C4C's performance have found that it has broadly been delivering well year on year against its remit and media content duties, while managing the transition from being primarily a linear[3] broadcaster to a digital one. But as technology and audience habits evolve, it is facing financial challenges, a declining audience share and weakening brand recognition among younger audiences. C4C now delivers significant amounts of its viewing via its streaming platform.[4] Its strategy is to prioritise digital growth over linear ratings, optimising streaming viewing in all commissioning and scheduling decisions.[5] Throughout the next licence period, C4C will have an enhanced focus on this.

As part of the process of renewing the Channel 4 licence, C4C has requested changes to some of its existing licence obligations to support and enable this transition. The proposals on which we are consulting aim to strike a balance between allowing C4C greater flexibility in the future to develop its content and distribution strategy in support of its digital transformation, while continuing to safeguard its investment in distinctive UK content and protect delivery of the core elements of its linear output on Channel 4.

We are proposing changes now, ahead of new broadcasting legislation, to give certainty to C4C and its commercial partners and to ensure that it can benefit from this additional flexibility as quickly as possible. When the new legislation is passed, we will be required to amend all the licences for public service channels to implement the new framework.

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[1] Ofcom Public Service Media Tracker 2022 shows that Channel 4 had high levels of satisfaction among its viewers in the past six months (79%) and compared favourably to other PBSs. Likewise, All 4 / All 4+ (as it was known at the time of fieldwork) had high levels of satisfaction among its viewers (75%).
[2] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022.
[3] 'Linear' refers to content watched live on a television set.
[4] Channel 4 Streaming offers on-demand content alongside online streams of live broadcast content.
[5] Webpage: Future4 strategy

What we are proposing for the linear Channel 4 service – in brief

News

To **retain the licence condition requiring no less than 208 hours** of news in peak viewing time, each calendar year over the licence period.

To **remove the licence condition requiring one news programme at lunchtime** every weekday.

To **retain the licence condition requiring one programme** a day in the early evening on **Saturdays and Sundays**.

Current affairs

To **reduce the number of hours of current affairs** that must be broadcast in each calendar year from no less than **208 to no less than 178 hours**.

To **retain the licence condition requiring no less than 80 hours** of current affairs in peak viewing time.

Original productions

To **reduce the current requirement that at least 56%** of the hours of programmes included in the service in each calendar year are originally produced or commissioned for the service **to at least 45% of hours each calendar year**.

To **retain the requirement that at least 70% of the hours** of programmes in peak-time viewing are originally produced or commissioned for the service.

Regional productions

To **retain the requirement that in each calendar year at least 35% of the hours** of programmes made in the UK for viewing on the service must be produced outside the M25, and **at least 35% of expenditure** on programmes made in the UK for viewing on the service must be allocated to the production of programmes produced outside the M25.

To **retain the requirement that in each calendar year at least 9% of the hours** of programmes made in the UK for viewing on the service are produced outside England, and that in any calendar year **at least 9% of expenditure on programmes** made in the UK for viewing on the service is allocated to the production of programmes outside England.

Schools programming

To **retain the requirement to transmit at least half an hour of schools programmes**, excluding presentation material, in each calendar year.

Independent productions

To **retain the requirement that not less than 25%** of the total amount of time allocated to the broadcasting of qualifying programmes on the service is allocated to the broadcasting of a range and diversity of independent productions.

Duration of the licence

To **renew the licence for a ten-year period** starting from 1 January 2025.

2. Framework for licence renewal

Channel 4's remit and obligations

2.1 C4C is a publicly owned, not-for-profit body, funded by commercial revenues. Its main channel, Channel 4, was launched in 1982 with the aim of extending the choice available to viewers, appealing to tastes and interests not generally catered for by other broadcasters, and so encouraging innovation and the development of the independent production sector. Since then, C4C has launched a range of portfolio channels[6] and a streaming service, referred to in this report as Channel 4 Streaming (previously All4).[7]

2.2 Channel 4 has a unique and specific public service remit and contributes to the overall purposes of public service broadcasting (PSB).[8] The Communications Act 2003 (the Act) envisages the collective fulfilment of the PSB purposes by the public service broadcasters (PSBs) to secure the objectives set out in section 264(6) of the Act. These include the provision of public service television services which, taken together: inform, educate, and entertain; reflect cultural activity in the UK and its diversity; and facilitate to an appropriate extent civic understanding and fair and well-informed debate on news and current affairs.

2.3 C4C's statutory remit is to provide a broad range of high quality and diverse programming which, in particular: demonstrates innovation, experiment and creativity in the form and content of programmes; appeals to the tastes and interests of a culturally diverse society; makes a significant contribution to the need for public service channels to include educational programming; and exhibits a distinctive character.[9]

2.4 C4C also has a range of statutory media content duties which it can deliver across any broadcast or online services,[10] including Channel 4 Streaming.[11] These include duties to:

a) make a broad range of high quality content that appeals to the tastes and interests of a culturally diverse society;
b) provide news and current affairs;
c) provide content which appeals to older children and young adults;
d) make, broadcast and distribute high quality films, intended to be shown to UK audiences, and broadcast and distribute films (including third-party films) that reflect cultural activity in the UK to audiences;
e) support the development of people with creative talent;
f) promote alternative views and new perspectives;
g) promote measures intended to ensure that people are well-informed and motivated to participate in society; and

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[6] These include E4, E4 Extra, More4, Film4, and 4seven. They also include The Box, Box Upfront, 4Music, Kerrang, Kiss TV, and Magic TV, which C4C fully acquired in 2019.
[7] Webpage: [Channel 4 brings iconic blocks back together for single brand streaming future](#).
[8] These purposes are set out in section 264(4) of the Communications Act 2003.
[9] Section 265(3) of the Act. The Channel 4 licence must include a condition requiring C4C to fulfil the public service remit for Channel 4.
[10] The relevant online services are on-demand programme services and other services provided by means of the internet where there is a person who exercises editorial control over the material included in the service.
[11] The media content duties are set out in section 198A of the Act.

h) support and stimulate well-informed debate on a wide range of issues, including by providing information and views from around the world and by challenging established views.

2.5 C4C has further specific obligations set out in the broadcast licence for Channel 4.

Current licence conditions

2.6 The current Channel 4 licence includes obligations to provide, in each year of the licence period:

- 208 hours of news programming in peak time, including:
  - one programme at lunchtime each weekday and one in the early evening each weekday; and
  - a programme in the early evening at weekends on both Saturday and Sunday.
- 208 hours of current affairs programming, of which 80 hours are allocated to peak time.
- 25% of qualifying programmes to be commissioned from independent producers.
- 56% of all Channel 4 programming to be original productions, with 70% of programming in peak time being original productions.
- 35% of hours and spend to be allocated to programmes produced in the UK and outside the M25.
- 9% of hours and spend to be allocated to programmes produced in the UK and outside England.
- 30 minutes of schools programmes.

2.7 The licence includes a range of other conditions, such as requirements around subtitling, sign language and audio description, which we are not required to consider as part of the renewal of the Channel 4 licence and which are therefore not addressed in this consultation. These conditions will remain unchanged in the renewed licence.

Ofcom's renewal of the licence

2.8 The current licence was set in 2014 for a period of ten years and Ofcom has the power to renew the licence for a further period. In doing so, Ofcom must:

- set licence conditions that Ofcom "*considers appropriate*" to secure certain matters specified under the Act; and
- determine the length of the renewed licence, which may run *"for such period as Ofcom may think fit*". [12]

2.9 The conditions Ofcom must impose in the Channel 4 licence include requirements to secure:

- an appropriate volume of news and current affairs (with conditions as we see appropriate, and for the time to be split between peak and other times);[13]
- a suitable proportion of programmes commissioned from independent producers (not less than 25% of qualifying programmes);[14]

[12] Section 231 of the Act.
[13] Section 279 of the Act.
[14] Section 277 of the Act.

- an appropriate proportion of programming to be original productions for the channel (with conditions as we see appropriate for peak and other times);[15]
- an appropriate proportion of programming made outside London;[16] and
- an appropriate volume of UK schools programming.[17]

2.10 Ofcom has general duties, in carrying out its functions, to further the interests of citizens in relation to communications matters and consumers in relevant markets, where appropriate, by promoting competition.[18] In doing so, Ofcom must have regard to a number of matters including the desirability of promoting the fulfilment of the purposes of public service television broadcasting in the United Kingdom.[19] When setting the conditions and determining the length of the renewed licence, therefore, Ofcom will consider Channel 4's contribution to the fulfilment of the PSB purposes. The Act envisages the collective fulfilment of these purposes by the PSBs, so it may be appropriate for different requirements to be set for different broadcasters.

The impact of our proposals

2.11 Section 7 of the Act requires us to carry out and publish an assessment of the likely impact of implementing a proposal which would be likely to have a significant impact on businesses or the general public, or when there is a major change in Ofcom's activities.

2.12 More generally, impact assessments form part of good policy-making and we therefore expect to carry them out in relation to a large majority of our proposals. We use impact assessments to help us understand and assess the potential impact of our policy decisions before we make them. They also help us explain the policy decisions we have decided to take and why we consider those decisions best fulfil our applicable duties and objectives in the least intrusive way. Our impact assessment guidance sets out our general approach to how we assess and present the impact of our proposed decisions.

2.13 The relevant duties in relation to the proposals on which we are consulting are set out above and in section 5 in relation to each of our individual proposals.

2.14 As we explain more fully throughout this consultation, we expect that the proposed Channel 4 licence conditions and duration would have a positive impact on C4C and audiences. Our proposals would help ensure fulfilment of the PSB purposes and Channel 4's remit by securing appropriate volumes of news, current affairs, original productions, productions made in the UK nations and regions, schools programming and independent productions. We expect the proposals to be in the interests of audiences, particularly younger audiences which C4C has a specific duty to serve.[20] We expect the proposals together to promote C4C's sustainability and provide it with sufficient flexibility to develop and realise its 'Future4' strategy, so that it can continue to deliver Channel 4's remit and its media content duties over the licence period.

[15] Section 278 of the Act.
[16] Section 288 of the Act.
[17] Section 296 of the Act.
[18] Section 3 of the Act.
[19] Section 3(4)(a) of the Act
[20] C4C has a media content duty to participate in the making of content which appeals to older children and young adults.

2.15 Our detailed assessment of the impact of each proposal is set out in section 5.

Equality Impact Assessment

2.16 Section 149 of the Equality Act 2010 (the 2010 Act) imposes a duty on Ofcom, when carrying out its functions, to have due regard to the need to eliminate discrimination, harassment, victimisation and other prohibited conduct related to the following protected characteristics: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation. The 2010 Act also requires Ofcom to have due regard to the need to advance equality of opportunity and foster good relations between persons who share specified protected characteristics and persons who do not.

2.17 Section 75 of the Northern Ireland Act 1998 (the 1998 Act) also imposes a duty on Ofcom, when carrying out its functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity and have regard to the desirability of promoting good relations across a range of categories outlined in the 1998 Act. Ofcom's Revised Northern Ireland Equality Scheme explains how we comply with our statutory duties under the 1998 Act.

2.18 To help us comply with our duties under the 2010 Act and the 1998 Act, we assess the impact of our proposals on persons sharing protected characteristics and, in particular, whether they may discriminate against such persons or impact on equality of opportunity or good relations.

2.19 When thinking about equality we also think more broadly about potential impacts on various groups of persons (see paragraph 4.7 of our impact assessment guidance). In particular, section 3(4) of the Act requires us to have regard to the needs and interests of specific groups of persons when performing our duties, as appear to us to be relevant in the circumstances. These include:

a) the vulnerability of children and of others whose circumstances appear to us to put them in need of special protection;
b) the needs of persons with disabilities, older persons and persons on low incomes; and
c) the different interests of persons in the different parts of the UK, of the different ethnic communities within the UK and of persons living in rural and in urban areas.

2.20 We are proposing to reduce some of C4C's obligations to deliver content on Channel 4 (by removing the lunchtime news requirement, reducing the current affairs quota, and reducing the original productions quota) in order to give C4C the flexibility to invest more in its online content and services. We anticipate that these proposals will particularly benefit younger audiences (whom C4C has a specific duty to serve), as this age group is increasingly turning away from traditional broadcast television to consume content online. We expect that younger audiences should therefore benefit from a greater range and higher quality of content on the platforms that they are most likely to engage with. We also consider that our proposal to maintain Channel 4's core news requirements (by retaining the peak news quota and weekend news requirement) could benefit audiences from minority ethnic backgrounds, as research indicates that C4C's news offering is popular among these audiences.

2.21 Our proposals may have an adverse impact on audiences who prefer to use, or who are more reliant on, traditional broadcast services; this may include older people and people from lower socio-economic groups who may not have access to the internet. We have considered ways to mitigate these potential impacts and we consider that our proposals will protect core elements of C4C's PSB remit delivery by ensuring that C4C continues to provide appropriate volumes of news, current affairs and original productions on Channel 4.

2.22 It is possible that our proposals to retain Channel 4's regional production quotas at their current level (rather than increasing them, for example to the levels currently delivered), may not deliver a potential increase in the positive impact on audiences in the nations and regions or on the creative economy in these areas. However, while the quotas have a crucial part to play in securing investment in the nations and regions, C4C's impact within the nations and regions goes well beyond this. We consider that the current levels of the quotas secure an appropriate minimum level of investment and will continue to hold C4C to account in relation to its duties to support a thriving creative sector across the UK and to reflect the lives of audiences within the different UK nations and regions via our annual report in response to C4C's Statement of Media Content Policy (referred to in this document as our 'SMCP Report'). [21]

2.23 We have assessed the impact of our proposals in more detail in section 5 of this document. We would welcome responses to our consultation on the potential impact on the identified groups, and on ways in which we may be able to mitigate or eliminate this impact.

2.24 Ofcom can provide information in a variety of formats on request, e.g. accessible PDF, large print, easy read, audio recording or braille. If you let us know what information you require and in what format, we will consider the request and respond within 21 days.

Consultation question 1:

Do you agree with our assessment of the potential impact on specific groups of persons?

Please provide reasons for your response, with any supporting evidence.

Welsh Language Impact Assessment

2.25 The Welsh Language (Wales) Measure 2011 established a legal framework to impose duties on certain organisations to comply with standards in relation to the Welsh language. We consider that the proposals for the renewed Channel 4 licence will not have any impact on opportunities for persons to use the Welsh language, or on treating the Welsh language no less favourably than the English Language. C4C's remit does not include Welsh language programming (S4C is the Welsh language PSB service) and the Channel 4 licence does not include any Welsh language conditions.

Consultation question 2:

Do you agree with our Welsh language impact assessment?

Please provide reasons for your response, with any supporting evidence.

[21] Under section 198B of the Act, C4C must prepare an annual statement of media content policy (SMCP) setting out its plans for meeting its media content duties in the coming year and reporting on its performance over the past year. C4C must consult with Ofcom in preparing the publication and have regard to Ofcom guidance. Ofcom responds to C4C's SMCPs, and our most recent SMCP Report is at: Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022.

About this document

2.26 The rest of this document comprises the following:

- **Section 3** sets out the context in which we are renewing the Channel 4 licence and how this context has changed since we last renewed the licence.
- **Section 4** sets out our analysis of C4C's recent financial performance.
- **Section 5** sets out our proposed conditions for the Channel 4 licence and the proposed duration, including our analysis of C4C's financial sustainability over the proposed licence period.

2.27 There are supporting annexes on the following areas:

- **Annex 1 –** GVA analysis and methodology
- **Annex 2 –** Responding to this consultation
- **Annex 3 –** Ofcom's consultation principles
- **Annex 4 –** Consultation coversheet
- **Annex 5 –** Consultation questions

3. Context in which we are renewing the licence

The current broadcasting landscape is very different to that of 2014

Introduction

3.1 Since the last renewal of the Channel 4 licence in 2014, there have been significant changes in the UK broadcasting sector. Viewing of broadcast television has declined significantly, particularly among younger age groups, with audiences increasingly watching content on demand. At the same time, the choice of programmes and services available to viewers has grown significantly, with the emergence of well-funded global players such as Netflix and Amazon Prime Video. This means that PSBs, including Channel 4, must compete harder than ever for audiences, and places further pressure on the sustainability of the UK's PSB system.

3.2 In response to these changes, the main challenge currently facing all broadcasters is how to manage the transition from a primarily linear delivery model to a digital-first one, while continuing to meet the needs of their audiences. In our most recent review of the PSB system, we said that PSBs needed to accelerate their digital plans to maintain a strong link with their existing audiences and in particular younger audiences.[22] As part of its media content duties, C4C has a duty to participate in the making of content that appeals to older children and young adults. The profile of this, its core audience, means that C4C has been the quickest among the PSBs to prioritise the distribution of content on digital services. As we highlighted in our most recent SMCP Report, this places even more weight on the broadcaster being able to drive forward its digital transformation.[23] C4C's response to this challenge is its five-year Future4 strategy, introduced in November 2020, which prioritises growth of digital audiences and digital revenues over linear viewing.[24] This underpins everything that C4C is doing currently and it has stated that throughout the next licence period, it will have a continued focus on this digital transformation.[25] In our most recent SMCP Report we noted that we wanted to see C4C articulate clearly how it will evolve the Future4 strategy beyond the existing 2025 targets.[26]

3.3 The new Media Bill will play a crucial part in supporting PSBs, including C4C, in their digital transformation. The Bill provides for PSBs to deliver their public service remits across a broader range of services, including third-party online platforms. It proposes a new regime to ensure the availability and prominence of live and on-demand PSB content on major smart TV platforms, complementing existing EPG (electronic programme guide) prominence rules. The Bill also proposes removing the existing restriction on C4C making programmes for

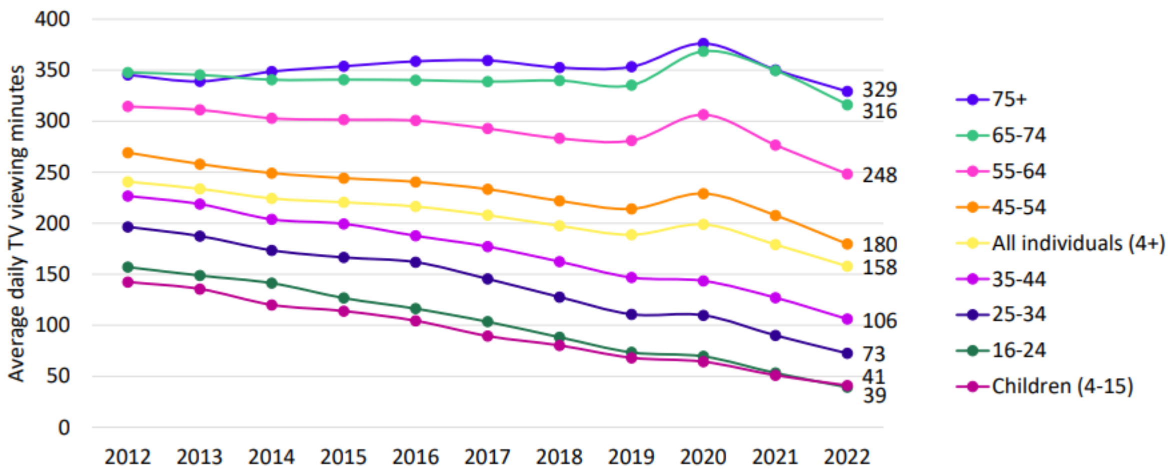
[22] Ofcom, Recommendations to Government on the future of public service media, July 2021, p. 3.
[23] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 5.
[24] Webpage: Channel 4 sets out path to digital future with new strategy: Future4.
[25] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[26] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 3.

broadcast on Channel 4, known as the publisher-broadcaster restriction,[27] which has the potential to create a significant change to its operating model.

Broadcast television viewing is in decline for all audiences

3.4 Linear television viewing has seen a trend of long-term decline in the past decade, with audiences watching on average 30% less broadcast TV in 2022 compared to 2014. Among younger audiences, viewing has declined at a much faster rate, decreasing by 72% over the same period for those aged 16-24. This downward trend can now be seen even among older age groups, which had maintained relatively consistent average viewing times before the pandemic. In 2022, viewers aged 65-74 watched about 10% less broadcast TV year on year, 6% lower than pre-pandemic viewing in 2019. Likewise, broadcast TV viewing by those aged 75+ was down 6% compared to 2021, and down 7% compared to 2019. Among younger audiences, broadcast TV viewing continued to decline rapidly, falling by 21% year on year among those aged 4-34.[28] Enders Analysis predicts that linear television viewing will continue its long-term decline across all age groups, with 16-24s forecasted to spend just 6% of their video viewing time with live broadcast TV in 2027, versus 12% today.[29]

Figure 1: Average daily minutes of broadcast TV viewing, by age group: 2012-2022



Source: Barb, 28-day consolidated, TV sets only.

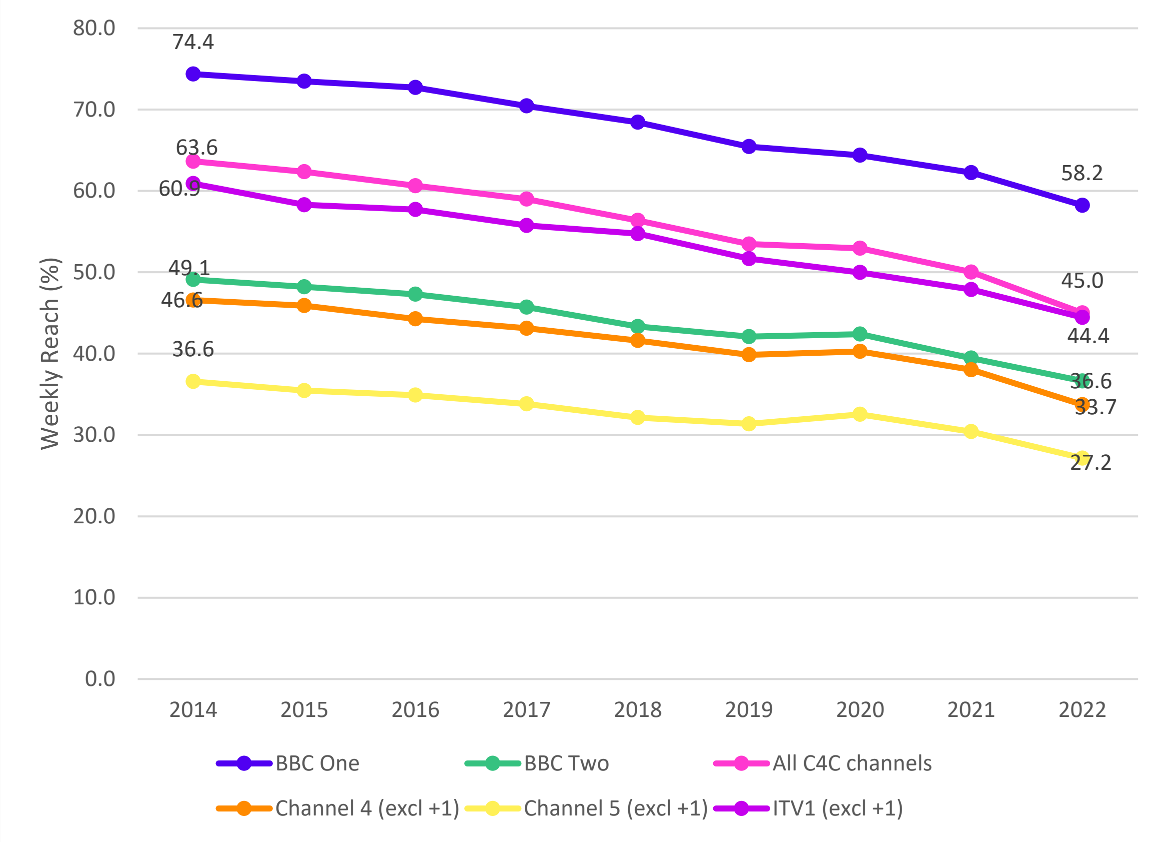
The decline in viewing to C4C's linear channels mirrors that of the other PSBs

3.5 As with the other four main PSB channels,[30] viewing to C4C's main channel, Channel 4, declined steadily throughout the licence period, as audiences continued to shift their viewing to non-linear platforms (see Figure 2 below). Channel 4's average weekly reach stood at 33.7% in 2022, down from 46.6% at the start of the current licence period in 2014. Over the same period, the average weekly reach of C4C's family of channels (Channel 4 and its portfolio channels) has fallen from 63.6% to 45%. In the context of the declining

[27] The restriction is set out in section 295 of the Act and must be a condition of the licence. It requires C4C not to be involved, except to such extent as Ofcom may allow, in the making of programmes to be broadcast on Channel 4.
[28] Barb 28-day consolidated, TV sets only. More information available in Media Nations 2023.
[29] Enders Analysis, Video viewing habits: Forecasting new lows for broadcasters, p. 2.
[30] The five main PSB channels are BBC One, BBC Two, ITV1, Channel 4 and Channel 5.

audiences for all broadcasters, C4C has been successful in retaining a fairly stable share of broadcast viewing over the current licence period. Share of viewing to all of C4C's channels declined from 10.9% in 2014 to 10.1% in 2022, while it maintained its share for the main channel at around 5% across the same period.[31]

Figure 2: Average weekly reach (%) of main five PSB channels and all C4C channels, all individuals: 2014-2022



Source: Barb, 28-day consolidated, via TV sets only, individuals 4+, reach criteria 15+ consecutive minutes.

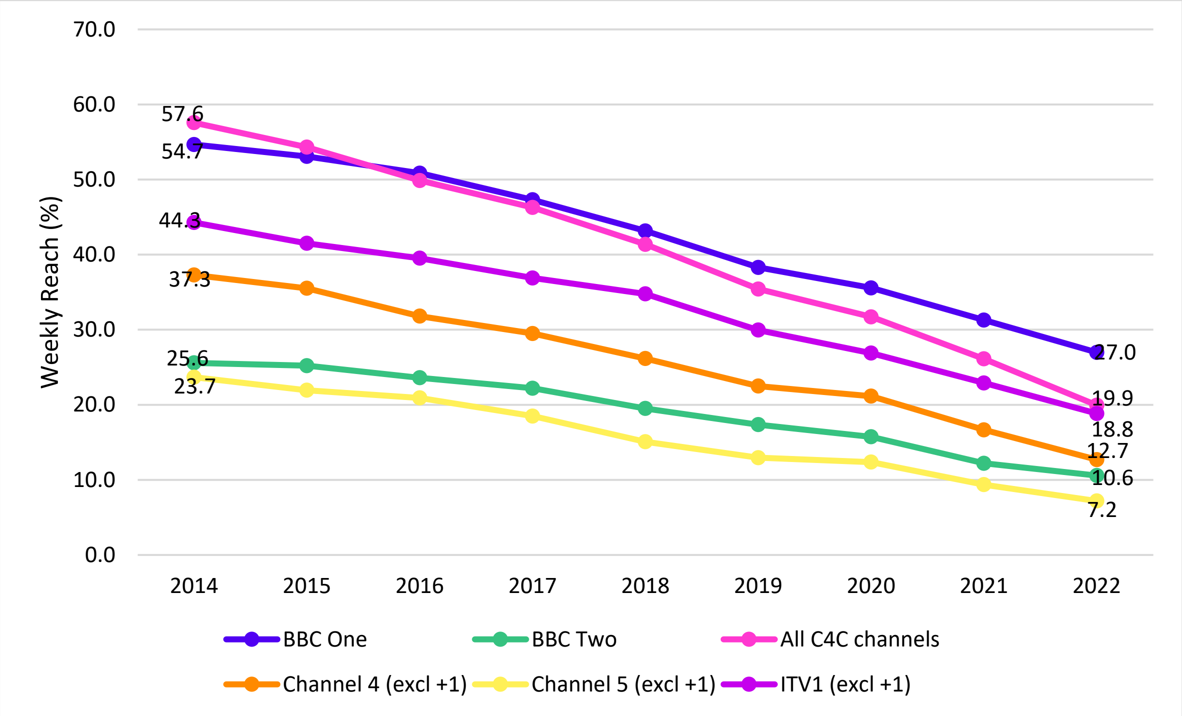
3.6 Although we do not expect linear viewing to disappear over the next licence period, its importance is likely to decrease, as more audiences use streaming platforms and social media to access content. The rapid year-on-year changes in viewing over the current licence period support C4C's view that audiences are less likely to be using linear television as their primary method of accessing C4C content into the 2030s. C4C expects that although total long-form viewing minutes will remain largely constant in the next licence period, linear viewing will continue to decline, and this decline will be mitigated by higher viewing to video-on-demand ('VoD').[32] Specifically, C4C expects live and PVR[33] viewing to continue to fall, accounting for about 30% of total viewing by 2034 (compared to over 50% today),[34] while it expects VoD services to grow to account for around 65% of viewing time.[35] It says

[31] Barb, 28-day consolidated, via TV sets only. Average weekly reach, 15+ consecutive minutes, excluding +1 variants.
[32] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[33] Personal video recorder: a device for recording and replaying live television programmes and films etc.
[34] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[35] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.

that in this environment, viewing to C4C services will likewise evolve, highlighting the need for ongoing digital transformation in its business model.[36]

3.7 Maintaining reach among younger audiences is critical for C4C's advertising strategy and its sustainability. C4C faces the same challenges as other broadcasters in attracting this hard-to-reach audience group, whose viewing of broadcast television continues to decline. As shown in Figure 3 below, the decline in reach of the PSB main channels to younger audiences is considerably more marked than for all audiences. The reach of C4C's family of channels to 16-24s declined significantly, from 57.6% to 19.9% (37.7pp) between 2014 and 2022, while the main channel's reach to this audience fell by 24.6pp over the same period. Between 2014 and 2022, the C4C channels' total share of viewing for this audience also declined, from 18.2% to 13.7%. This reflects the fact that C4C's portfolio channels, such as E4, have much younger-skewing audiences, and this group is turning away from linear television to online platforms at the fastest rate.

Figure 3: Average weekly reach (%) of main PSB channels and all C4C channels, 16-24s: 2014-2022

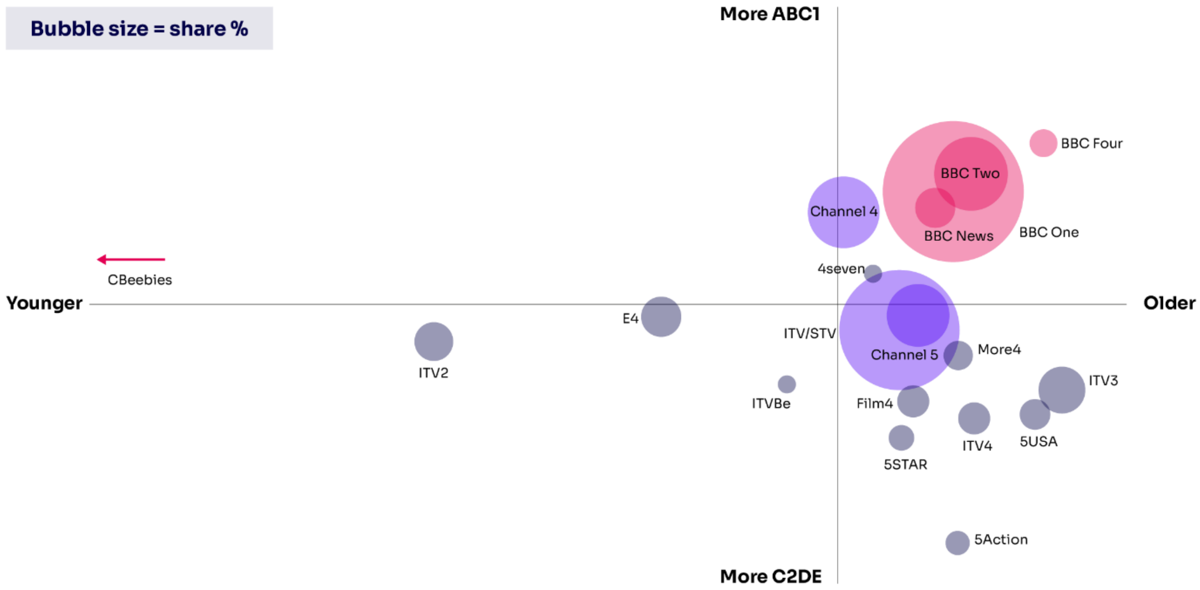


Source: Barb, 28-day consolidated, via TV sets only, Adults 16-24, reach criteria: 15+ consecutive minutes.

3.8 Nonetheless, Figure 4 below indicates that Channel 4 continues to have a younger audience profile than the other main PSB channels. The channel also has a greater proportion of ABC1 audiences than the average profile of TV viewers. C4C's dedicated youth-focused channel, E4, has a younger audience profile than the average for all television channels, although ITV2 has an even younger audience profile.

[36] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.

Figure 4: Age and socio-economic audience profile of the 20 most-viewed channels: 2022



Source: Barb individuals 4+.[37]

3.9 The number of people from minority ethnic groups watching the main five PSB channels has been falling over the current licence period, but it has fallen at a higher rate for Channel 4 than the average for PSB channels. Channel 4's average weekly reach among audiences in minority ethnic groups fell from 32.4% in 2014 to 19.7% in 2022. At the same time, viewing by these audiences of non-PSB channels fell at a faster rate, therefore C4C's share of viewing within these audiences grew (from 3.9% to 4.6%), and Channel 4 continues to be one of the most representative PSB channels, for the total TV viewing population, in terms of the proportion of viewers belonging to minority ethnic groups. Of Channel 4's total audience in 2022, 8% was accounted for by these audiences, making it joint-highest, with ITV1, among the other PSB main channels. A similar trend is seen with disabled audiences, among whom Channel 4's reach declined from 2016 to 2022 (from 52.1% to 43.5%) but the share of viewing remained stable at just under 4%.[38]

As broadcast television declines, viewing to broadcaster video-on-demand services is increasing, but faces fierce competition

3.10 Viewing to broadcaster video-on-demand ('BVoD') services has grown from 4% of total broadcaster viewing[39] in 2017 to 10% in 2022 (although this growth was not enough to offset the decrease in live TV viewing, resulting in an overall decline in viewing to broadcaster content across the period).[40] The proportion of viewing via streaming varies by

[37] Based on the top 20 channels ranked by share. Size of bubble relates to share among individuals 4+. Profile based on age: % 35+, SEG: % ABC1. Axes cross at the average age/SEG profile of total TV. Includes HD variants where applicable, and +1 variants.
[38] Barb, 28-day consolidated, via TV sets only. Reach criteria: 15+ consecutive minutes. Excludes +1 channels. Profile base: individuals 4+. Data was not available for disabled individuals in 2014 and 2015.
[39] Content that is either linear TV viewing or BVoD.
[40] Ofcom estimates using Barb and IPA TouchPoints for 2022. The comparison with 2017 was with Ofcom estimates modelled from Barb, Comscore and IPA TouchPoints.

broadcaster; in 2022, the BBC and C4C captured a greater proportion of their audiences on BvoD (14% and 12% respectively) compared to Channel 5, for example, which remains predominantly linear-based, with 96% of all its viewing going to its broadcast linear channels and 4% to its BvoD service.[41]

3.11 Broadcasters increasingly compete with online-only streaming services for audiences' time and attention. For example, the number of households with a subscription to at least one subscription video-on-demand service ('SVoD'), such as Netflix, reached 68% at the end of 2022, although more recent data suggests that this figure is plateauing at about two-thirds of households in 2023, possibly due to the rising cost of living, and SVoD service price rises putting a strain on household budgets.[42] These services tend to be most popular with younger audiences compared to other age groups; 16-34s spent 24% of their video time with SVoD/advertising-supported video-on-demand ('AVoD')[43] in 2022, the highest proportion of any age group.[44] That said, older viewers are increasingly taking up these services; Ofcom's research indicates that the proportion of online over-64s using Disney+ increased from 7% in early 2022 to 12% in early 2023; 43% said they used Netflix and 37% said they used Amazon Prime Video (both figures are stable compared to 2022).[45]

3.12 To support the development of the proposals on which we are consulting, we commissioned qualitative research from Jigsaw into audience perceptions of Channel 4 (referred to in this document as the 'Jigsaw research'). The key findings are discussed in more detail in paragraphs 3.28 to 3.37 below. This research corroborated the findings above, with all audiences (including older audiences, i.e. those aged mid-30s and above) reporting that they were increasingly consuming greater volumes of content from SVoD services. Use and attitudes towards these services varied according to age group. Older audiences tended to report using a mix of content providers, with linear TV and BVoD services the first port of call for some. [46] However, younger audiences were often turning to SVoD services first, seeing them as more of a 'one-stop-shop' for the majority of their viewing needs. Younger audiences typically considered BVoD services less important, and to have less relevant content aimed at them. They tended to see BVoD services as for more occasional use, to watch a specific programme or event (particularly those with social currency, such as ITV's *Love Island,* which they might also choose to watch on linear TV), or to watch as a family or as part of a shared household.[47]

> ***"Disney+ is where I watch most of my series and TikTok. If I ever have a free minute that's what I spend time scrolling on."*** [48]
>
> (Female, Belfast, 18-21, C2DE, light C4C user)

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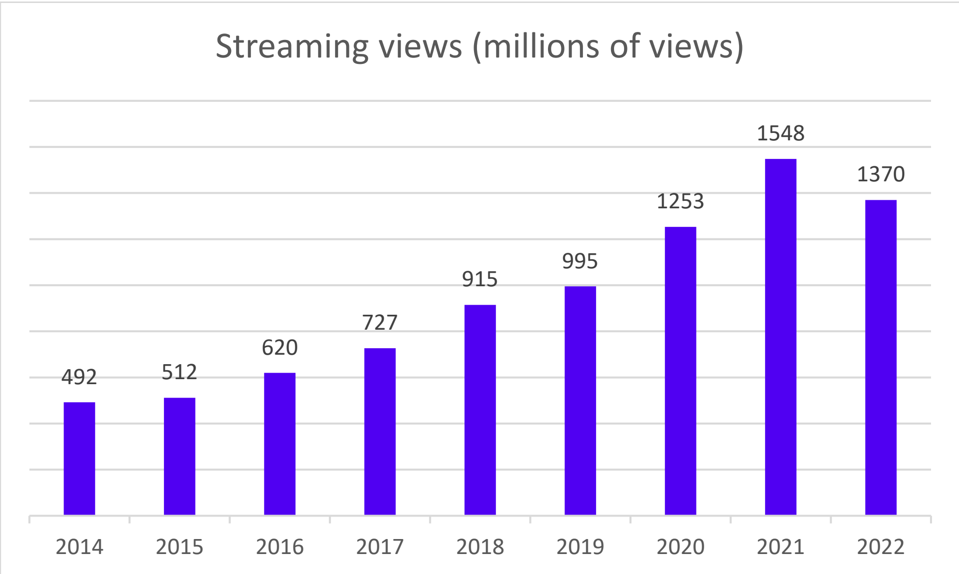
[41] Barb as-viewed.
[42] Barb Establishment Survey.
[43] For example: Amazon's Freevee, Paramount's Pluto TV and Samsung TV Plus.
[44] Ofcom estimates from Barb, IPA TouchPoints.
[45] Ofcom VOD Survey: A bespoke survey of online adults and teens which looks at VoD service use and VoD provider perceptions. Fieldwork conducted 22-28 February 2022 for 2022 and 22-27 February 2023 for 2023. Findings available at Ofcom, Media Nations Report 2023, p. 9.
[46] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 13.
[47] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 12.
[48] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 11.

The importance of C4C's streaming service has grown during the current licence period

3.13 Viewing to Channel 4 Streaming has been steadily increasing since 2014 in line with these broader market trends. The total number of views reached a peak of 1.5 billion views in 2021, before declining slightly in 2022 to 1.4 billion, which could indicate that BvoD viewing is returning to pre-pandemic levels. However, in its 2022 Corporation Report and Financial Statement ('Annual Report') C4C reported that, although views decreased year on year in the first half of 2022, streaming growth returned in the second half of the year; C4C remains committed to achieving growth in 2023.[49] C4C's Future4 strategy (see paragraph 3.2) prioritises growth of digital audiences and digital revenues over linear viewing, and aims to achieve 2 billion streaming views by 2025. In order to achieve this ambition, C4C is evolving its content strategy to be digital-first, including by prioritising content that drives VoD viewing and by enhancing the Channel 4 Streaming service with features such as personalisation and autoplay.[50]

Figure 5: Channel 4 Streaming views (000s): 2014-2022



Source: Channel 4 Licence Renewal: Submission to Ofcom, May 2023, p. 12.

3.14 Channel 4 Streaming was watched for an average of 14 minutes per person per week in 2022 (representing 12% of total viewing time spent with C4C's content). However, for younger audiences (16-34s), this increased to 19 minutes per person per week, representing 29% of their total viewing time of C4C content.[51] In its Annual Report, C4C reported that its streaming service was the youngest-profiling BvoD service in the UK, with 16-34-year-olds making up a third of its user base, compared to the other PSBs' BvoD average of 21%.[52] Since the end of 2019 (pre-pandemic), C4C said it had increased online registrations by six million,

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[49] Channel Four Television Corporation Report and Financial Statements 2022, p. 12.
[50] Channel Four Television Corporation Report and Financial Statements 2022, p. 18.
[51] Barb as-viewed data for linear channels and Channel 4 Streaming in 2022.
[52] Channel Four Television Corporation Report and Financial Statements 2022, p. 12.

to 28.2 million accounts – including one million new 16-34-year-olds. It reported that 85% of people aged 16-34 in the UK have a Channel 4 Streaming account.[53]

Broadcasters are also facing competition for viewing from social media platforms

3.15 Platforms such as YouTube, TikTok and Snapchat have significantly increased their share of viewing time in recent years.[54] These platforms have a very different offering to broadcasters' traditional long-form programming, with shorter videos generally of less than ten minutes in length. Short-form video was watched by more than a third (38%) of online adults in Great Britain[55] from late 2022 to early 2023, with viewing skewing heavily towards younger audiences: 68% of 15-24-year-olds watched short-form videos daily, compared to 14% of those aged 65+.[56]

3.16 The Jigsaw research suggested that younger audiences in particular have different expectations of content and media providers, having grown up with streaming services and social media where content is tailored, targeted and recommended to them by algorithms. Younger, under-34-year-old audiences reported watching a considerable amount of content via social media or YouTube.[57] The content viewed was often user-generated (e.g. from YouTubers or 'influencers') but sometimes it comprised clips from TV programmes, or was linked to TV programmes. Social media was found to influence viewing choices, with audiences (especially but not exclusively younger viewers) using recommendations on social media to identify new shows to watch. For example, audiences may watch clips on social media before seeking out the full programme on the respective platform, or watch an entire programme, or a significant amount of one, back-to-back in separate clips (often on TikTok).[58]

3.17 The Jigsaw research found that older audiences were also using social media to view broadcast-style content. However, rather than using it to replace other forms of TV consumption, these audiences tended to use social media video content as a filler to relieve boredom, or while doing or watching something else.[59]

C4C is transforming into a digital-first PSB

3.18 C4C's Future4 strategy, introduced in November 2020, is the main driver behind the work it is doing in response to the changes detailed above.[60] The key pillars of the strategy are prioritising digital growth over linear ratings, diversifying its revenue streams to underpin its sustainability, and focusing on strategic partnerships to compete more effectively. The strategy is intended to transform C4C into a digital-first broadcaster, to better reach audiences (particularly those in younger age groups) on the platforms they are most likely to be using. In our most recent SMCP Report we said that the successful delivery of Future4

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[53] Channel Four Television Corporation Report and Financial Statements 2022, p. 14.
[54] Enders Analysis, Video viewing habits: Forecasting new lows for broadcasters, p. 1.
[55] The use of a mixture of data sources in this section mean that some survey samples are from Great Britain only (England, Scotland and Wales) while other are for the UK as a whole (all four nations, including Northern Ireland).
[56] IPA TouchPoints 2023 SuperHub. Base: all GB adults aged 15+ who have been online in past 12 months.
[57] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 11.
[58] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 12.
[59] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 14.
[60] Webpage: Channel 4 sets out path to digital future with new strategy: Future4.

was a crucial part of C4C being able to continue to deliver for audiences, particularly younger viewers, as well as helping to secure the broadcaster's long-term sustainability.[61]

3.19 Underpinning its strategic pillars, Future4 has headline targets for 2025:

- reaching 2 billion views on All4 (now Channel 4 Streaming);
- achieving 30% of total revenue from digital advertising; and
- achieving 10% of total revenue from non-advertising sources.

3.20 As we said in our latest SMCP Report, C4C is making reasonable progress against its core target of 2 billion views to Channel 4 Streaming by 2025, recording 1.4 billion views in 2022.[62] At the end of 2022 it had reached 22% of total revenue coming from digital advertising,[63] and it met its target of achieving 10% of total revenue from non-advertising revenue (including film and partnerships), posting £121m, or 11% of total revenues.[64]

3.21 C4C is evolving its content and distribution strategy in response to Future4, as evidenced through the unification in May 2023 of its linear and digital brands, and the rebranding of its BVoD service as 'Channel 4' (previously 'All4').[65] In its Annual Report, C4C noted that it would prioritise content that it thinks will best drive BVoD viewing (such as 'premium factual' box-sets and youth-skewing reality shows) and it has experimented with online-only original programming,[66] including its youth-focused current affairs strand, *Untold*.

3.22 Acknowledging that younger audiences are more likely to engage with content on social media than on broadcast TV, C4C has also expanded its digital media offering to better serve these harder-to-reach audience groups. The broadcaster has formed strategic partnerships with platforms like Snapchat, YouTube and TikTok to build its brand among younger viewers who may never have engaged with it before.[67] For example, its 2022 deal with YouTube led to the publication of 1,000 hours of long-form content on the platform.[68] C4C also launched the youth-focused *Channel 4.0* YouTube channel in 2022, with short- and medium-form content tailored to young people's viewing behaviours on social media platforms.[69]

Proposed new legislation will support C4C's digital transformation and enable changes to its operating model

3.23 The Government introduced the Media Bill to Parliament on 8 November 2023. The Bill proposes a number of changes to the PSB framework that will support C4C in its digital transformation by allowing Channel 4's public service remit to be delivered across a broader range of services, including third-party online platforms. It will also allow some licence obligations[70] to be delivered on on-demand programme services that are, or form part of, designated internet programme services[71] as well as on Channel 4.

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[61] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 3.
[62] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 6.
[63] Channel Four Television Corporation Report and Financial Statements 2022, p. 11.
[64] Channel Four Television Corporation Report and Financial Statements 2022, p. 18.
[65] In this report we refer to C4C's BVoD service as 'Channel 4 Streaming' to differentiate from the main channel, but C4C's name for the service is 'Channel 4'.
[66] Channel Four Television Corporation Report and Financial Statements 2022, p. 23.
[67] Channel Four Television Corporation Report and Financial Statements 2022, p. 37
[68] Channel Four Television Corporation Report and Financial Statements 2022, p. 19.
[69] Channel Four Television Corporation Report and Financial Statements 2022, p. 35.
[70] The independent, original and regional production quotas.
[71] Internet programme service is defined in clause 28 of the Bill (proposed section 362AA(10)).

3.24 The Bill will also enable a significant change to C4C's operating model by removing the 'publisher-broadcaster restriction' in section 295 of the Act, thereby allowing C4C to make programmes for broadcast on Channel 4. The Government's rationale for doing so is to give C4C *"greater ability to produce and monetise its own content, accessing a wider range of potential strategic options that could put it on a more stable financial footing by growing its commercial income"*.[72] Alongside this, the Government has announced a series of measures that it considers will *"ensure that Channel 4's important role in driving investment into the [independent production] sector is safeguarded, in the event they do decide to develop their own production capability"*. [73]

3.25 We are renewing the Channel 4 licence under the current statutory framework. When the Bill is passed, we will be required to amend all the PSB licences (including those of the Channel 3 services and Channel 5) to implement the new framework.

Audience perceptions of C4C's services

3.26 The Jigsaw research was commissioned to improve our understanding of audience perceptions and consumption of C4C's services. It was also intended to explore how both users and non-users among all age groups, including the core audience aged 16-34 and children (aged 10-15), view C4C's purpose and role in society, both now and in the future.[74]

3.27 Where relevant, we have drawn comparisons in the summary below between the Jigsaw research and the previous qualitative research into Channel 4 that Ofcom commissioned in 2017, which explored the extent to which audiences in the UK felt C4C was meeting its media content duties, as well as the requirements of the licensed public service channel. We have also looked at the findings of the Jigsaw research in a wider context, using Ofcom's Public Service Media (PSM) Tracker quantitative research. [75]

Summary of research findings

3.28 **Use and perceptions of Channel 4 varied greatly.** Heavier users were aware of the channel's full content offering and used it to satisfy multiple viewing needs (e.g. *'inform me'*, *'entertain me'*, *'educate me'* etc.), whereas lighter users tended to use the channel to fulfil specific needs.[76] Some viewers preferred 'lean in'[77] content like documentaries and comedies, while others favoured 'lean back'[78] content for relaxation, such as US comedies and game shows. These varying content preferences influenced how viewers perceived the channel and its content. 'Lean in' content was seen as more memorable (with heavier users more likely to

[72] Webpage: Channel 4 to remain publicly owned with reforms to boost its sustainability and commercial freedom.
[73] Webpage: Broadcasting update – Statement made on 8 November 2023.
[74] Please see full report for a detailed breakdown on methodology and sample.
[75] Ofcom, Public Service Media Tracker. For details on methodology and fieldwork please see the technical report.
[76] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 3.
[77] In this report Jigsaw refers to 'lean-in' content to describe content that is watched in a more purposeful and focused way e.g. watching an episode of a new series. It requires greater concentration, and as such, 'lean-in' content was often more memorable for audiences, so spontaneous recall of programmes consumed in this way tended to be higher.
[78] In this report Jigsaw refers to 'lean-back' content as that which requires less effort and can be watched while doing other things, when too tired to fully concentrate, or during shared viewing experiences where the conversation about the content is part of the enjoyment.

watch and engage actively with it), while ‘lean back’ content was associated with unwinding and escapism, and audiences were subsequently less able to recall the association with C4C content.[79]

3.29 **Channel 4’s brand position appears to have become diluted since Ofcom’s last qualitative research in 2017.** The breadth of the content on offer, and the contrasting provision of ‘lean in’ and ‘lean back’ content, has led to many participants feeling that Channel 4 offered ‘something for everyone’, which some saw as a strength. However, it was also seen to risk making it harder to associate a particular type or genre of content with Channel 4. This was felt to be particularly true in the context of the SVoDs and social media, which were able to offer more targeted content, and the proliferation of TV channels focusing on particular types or genres of content.[80]

3.30 **The Channel 4 brand has less resonance with younger audiences.** C4C was not found to be a regular feature of younger peoples’ viewing repertoire, and as a result younger people tend to have lower spontaneous recall of specific C4C content, and often had little reason to seek it out, which reinforced their low levels of engagement with the brand. However, when prompted with specific programme titles, these younger participants tended to be aware of some comedies, light entertainment and long-running dramas (such as *Gogglebox, The Inbetweeners* and *Hollyoaks)*, although this content was often misattributed to SVoDs.[81] The decline in viewing among the youngest audiences represents a change since the research was previously conducted in 2017, when younger (16-34-year-old) viewers tended to give more favourable ratings of C4C services.[82]

3.31 **For many, the intended target audience for Channel 4 was not entirely clear.** Overall, participants typically believed that the target audience was ‘younger’ but not ‘young’. Audiences over 34 tended to see it as ‘for everyone’ but with a slightly younger skew. There was acknowledged to be a wide range of content on C4C channels and platforms, from more youth-focused shows to long-running staples (such as *Location Location Location, Come Dine With Me* and *A Place in the Sun)* which were believed to be aimed at older audiences.[83] On the other hand, some audiences, particularly younger ones, struggled to identify a target audience and suspected that it was not aimed at them.[84] This was not necessarily because of the content or branding, but because other media services (such as SVoD services) felt more relevant to their generation. Those in their early 20s, or younger, saw Channel 4 as being for slightly older people, driven by factors such as its association with broadcast TV, and the fact that it was often watched by older family members.[85] Our PSM Tracker found that nearly three in five viewers (58%) in the past six months felt that Channel 4 TV channels provided both *“a wide range of different types of programmes, such as drama, comedy, entertainment or sport”* and *“appeals to a wide range of different audiences”* well.[86]

“I would say it’s got more of an older audience. I think more of the younger generations would be more into Netflix, Disney+ and Prime. Whereas my aunties and granny and stuff,

[79] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 18.
[80] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 23.
[81] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 5.
[82] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 17.
[83] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 22.
[84] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 22.
[85] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 22.
[86] Ofcom, Public Service Media Tracker 2022.

they would watch normal TV and stuff like that more often just because it's there and it's easy." [87]

(Female, Newry, 17-18, ABC1, light C4C user)

3.32 **However, older audiences have a much clearer understanding of what Channel 4 represents,** particularly for those who have grown up watching its content and remember it as the 'challenger' channel of the past. For these audiences, Channel 4 offered a genuine and much-needed alternative to the established broadcast brands as they emerged into adulthood. There was generally a much greater awareness, and use of, C4C content among these audiences, with heavier users tending to use a mix of platforms and channels to watch this type of content.[88]

3.33 **The Channel 4 Streaming service was considered 'glitchy' and hard to navigate.** Participants welcomed the broad array of free content available on the service; this was particularly appreciated due to the current cost-of-living crisis, as many viewers become more sensitive to the number of subscriptions services they are paying for. However, the platform was reported to be harder to use and 'glitchier' than some other platforms. [89] This was sometimes felt to be off-putting, especially for younger audiences, where it risked creating an outdated image.[90] This contrasts with the 2017 research, when the service was felt to be easy to use, modern and organised, and younger audiences were more likely than older audiences to engage with the C4C on-demand platform (known as All4 at the time).[91] In the Jigsaw research, some audiences also reported finding the amount and repetitiveness of advertising on Channel 4 Streaming irritating.[92] SVoDs appear to have set the expectation for on-demand viewing to be free from advertising, and younger viewers (who were most likely to use these services and had not grown up with linear TV advertising) appeared to have the least tolerance for advertising interrupting their viewing on BVoD. Nonetheless, our quantitative research found that 75% of viewers in the past six months said they were satisfied with All4 or All4+ (as it was known at the time); with satisfaction highest among 16-34-year-olds (79%) and lowest for those aged 55+ (68%).[93]

3.34 **There was low awareness and use of Channel 4's YouTube channels and content among participants.** This was not unique to Channel 4; there was little familiarity with YouTube as a destination to watch any broadcast TV channel.[94] A minority of typically younger adult audiences (i.e. those in their mid-30s and younger) could recall watching clips of C4C content on YouTube (either full-length programmes or content specifically commissioned for the platform). This viewing tended to occur when the content appeared in their feeds, or if they were following particular programme titles, rather than necessarily being aware of the Channel 4 Entertainment channel, and the content was not always attributed to C4C. [95] Younger audiences tended to prefer watching more organic and 'bottom-up' content made by content creators rather than that which appeared to be professionally scripted or produced. That said, YouTube and social media clips were seen as a good way to watch or

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[87] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 18.
[88] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 24.
[89] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 19.
[90] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 4.
[91] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 6.
[92] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 4.
[93] Ofcom, Public Service Media Tracker 2022.
[94] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 20-21.
[95] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 20.

re-watch clips of favourite programmes, particularly those that were seen to deliver low effort and low investment consumption, such as *Educating Yorkshire* or *24 Hours in A&E*. [96]

> ***"People go to YouTube because it's less manicured and less produced […] it's coming from a person specifically, so if you are watching a show on YouTube, it's a whole different thing, I think."***[97]
>
> (Male, Glasgow, 22-34, C2DE, light C4C user)

3.35 **At its best, Channel 4 was recognised as being distinct from other PSB channels.** While viewers sometimes struggled to articulate how they saw the broadcaster as distinctive within the wider media landscape, there was a clearer sense that Channel 4 was distinctive among the other PSBs. Those more familiar with Channel 4 content were able to articulate that, at its best, Channel 4 offered a genuine counterbalance to the 'posher' and 'more establishment' tone of the BBC, as well as the more mainstream 'for everyone' content of ITV. Channel 4 was acknowledged to have traditionally been known as being more risqué, progressive, and innovative in its content, and more prepared to push boundaries in a way that ITV and the BBC perhaps could not get away with. Channel 4 was also felt to be more genuinely diverse in its output than the other PSBs, including representing audiences from different racial, gender identity and sexual orientation groups, as well as championing diversity through representation of disability. [98] Our quantitative research highlights that just over half (54%) of viewers of Channel 4 TV channels in the past six months stated that these provided "*programmes that help me see things from a different background or perspective"* and "*programmes that are different in their approach to other providers"* well.[99] When looking at these two statements, among viewers of BBC, ITV and Channel 5 TV channels, Channel 4 TV channels compare favourably.

> ***"Putting things out there like the negative part of the royal family, they cover gender, anxiety and things like that and are talking about subjects that aren't easy to talk about and they do that more than the BBC and ITV. They talk about things that need talking about, but others won't do that."***[100]
>
> (Female, Belfast, 18-21, C2DE, medium C4C user)

3.36 **Some audiences felt that Channel 4 was becoming more mainstream and less edgy.** There was criticism of too many programme repeats and an over-reliance on long-running shows.[101] Among slightly older and heavier users who recalled the 'edgy' content of the past, there was a suspicion that Channel 4 is now producing more content with a populist tone (such as reality shows) and fewer new shows that provide social currency and "exciting and challenging" content.[102] This contrasts with the 2017 research, in which core Channel 4 viewers recognised it for having new ideas, and its distinctive image was centred on it being seen as informative, challenging and controversial, and a risk-taking trailblazer among broadcasters.[103] That said, it was acknowledged in the Jigsaw research that the perceived

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[96] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 21.
[97] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 21.
[98] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 26.
[99] Ofcom, Public Service Media Tracker 2022.
[100] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 36.
[101] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 27.
[102] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 28.
[103] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 10.

decline in the edginess of C4C's content could be attributed to the challenge of standing out in the increasingly competitive media landscape, where PSBs must compete for viewers' attention with the broad range of new and cutting-edge content available on SVoDs.[104]

3.37 **Although audiences were not generally aware of Channel 4's public service remit, they were supportive of its position in the PSB system when this was explained.** While its distinct role as an innovative, boundary-pushing broadcaster was felt to be less relevant in a world where SVoDs and social media platforms arguably fulfil this role, audiences believed that C4C could provide content that reflects the UK, in a way that global platforms could not.[105] Our quantitative research supports these findings, with three in five (60%) viewers in the past six months stating that Channel 4 TV channels provided both *"programmes which feature people from different backgrounds"* and "*programmes made for UK audiences"* well.[106] In terms of future priorities, audiences were keen to see a balance between light entertainment (reflecting the lives of people in the UK) and more edgy or cutting-edge 'hero'[107] content (especially UK comedy and drama), with Channel 4 and the other C4C services producing authentically 'British' content able to reflect their lives in a way SVoDs cannot.[108]

> ***"[If C4C no longer existed] we'd lose the local representation from things like Derry Girls, and the variety of content."***[109]
>
> (Female, Newry, 17-18 ABC1, light C4C user)

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[104] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 28.
[105] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 35
[106] Ofcom, Public Service Media Tracker 2022.
[107] In this report 'Hero' content is generally defined as shows that achieve a high level of cut-through, viewership and (sometime temporary) cultural relevance. Examples include *I'm a Celebrity, Get Me Out of Here*, *The Inbetweeners*, *Squid Game*, *Line of Duty*, etc.
[108] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 6.
[109] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 37.

4. Recent financial performance

C4C's financial performance has remained resilient over the current licence period

4.1 C4C's current operating model means that its revenue is predominantly driven by advertising. Despite the challenges that have characterised the current licence period (including the Covid-19 pandemic, uncertainty relating to the ownership of Channel 4 and the recent weakening of the TV advertising market after the Covid bounce-back), C4C has continued to perform successfully, and had a strong financial recovery from Covid-19 in 2021, generating overall record revenues of £1.16bn.

4.2 Changing audience viewing habits are reflected in the profile of advertising revenues, with overall linear advertising revenues having been in slow decline over the licence period. Although still relatively small compared to advertising for linear TV, BVoD revenues have continued to grow as advertisers increasingly use BVoD as a marketing channel for their campaigns, to extend their reach beyond traditional TV. BVoD advertising is used to target specific audience groups, including hard-to-reach younger audiences (16-34-year-olds accounted for 24% of BVoD viewing in 2022 and just 9% of linear TV viewing) and those in higher socio-economic groups (ABC1 audiences accounted for 62% of BVoD viewing compared to 51% of linear).[110]

4.3 **The advertising market is currently challenging for all broadcasters.** Following its recovery in 2021, the TV advertising market as a whole (including BVoD) experienced a downturn in 2022, with expenditure falling 1.4% to £5.38bn, reflecting lower spend by advertisers in the face of forecast economic slowdown and a return to the pre-pandemic trend of a declining number of viewers.[111] Within that, there was a 4% fall in linear TV advertising revenue to £4.54bn,[112] while revenue from BVoD services grew by 15.4% to £845m, continuing a trend of strong growth in the past decade.[113]

4.4 Forecasts from AA/WARC suggest a continuation of 2022's downturn in 2023. TV advertising spend was expected to contract by 1.9% in 2023, and the latest forecasts suggest that the contraction could be as high as 5.8%.[114] BVoD growth will not offset falls in linear TV spend. A 0.4% improvement in overall TV advertising is forecast for 2024, although this will still be below the level achieved in 2021.

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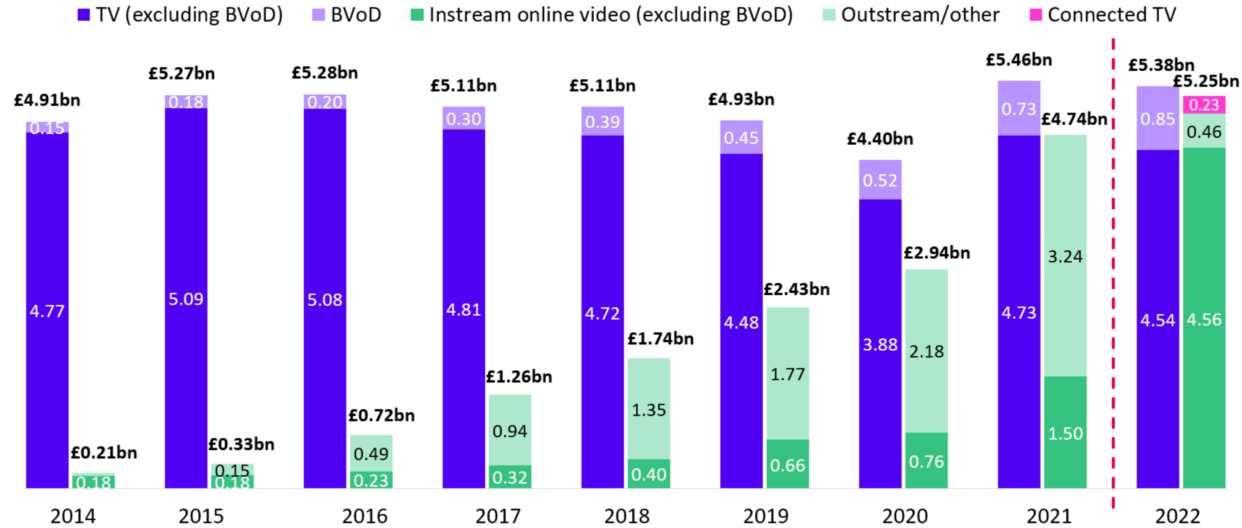
[110] Barb.
[111] AA/WARC Advertising Expenditure Report. Data presented in nominal terms.
[112] AA/WARC Advertising Expenditure Report.
[113] AA/WARC Advertising Expenditure Report. Data presented in nominal terms and includes PSB and non-PSB broadcaster on-demand services.
[114] Webpage: UK Ad Market Avoids Contraction in Q2 2023 through Growth in Online Channels

Figure 6: UK TV and online video advertising expenditure: 2014-2022



Source: AA/WARC Expenditure Report; IAB UK PwC Digital Adspend Study 2022.[115]

4.5 Changing viewing habits have also driven growth in other advertising markets. Younger audiences are more likely to spend their viewing time on social video platforms than on watching BVoD and linear TV, leading to growth in non-BVoD online video advertising. As shown in Figure 6 above, total online video advertising expenditure (instream and outstream), excluding that spent on BVoD, increased by 10.8% in 2022 to reach £5.25bn, which is comparable to the amount spent on TV.[116]

C4C's performance

C4C has increased its revenues through digital advertising channels

4.6 C4C has evolved its advertising strategy to reflect changing audience habits and technology.[117] This has translated to revenue growth, driven by growing digital advertising revenues of, on average, 21% per annum from 2015 to 2022, which was higher than the viewing trend of +15% per annum over the same period. Although C4C linear advertising

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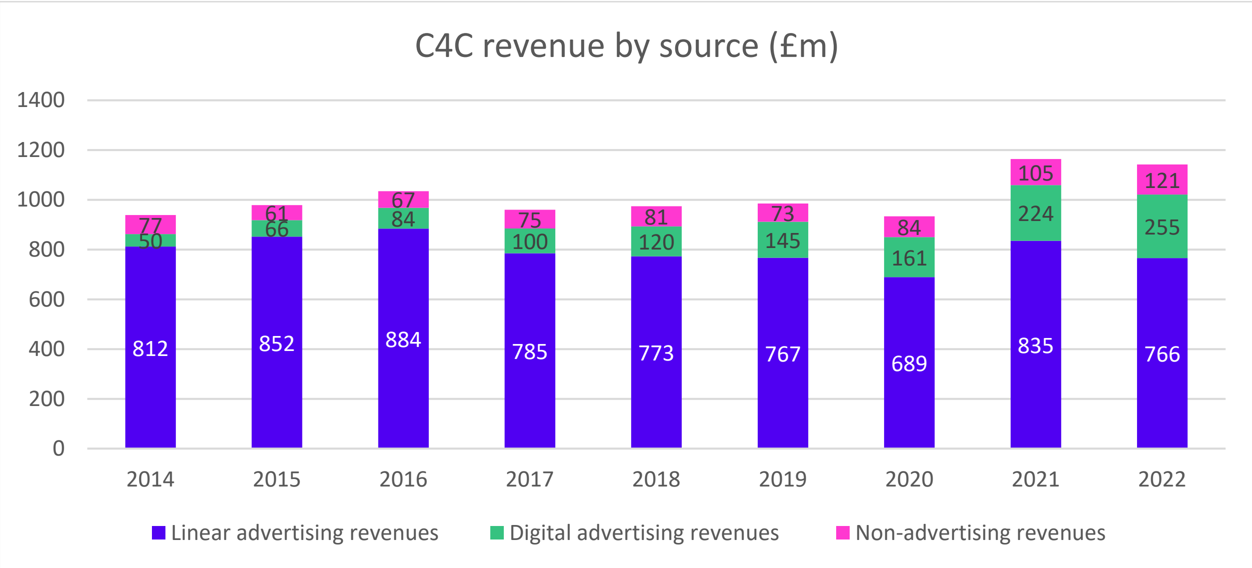
[115] Figures are presented in nominal terms. 'Instream' refers to streamed media attached to video content. This can include pre-roll, mid-roll and post-roll formats. Online video advertising will only launch when a piece of online video content is viewed. It is specific to the content against which it is attached and not the static web pages that the content may be launched from. 'Outstream' refers to standalone video ads that sit outside a stream of video content, including ads that appear on social media feeds, as well as standalone video ads on news websites. IAB UK's definition of instream was revised in 2022 due to the evolution of social video advertising formats. Where advertising is inserted between short-form, scrollable content, such as reels, and is dependent on the preceding or following video content, it is included in the 'instream' category.
[116] AA/WARC Advertising Expenditure Report. Data presented in nominal terms.
[117] This includes forming partnerships to make it a more attractive destination for advertisers; in 2023 C4C announced that it would be the first UK broadcaster to offer brands the option of using Microsoft Advertising's automated ad-buying platform, Xandr, to fully automate the delivery of digital campaigns - see Webpage: Channel 4 to expand its digital ad-buying suite with Xandr. In 2022, C4C formed a deal with YouTube to allow it to sell advertising around its shows, allowing it to generate revenue and grow the broadcaster's brand presence on the platform - see Webpage: Channel 4 and YouTube strike pioneering content and commercial partnership.

revenues have, on average, declined by 2% per year from 2015 to 2022,[118] this has been slower than the rate of viewing decline of between 3-4% per year.

4.7 C4C's most recent reported revenues (2022) underperformed against the TV market, with linear advertising revenue down 8% year on year to £766m; this is worse than the general TV market, which was down 4%. Digital advertising generated revenues of £255m, up 14%, but lagged behind the market (+15% for all BVoD) for the previous year.[119]

4.8 As part of the Future4 strategy to diversify its revenue streams, C4C set a target of 30% of total revenue coming from digital advertising by 2025; by 2022 this had reached 22%.[120] C4C also sought to achieve 10% of total revenue from non-advertising revenue (including film and partnerships) by 2025, which it met in 2022, posting £121m, or 11% of total revenues.[121]

Figure 7: C4C revenue, by source: 2014 to 2022 (£m)



Source: C4C (provided 26/09/23).

4.9 In its assessment of the impact of removing Channel 4's publisher-broadcaster restriction, DCMS has said: *"Market-wide, the reduction in linear TV advertising revenue has somewhat been compensated by digital TV advertising, which includes revenues from advertising on video on-demand, as well as on video-sharing platforms such as YouTube. C4C's revenues have followed those broad trends, but with digital advertising revenue not fully compensating for the decline in linear TV."*[122] As we highlighted in our latest SMCP Report, C4C's digital transformation will need to carefully balance increasing digital revenues while acknowledging the ongoing contribution of linear advertising to its financial sustainability.[123]

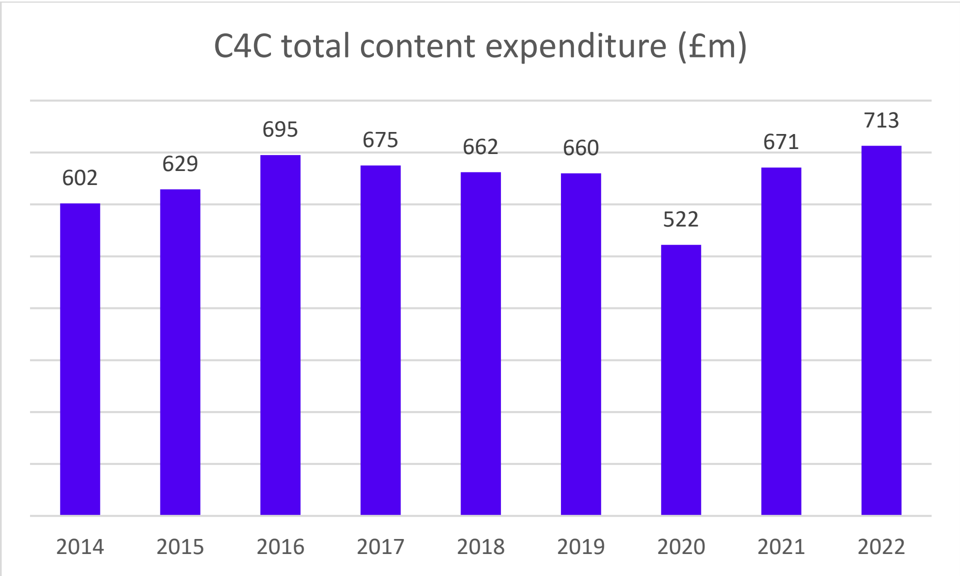
[118] Appendix 3: Historical Trends, C4C Three Year Plan 2023-25, Board Paper, September 2022, submitted to Ofcom 9 June 2023 and Channel Four Television Corporation Report and Financial Statements 2022, p. 234
[119] Channel Four Television Corporation Report and Financial Statements 2022, p. 11.
[120] Channel Four Television Corporation Report and Financial Statements 2022, p. 11.
[121] Channel Four Television Corporation Report and Financial Statements 2022, p. 18.
[122] DCMS, Assessment of Impacts: The removal of Channel 4 Television Corporation (C4C)'s publisher-broadcaster restriction and accompanying mitigations, p. 10.
[123] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 6.

Content spend continues to make up the majority of C4C's costs

4.10 C4C's current publisher-broadcaster restriction[124] means that its programming costs are more flexible than those of a producer-broadcaster which has to invest in fixed production capabilities. C4C's statutory status and functions enable it to invest all its surplus income back into commissioning content and other strategic investments.[125] It can therefore be relatively agile in spending money on content.

4.11 Based on its Annual Reports, C4C's content spend (including original content and acquisitions) has grown steadily since 2014, although C4C has shown that it can adjust this spend when necessary. During the Covid-19 pandemic, it was able to cut its content spend quickly to protect its finances and was then able to take advantage of the strong recovery in 2021 to invest a record £713m in content in 2022, an increase of 6% on the previous year's figure of £671m.

Figure 8: C4C total content expenditure: 2014 to 2022 (£m)



Source: C4C Annual Reports 2014 to 2022.

4.12 In line with its Future4 strategy, C4C is now distributing its total content spend more widely. Although Channel 4 still accounts for the bulk of C4C's investment (at £550m in 2022, 77% of total investment), this proportion has been declining, down from 79% in 2021, and 81% in 2017.[126] C4C is investing more in its portfolio channels (which typically have a younger audience profile than the main channel), with spend growing 9% year on year in 2022 to £129m.

4.13 The greatest percentage increase in overall content spend in 2022 was on digital media services. At £34m, this spend was three times greater than the corresponding figures in 2018 and 2019.[127] This investment strategy reflects C4C's drive to increase digital viewing and attract younger audiences, including by investing in acquired content. In its Annual Report,

[124] See footnote 27.
[125] Due to the current publisher-broadcaster restriction, C4C does not produce programmes for broadcast on Channel 4, which means in particular that C4C does not benefit from further revenue streams once a programme has been broadcast.
[126] Channel Four Television Corporation Report and Financial Statements 2022, p. 95.
[127] Channel Four Television Corporation Report and Financial Statements 2022, p. 95.

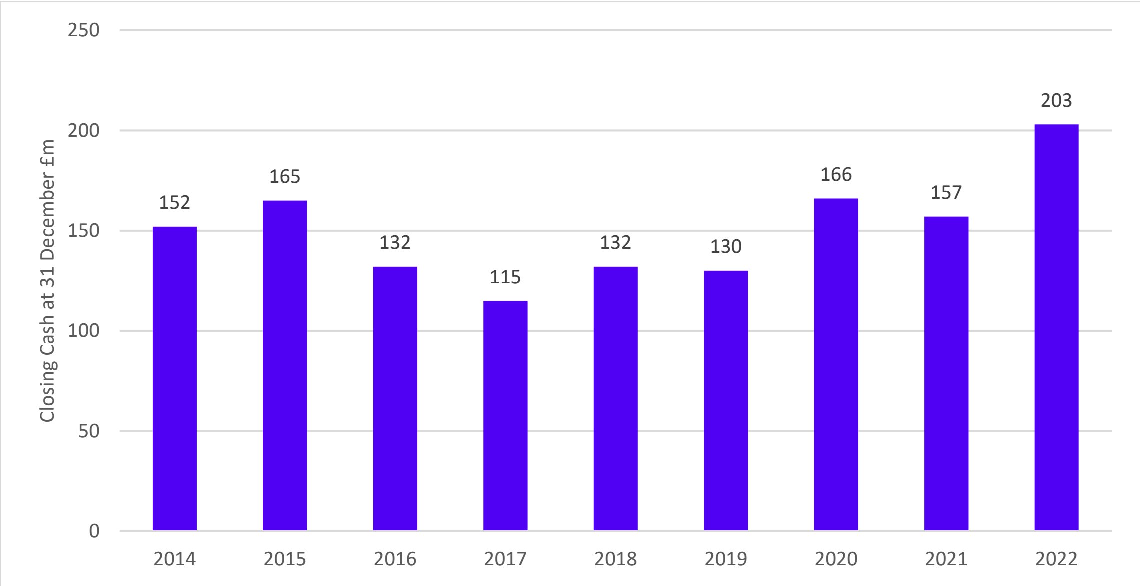
C4C said that key acquisitions, like *Rick and Morty* and *The Big Bang Theory*, provided a way into the Channel 4 brand for younger audiences who may not have engaged with it before.[128] C4C considers these to be streaming-first shows, which may also receive linear transmission.[129]

C4C continues to maintain a positive cash position

4.14 C4C has generated a pre-tax surplus of £142m over the current licence period (1 January 2015 to 31 December 2022).[130] Its statutory status and functions have meant that a proportion of this has been used for strategic investments; the bulk of the rest has been retained within its cash balances.

4.15 In considering C4C's financial strength we have considered its cash reserves which can be drawn upon if C4C were to make losses. C4C has increased its cash balance to about £200m at 31 December 2022, from £150m at the start of 2015.[131]

Figure 9: C4C annual closing cash balance at 31 December: 2014 to 2022 (£m)



Source: C4C Annual Reports 2014 to 2022.

4.16 Generating and maintaining a cash balance, along with its agility on content spend, has enabled C4C to absorb market shocks and to invest in content when conditions change, as shown in Figure 9. C4C also has access to banking facilities of £75m,[132] with a statutory limit

[128] Channel Four Television Corporation Report and Financial Statements 2022, p. 33.
[129] Channel Four Television Corporation Report and Financial Statements 2022, p. 33.
[130] Channel Four Television Corporation Reports and Financial Statements 2015 to 2022. Data expressed in nominal terms.
[131] Channel Four Television Corporation Report and Financial Statements 2022, p. 220. *"Liquidity risk is the risk that the Group fails to meet its financial obligations as they fall due. The management of operational liquidity risk aims primarily to ensure that the Group always has a liquidity buffer that is able, in the short term, to absorb the net effects of transactions made and expected changes in liquidity both under normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation. The cash balances held by the Group and, from March 2018, the £75 million revolving credit facility, are considered to be sufficient to support the Group's medium-term funding requirements."*
[132] Channel Four Television Corporation Report and Financial Statements 2022, p. 15.

of £200m,[133] is debt-free,[134] and does not have any obligation to provide returns to investors due to its public ownership status.

[133] A limit on C4C borrowing is currently set at £200m under the Channel 4 Television Corporation (Borrowing Limit) Order 2003. DCMS and C4C have agreed updated governance structures to support financial management and other assurance processes, including an updated Memorandum of Understanding.
[134] Channel Four Television Corporation Report and Financial Statements 2022, p. 198.

5. Proposals for consultation

Our approach to setting a new Channel 4 licence

5.1 In considering the appropriate conditions and duration for a renewed licence, we have taken into account the significant changes to the broadcasting landscape described in section 3 and the likelihood that audience viewing habits will continue to evolve rapidly over the next licence period. We have also taken account of the need for C4C to respond to these challenges by transforming itself into a digital-first PSB and that, throughout the next licence period, C4C will have a continued focus on this. Where relevant to the licence conditions, we have also considered insights from audience viewing data and attitudes to the Channel 4 service, including from the Jigsaw research (paragraphs 3.28 to 3.37).

5.2 As part of this process, we asked C4C to set out its strategy for the next licence period, including the extent to which it considered the current licence conditions remained appropriate, and any changes it thought should be made to the licence. In its submission to us, C4C said that it needs a *"future-facing licensing framework from Ofcom that supports and enables the transition of both our audiences and our own operating model. C4C's ability to evolve how we distribute content […] will be key to ensuring that audiences engage with the content that most strongly reflects our public service remit*".[135]

5.3 Its submission stated that, given how quickly both technology and viewing habits are changing, and to allow it sufficient certainty to plan its long-term business strategy and investments, it proposed that Ofcom "*sets licence obligations that are future-proofed for the entirety of the next licence period – and which are consistent with Channel 4's strategic intent for ongoing digital transformation*".[136]

5.4 C4C made a series of requests to Ofcom for changes to its existing licence conditions to support its strategy to drive viewing to digital. It said that it was seeking *"relatively modest changes to some of our existing licence obligations"* over the next licence period.[137] Underpinning these requests is a desire on the part of C4C for greater flexibility in how it commissions and distributes content, which it said would allow it to respond to rapidly changing audience behaviour and ensure that it continues to fulfil its remit. Nonetheless, C4C also said that, given the ongoing significance of its linear channel, changes to its delivery of content will happen gradually over the licence period, which is consistent with its broader strategy for ongoing digital transformation. C4C said: *"in the period to 2034, we will maintain the holistic strategy that champions the principles of our remit across all our services. The main licensed public service channel will remain core to this, even […] as linear, long-form viewing takes a less prominent role in consumers' media consumption mix*".[138]

5.5 Taking all this into consideration, and the continuing significance of the linear service for the foreseeable future, our approach to setting a new licence for the Channel 4 service aims to strike a balance between allowing C4C greater flexibility in the future to develop its content and distribution strategy in support of its digital transformation, while continuing to

[135] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[136] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[137] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[138] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.

safeguard its investment in distinctive UK content and protect the delivery of the core elements of its linear output.

Consultation question 3

Do you agree with our proposed approach to setting the new Channel 4 licence? Please provide reasons for your response, with any supporting evidence.

Specific proposals on which we are consulting

News

Summary of proposals

We propose to:

- **retain the condition requiring C4C to provide no less than 208 hours of news in peak** viewing time each calendar year on Channel 4. Peak viewing time is considered to be 18:00 to 22:30;
- **remove the requirement** for C4C to provide one news programme on Channel 4 at lunchtime every weekday; and
- **retain the requirement for** C4C to provide news programmes at intervals throughout the period for which Channel 4 is provided, including one programme in the early evening each weekday and on both Saturday and Sunday.

Statutory requirements

5.6 Section 279 of the Act requires Ofcom to include conditions in the licences of the public service channels which Ofcom considers appropriate in order to secure:

a) that the programmes included in the channel include news programmes and current affairs programmes;
b) that the news programmes and current affairs programmes are of high quality and deal with both national and international matters; and
c) that such news programmes are broadcast for viewing at intervals throughout the period for which the channel is provided.

5.7 Section 279 also requires that Ofcom sets conditions that we consider appropriate, to secure that the time allocated for each of news programming and current affairs programmes is no less than what appears to Ofcom to be an appropriate proportion of time allocated to the broadcasting of all programmes, and that the time for each is split in what appears to Ofcom to be an appropriate manner between peak viewing times and other times.

5.8 In setting conditions in the licence relating to news we must have regard to the PSB purposes set out in section 264 of the Act, in particular:

"that [PSB] services (taken together) provide, to the extent that is appropriate for facilitating civic understanding and fair and well-informed debate on news and current affairs, a

comprehensive and authoritative coverage of news and current affairs in, and in the different parts of, the United Kingdom and from around the world".[139]

Current obligation

5.9 There are two key conditions that relate to news in the current Channel 4 licence:

a) *"News Programmes shall be provided at intervals throughout the period for which the Channel 4 Service is provided, with at least one Programme at lunchtimes each weekday and one in the early evening each weekday and a Programme in the early evening at weekends on both Saturday and Sunday."*

b) *"Not less than 208 hours in each calendar year of the Licensing Period of news Programmes in peak viewing time shall be included in the Channel 4 Service. Such news Programmes shall be of high quality and deal with both national and international matters. Coverage shall be accurate, impartial, authoritative and comprehensive, in terms both of geography and subject matter. Live coverage of important, fast-moving events shall be provided, with news flashes outside regular bulletins as appropriate."*[140]

5.10 These provisions have not changed since Ofcom issued its first licence for Channel 4 in 2004.

Delivery over the licence period

5.11 C4C mainly delivers its news output via its weekday evening programme, *Channel 4 News*. In recent years, in addition to its linear output, C4C has been expanding its online news offering, including via YouTube and TikTok (details provided in paragraphs 5.23 to 5.26).

5.12 Over the licence period, Channel 4 has consistently delivered above its peak news quota.

Figure 10: Channel 4 delivery of the news quota over the licence period in hours

Quota	2014	2015	2016	2017	2018	2019	2020	2021	2022
208 hours	219 hours	215 hours	210 hours	214 hours	220.4 hours	227.8 hours	230.1 hours	217.7 hours	216.7 hours

Source: Ofcom/Channel 4.

5.13 The requirement to deliver lunchtime news is a scheduling requirement and does not require Channel 4 to include a programme of a particular length. In 2010, C4C replaced its half-hour *News at Noon* programme with short lunchtime bulletins to be *"able to concentrate its resources on the main daily programme where it can have maximum impact"*.[141] The replacement bulletin is on average three minutes long and delivers only the headlines for the day rather than an in-depth package.

5.14 C4C currently meets its weekend scheduling requirements with two half-hour weekend news programmes on Saturday and Sunday. These programmes do not have a regular slot in the schedule, as does the weekday bulletin; instead, they move in the schedule to suit C4C's wider programming needs each weekend.

[139] Section 264(6)(c) of the Act.
[140] Channel 4 licence, Annex 1, paragraph 2.
[141] Channel 4, Statement Of Programming Policy 2010, page 6.

C4C's request for the new licence

In its submission to Ofcom, C4C expressed its commitment to its overall provision of news and said it considered that the overall number of hours of news in peak time remained appropriate for the next licence. It said that news programmes sit *"at the heart of Channel 4's schedule mission and are amongst the most important and impactful ways in which we fulfil our public service remit."*[142]

C4C requested the removal of the current lunchtime news scheduling requirement, arguing that the lunchtime bulletin delivers less value for audiences than the rest of the *Channel 4 News* output, which is more in-depth. C4C's submission said: "*our request to remove the requirement to provide a lunchtime bulletin does not mean that we intend to remove these bulletins immediately: it is likely that they would remain in place for some time. However, removing the requirement would give us the flexibility to cease lunchtime bulletins if the value that they deliver to audiences overall continues to diminish as more people migrate away from linear TV*."[143]

C4C also noted that "*removing this requirement would give us additional flexibility to plan our schedules in the most competitive way to maximise audiences […] The three minutes would be replaced with daytime suitable programming, ensuring that there is a flow of audience throughout the schedule*."[144]

In addition, C4C requested the removal of the weekend scheduling requirements. It noted that it is "*not planning any changes to our weekend news output in the short term given that they currently attract similar audience levels to our weekday bulletins, and it is unlikely we would ever seek to remove them entirely*." It continued that its "*main reason for asking for additional flexibility is so that we can make occasional changes to the schedule to make it more competitive and to enable us to evolve our approach over time as audience habits change.*"[145]

Our reasoning

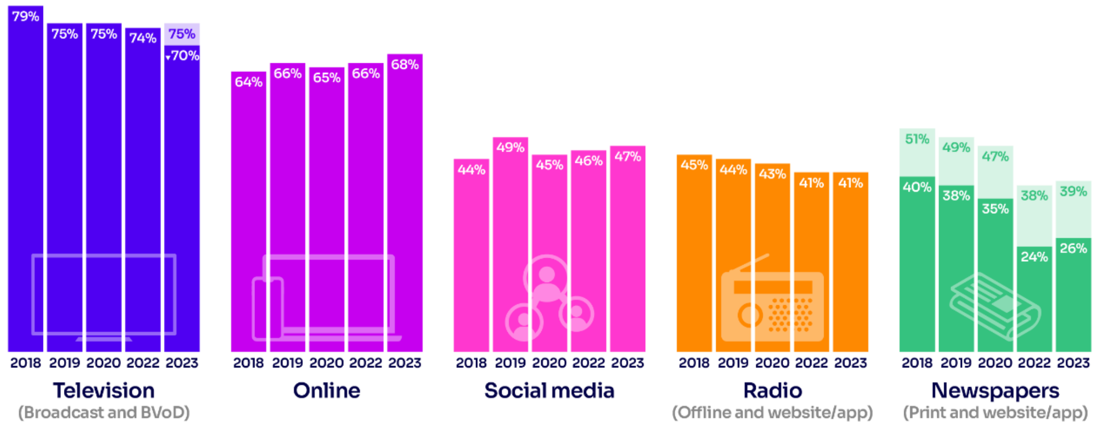
Retaining no less than 208 hours of news in peak

Live television news continues to be important for audiences

5.15 Broadcast television continues to maintain its position as the most-used platform for consuming news. In 2023 broadcast television news reached 70% of UK adults, although this represents a decline from 79% in 2018.[146] This reach increases to 75% when BVoD services are included.[147]

[142] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[143] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[144] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[145] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[146] Ofcom, News consumption in the UK: 2023, p. 3. 2018 is the earliest year for which we have comparable data.
[147] Ofcom, News consumption in the UK: 2023. This year the survey included broadcast video-on-demand services such as BBC iPlayer, ITVX/ITX Premium and All 4/All 4+ as news sources. 'All4/All4+' was re-branded to 'Channel 4/Channel 4+' in 2023 after NCS fieldwork was complete.

Figure 11: Use of main platforms for news 'nowadays'



Source: Ofcom News Consumption Survey 2023.[148]

5.16 The PSBs continue to be the cornerstone of television news delivery, collectively reaching 94% of television news audiences in 2023. *Channel 4 News* has a significant role to play in this, reaching 24% of all audiences using TV for news.[149]

5.17 The current Channel 4 quota of 208 hours of news in peak, together with the requirement to provide a programme in the early evening each weekday, has been effective in securing the provision of an in-depth news television programme on Channel 4 five nights a week. We consider that the quota will remain effective at delivering this in the new licence period.

Channel 4 News offers something distinctive from other news providers

5.18 As set out in paragraph 2.2 above, the PSB framework envisages that C4C's provision of news should complement the delivery of news by other PSBs, to secure the collective fulfilment of the PSB purposes. The distinctive character of *Channel 4 News*, both in its format and editorial approach, contributes to this.

5.19 The Jigsaw research found that *Channel 4 News* retained a distinct identity among its audiences. Audiences felt it provided unbiased, trustworthy news and was willing to challenge establishment thinking. It was also felt to have a younger and more progressive reporting style and format compared to ITV or the BBC. Audiences thought that *Channel 4 News* was prepared to go where the BBC and ITV news would not, for example when interviewing politicians or talking about political issues.[150]

> **"Channel 4 is good for breaking hard hitting news, and not afraid about what the public think whereas the BBC is always thinking about what the public think."**[151]
>
> (Male, Cardiff, 35-54, ABC1, Medium C4C user)

5.20 The *Channel 4 News* evening programme also reaches a slightly different audience to other PSBs' news output. In 2022, 15% of the *Channel 4 News* weeknight peak audience comprised

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[148] Question: C1. Which of the following platforms do you use for news nowadays? Base: All adults 16+. 2023=4556, 2022 W2*=2792, 2020=4576, 2019=4691, 2018=4618. *2022 W1, and 2021, data not shown because face-to-face fieldwork was not possible during Covid-19 pandemic. **Includes use of social media, podcasts and all other websites/apps accessed via any device. ***BVoD included for first time in 2023.
[149] Ofcom, News consumption in the UK: 2023, p. 6.
[150] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 30-31.
[151] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 31.

viewers from minority ethnic groups, higher than that of other PSBs' news programmes (*ITV News at Ten* was the second highest at 11%). This proportion has remained fairly consistent over the licence period, fluctuating by a few percentage points but never dropping below 15%.[152]

5.21 In 2022, among audiences aged 16-34, weeknight peak broadcasts of *Channel 4 News* averaged a 3.1% viewing share, and 16-34s made up 7% of the audience, making it the joint youngest-skewing long-form PSB news programme (with ITV's *News at Ten*). Over the licence period Channel 4 has seen a downward trend in the 16-34s composition of its weeknight peak news programme, down by 10 percentage points, but this is in line with the sharper declines in viewing to broadcast TV in general among that age group.[153]

5.22 Despite this decline, Channel 4's weekday peak news still has the joint youngest audience profile of any PSB, together with ITV1, and has the most diverse audience within the PSB news landscape. Considering this audience mix, we think it is important to secure the continued provision of *Channel 4 News* on television over the next licence period to ensure that these audiences continue to be served with high quality news.

The presence of *Channel 4 News* on social media helps attract younger viewers and is also useful in bringing them to the linear bulletins

5.23 Developing digital news products is crucial for engaging younger audiences in news content. In 2023, a majority (83%) of 16-24-year-olds consume news online. This is driven by use of social media for news (71%). In contrast, broadcast TV is used for news by under half (47%) of this age group, although this increases to 53% when on-demand viewing is included.[154] They also access news online in a different way to older adults. Far fewer 16-24s go direct to websites for their news; they are more likely to go via social media. C4C said in its submission that, of *Channel 4 News*' young audience (16-34s), almost a third (27%) have recently started watching longer-form *Channel 4 News* on TV or streaming after following *Channel 4 News* on social video platforms.[155]

5.24 Over the current licence period C4C has significantly expanded the way in which it delivers news. C4C's objective is to ensure that audiences can choose how, when and where to access content, whether on linear broadcast, digital or social media. It has introduced a range of news products since 2014, including news podcasts and content designed for social media, and has committed to expanding its output to new platforms. More than 40% of C4C's YouTube audience and 65% of its TikTok audience are aged under 35.[156] The number of followers of *Channel 4 News* on TikTok grew tenfold in 2022 to over 300,000, which C4C says was driven mainly by its Ukraine war coverage and an increase in the timeliness, quantity and quality of its content.[157]

5.25 While this content does not contribute towards the delivery of Channel 4's licence conditions, it forms part of the way in which C4C fulfils its media content duty: to make relevant content that consists of news and current affairs. It also contributes to its delivery

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[152] Barb, 28-day consolidated, via TV sets only: excl. +1, weekday national news between 1800 and 2300. 2014-2022.
[153] Barb, 28-day consolidated, via TV sets only. Excl. +1 peak national news between 1800 and 2300 greater than 7 minutes duration. 2014-2022
[154] Ofcom, News consumption in the UK: 2023, p. 2.
[155] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[156] Channel Four Television Corporation Report and Financial Statements 2022, p. 60.
[157] Channel Four Television Corporation Report and Financial Statements 2022, p. 60.

of its duties to make content which appeals to older children and young adults, and to support and stimulate well-informed debate on a wide range of issues.

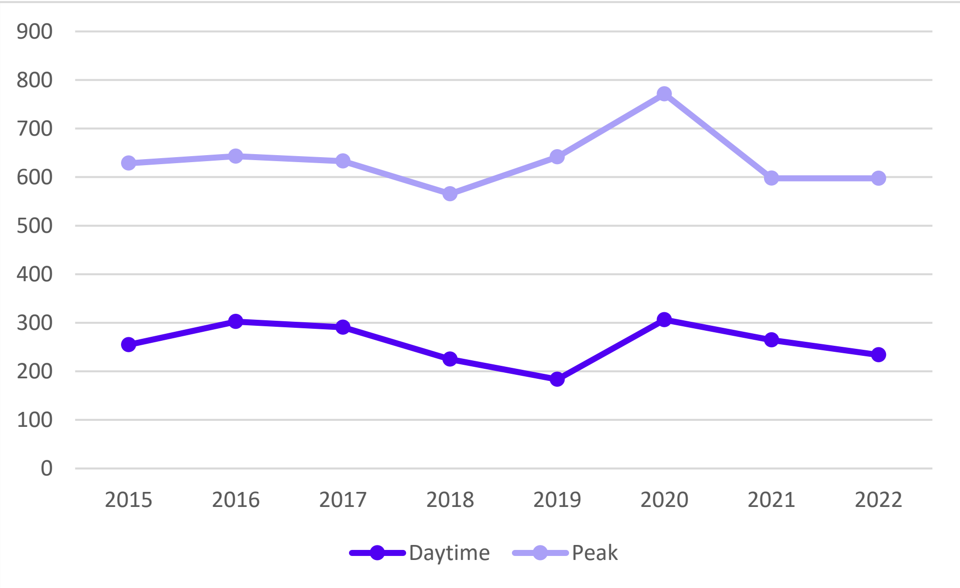
5.26 We welcome the additional reach C4C achieves through its investment in digital news, and the opportunity it provides to bring new audiences to the linear bulletin. A reduction in the hours of linear broadcast news could enable C4C to invest more in its digital offering. However, as a majority of audiences – even younger audiences – are still engaging with television news, we think it important to protect the provision of linear news on Channel 4.

Television news in peak time has the most impact

5.27 The Channel 4 licence contains a quota relating to news broadcast in peak viewing time, with additional scheduling requirements for other times. This recognises the fact that news delivered in peak time will have the most impact for audiences.

5.28 The average audience of news in peak time is far higher than for news output in other day parts, demonstrating the importance of peak-time news for engaging audiences.

Figure 12: Average audience (000s) for Channel 4's network news: 2015-2022



Source: Barb, 28-day consolidated, individuals 4+, via TV sets only. Monday – Sunday, includes +1.

5.29 Between 2015 and 2022 C4C increased its viewing share for the weekday evening news programme (from 3.1% in 2015 to 4% in 2022).[158] In addition, Ofcom's research found that *Channel 4 News*' audience rated it highly for delivery of national and international news.[159] In 2023, 67% of its audience rated it highly for being '*high quality'* and for '*helping me to understand what's going on in the world today*'.[160]

5.30 Considering the likely developments in the consumption and production of digital news over the next licence period, we think this emphasis on television news, specifically in peak time, is appropriate, and more relevant than ever.

[158] Barb, 28-day consolidated, via TV sets only. Individuals 4+, including Channel 4+1.
[159] 67% rated C4C as good for national news and 68% for international news. Ofcom, News consumption in the UK: 2023.
[160] Ofcom, News consumption in the UK: 2023.

5.31 We consider that 208 hours remains an appropriate level of output for C4C, and as demonstrated throughout the current licence period, does not restrict C4C's flexibility to experiment with new ways of reaching audiences with its news output, for example via TikTok.

Consultation question 4:

Do you agree with our proposal to retain the condition requiring not less than 208 hours of news programmes in peak viewing time to be included in the Channel 4 service in each calendar year of the licensing period?

Please provide reasons for your response, with any supporting evidence.

Removing the lunchtime news scheduling requirement

The *Channel 4 News* lunchtime bulletin does not reach significant audiences

5.32 Channel 4's weekday lunchtime news bulletin averaged 1.8% share of viewing in 2022, down from 2.9% in 2015. The bulletin accounted for only 1% of Channel 4's total overall news viewing.[161] In contrast, the share of viewing for the BBC One, ITV1 and Channel 5 lunchtime news programmes increased between 2015 and 2022, although average audience figures declined more quickly over this period as total television viewing at this time of day decreased. [162] ITV and BBC One provide a daily half-hour national news programme at lunchtime on weekdays, while Channel 5 provides five-minute bulletins. The drop in share of viewing for the weekday lunchtime bulletin does not reflect Channel 4's overall news output, as detailed in paragraph 5.29 above.

5.33 There are a number of factors that may contribute to C4C's declining share of viewing for lunchtime news audiences. One factor could be that the relatively young audience has watched less TV since 2014. It also appears that this bulletin does not resonate with Channel 4 audiences, and that this is an issue specific to the lunchtime slot. For this reason, we think that its removal is unlikely to have a significant impact on audiences to *Channel 4 News* or on C4C's delivery of news as part of its remit and duties.

The lunchtime bulletin may disrupt viewing of Channel 4 across the day

5.34 C4C's submission said that it wanted to be able to improve the flow of the Channel 4 schedule throughout the day and suspected that the requirement for a lunchtime bulletin may be acting against this.[163] We have looked at the average audience and share of viewing for programming before and after the lunchtime news bulletin to see if it is leading to audiences dropping off or switching away from the channel.

5.35 Both the average audience and the share of viewing for the lunchtime news bulletin is significantly lower than for the programmes before and after it. It is unclear whether the same audiences are switching off during the bulletin and coming back after it, or whether Channel 4 is losing that earlier audience and new viewers are watching after the bulletin. Either way, this supports the idea that the bulletin is not engaging audiences and is

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[161] Bulletins of less than 8 minutes in duration in weekday daytime as a percentage of all viewing to national news on Channel 4 (including Channel 4 +1).

[162] Barb, 28-day consolidated, via TV sets only, Individuals 4+, including +1 channels, note that bulletins are not at the same times.

[163] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.

potentially acting as a barrier to audience persistence throughout Channel 4's daytime schedule.[164]

The profile of the audience for the lunchtime bulletin usually also access other sources of news

5.36 We assessed whether certain audiences might be disproportionately affected by the loss of the lunchtime news bulletin. We focused particularly on older audiences, who are less likely to consume news on other platforms such as social media. We found that this bulletin has the youngest audience compared to Channel 4's weekend or weeknight programmes. 45% of its audience is aged 55 or older, compared to 59% of the weeknight programme and 67% of the weekend programme.[165]

5.37 We also looked at how, in the first quarter of 2023, the average viewers of this bulletin consume other television news. These audiences watched 51% more daily minutes of news per person on average in the same quarter as others in general. They also watched nearly two-and-a-half times as many average daily minutes per person of *Channel 4 News* in weekday peak viewing time in the same quarter as others in general.[166]

5.38 This data suggests that habitual viewers of the Channel 4 weekday lunchtime news bulletin watch more news in general, and more news elsewhere on Channel 4, than the average viewer.

5.39 While a significant number of viewers of this bulletin are aged 55+, and therefore more likely to rely on TV news,[167] the data which suggests that they are more likely to engage with other *Channel 4 News* bulletins leads us to conclude that an increasingly small number of viewers are likely to be impacted by its removal. Therefore, we consider that removing the requirement for this bulletin, in order to provide C4C with the operational flexibility to adapt Channel 4's daytime schedule to meet changing audience needs over the next licence period, is appropriate.

C4C is unlikely to remove the lunchtime bulletin until well into the next licence period

5.40 If we were to remove this requirement, C4C has suggested it would not remove the lunchtime bulletin straight away, but at an appropriate time over the next licence period. But as we do not think there would be a significant impact on audiences, even if the bulletin were removed immediately, we think it would be appropriate to remove this condition from the beginning of the licence period.

Consultation question 5:

Do you agree with our proposal to remove the lunchtime news scheduling requirement?

Please provide reasons for your response, with any supporting evidence.

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[164] Barb, 28-day consolidated, via TV sets only, Individuals 4+, including Channel 4+1, January 2022 to July 2023.
[165] Barb, 28-day consolidated, via TV sets only, including Channel 4+1 base individuals 4+
[166] Barb, 28-day consolidated, via TV sets only, including +1 channels, individuals 4+. Viewers in the middle 50% (interquartile range) of all those who watched at least 1 minute of the Channel 4 weekday lunchtime news bulletin, when ranked by weight of viewing, 2023 Q1. This definition excludes both the quarter of viewers who watched the fewest minutes of all the lunchtime news coverage on the channel in that period, and the quarter of viewers who watched the most minutes of that coverage.
[167] See paragraph 5.36

Retaining the weekend news scheduling requirements

Channel 4's weekend news programming has a significant audience

5.41 In contrast to the lunchtime bulletin, there is evidence that the weekend news programmes deliver significant value for audiences, as demonstrated by their reach and share of viewing. They have approximately the same share of viewing as the weeknight programmes (around 4%) and contribute 14% towards Channel 4's overall news viewing.[168] The viewing of the Saturday bulletin is broadly comparable with the Sunday bulletin, both in terms of average audience and audience reach.[169] C4C itself notes that the weekend programmes "*attract similar audience levels to our weekday bulletins.*"[170] In addition, these bulletins are much more substantial and detailed than the lunchtime bulletin, at half an hour long.

5.42 C4C has requested the flexibility to drop one of these programmes at some point in the future, which could result in the loss of any news provision on one day at the weekend. Regular daily news is important to fulfilment of the PSB objective for news. The objectives to be secured by the PSBs, taken together, include, to the extent appropriate for facilitating civic understanding and fair and well-informed debate, a 'comprehensive and authoritative' coverage of UK and international news.[171] One of the ways in which PSBs, including Channel 4, secure this objective is by providing daily coverage of the rapidly-changing news agenda. The viewing and reach of Channel 4's weekend news programmes demonstrates that there is an appetite for news on each of these days, and as such, we do not think a gap in daily news provision would be appropriate for audiences or for the fulfilment of the PSB objective.

The *Channel 4 News* weekend audience skews older than its other output

5.43 67% of the audience for the weekend programmes is aged 55 or over,[172] compared to 59% of the weekday evening audience and 45% of the lunchtime audience. Statistically, this audience is significantly less likely than under-55s to obtain news through social media, websites or other apps, and rely more heavily on TV news.[173] This means that any change in the provision of weekend news may disproportionately impact older audiences who tend to have more limited sources of news.

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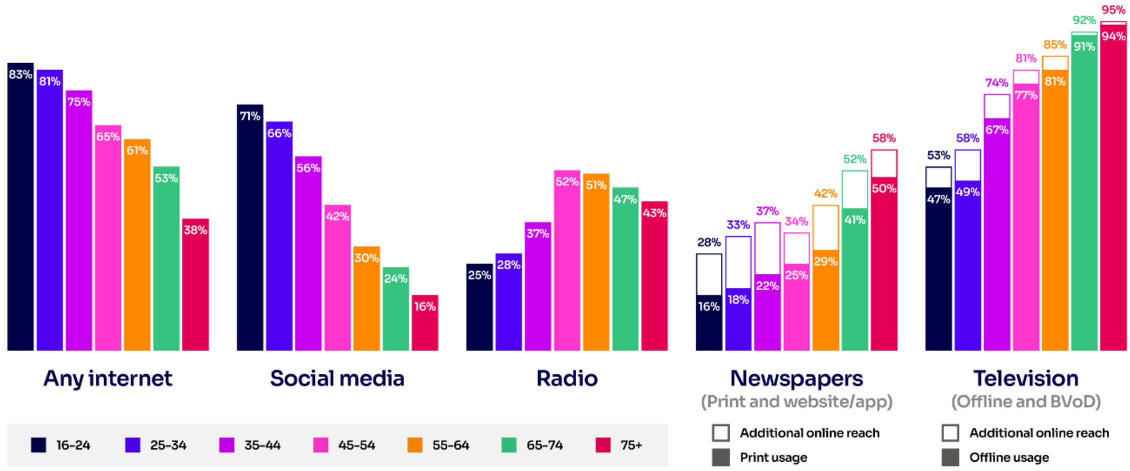
[168] Barb, 28-day consolidated, TV sets only, includes Channel 4+1.
[169] Barb.
[170] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[171] Section 264(6)(c) of the Act.
[172] Barb, 28-day consolidated, TV sets only, includes Channel 4+1, base individuals 4+.
[173] Ofcom, News consumption in the UK: 2023, page 4.

Figure 13: use of main platforms for news, by age: 2023



Source: Ofcom News Consumption Survey 2023.[174]

5.44 We assessed whether viewers of the weekend programmes were likely to watch other broadcast news, in order to understand whether they were likely to continue to engage with broadcast news if the *Channel 4 News* weekend provision was reduced. We found that the average viewers of the weekend news watched just over twice as many minutes of national/international news on broadcast TV (on PSB channels and on news channels) in 2023 Q1 compared to TV viewers in general.[175] Although it is positive that these audiences may still engage with news should Channel 4's provision be reduced, we consider that the distinctiveness of *Channel 4 News* serves these audiences, and would be missed from the PSB weekend news landscape.

5.45 The profile of the audience, taken together with the significant share of viewing of these weekend programmes, has led us to consider that a change to reduce or remove weekend news would negatively impact the core audience for this provision. We think it is appropriate to ensure the continued provision of weekend news for these audiences on Channel 4.

Consultation question 6:

Do you agree with our proposal to retain the weekend news scheduling requirement?

Please provide reasons for your response, with any supporting evidence.

[174] Question: C1. Which of the following platforms do you use for news nowadays? Base: All adults 16+ 2023 Aged 16-24=739, 25-34=665, 35-44=819, 45-54=724, 55-64=622, 65-74=562, 75+=423 **Internet figures include use of social media, podcasts and all other websites/apps accessed via any device.

[175] Barb, 28-day consolidated, via TV sets only, includes +1 channels, individuals 4+. Viewers in the middle 50% (interquartile range) of all those who watched at least 1 minute of the Channel 4 weekend early evening news, when ranked by weight of viewing, 2023 Q1. This definition excludes both the quarter of viewers who watched the fewest minutes of all the weekend early evening news coverage on the channel in that period, and the quarter of viewers who watched the most minutes of that coverage.

Current affairs

Summary of proposals

We propose reducing the minimum number of hours of current affairs C4C must provide on Channel 4 in each calendar year **from not less than 208 hours to not less than 178 hours**.

We propose retaining the condition requiring C4C to provide not less than **80 hours** of current affairs in peak time, which is from 18:00 to 22:30.

Statutory requirement

5.46 Section 279 of the Act requires Ofcom to include conditions in the licences of the public service channels that Ofcom considers appropriate for securing the following:

a) that the programmes included in the channel include news programmes and current affairs programmes; and
b) that news programmes and current affairs programmes included in the service are of high quality and deal with both national and international matters.

5.47 Section 279 also requires that Ofcom sets conditions we consider appropriate to secure that the time allocated for each of news programming and current affairs programmes is no less than what appears to Ofcom to be an appropriate proportion of time allocated to the broadcasting of all programmes, and that the time for each is split in what appears to Ofcom to be an appropriate manner between peak viewing times and other times.

5.48 In setting conditions in the licence relating to current affairs we must also have regard to the PSB purposes set out in section 264 of the Act, in particular:

"that [PSB] services (taken together) provide, to the extent that is appropriate for facilitating civic understanding and fair and well-informed debate on news and current affairs, a comprehensive and authoritative coverage of news and current affairs in, and in the different parts of, the United Kingdom and from around the world".[176]

Current obligation

5.49 The current Channel 4 licence includes a condition that provides:

"The Corporation shall ensure that there are not less than 208 hours in each calendar year of the Licensing Period of current affairs Programmes included in the Channel 4 Service which are of high quality and deal with both national and international matters, of which 80 hours shall be in Peak Viewing Time."

Delivery over the licence period

5.50 The current quotas of a minimum of 208 hours of current affairs per year and 80 hours in peak-time viewing have been in place since Ofcom issued the first Channel 4 licence in 2004. C4C has consistently over-delivered on both its overall current affairs quota and its peak current affairs quota over the course of the current licence period.

[176] Section 264(6)(c) of the Communications Act 2003.

Figure 14: Channel 4 delivery of the current affairs quotas over the licence period

Quota	2014	2015	2016	2017	2018	2019	2020	2021	2022
208 hours	238 hours	284 hours	315 hours	287 hours	306 hours	319 hours	290.3 hours	315.9 hours	272.1 hours
80 hours	143 hours	159 hours	171 hours	155 hours	174.1 hours	184.7 hours	183 hours	161.8 hours	147.6 hours

C4C's request for the new licence

In its submission to Ofcom, C4C said that in line with its media content duty to serve older children and young adults, it is a priority to reach younger audiences with high quality journalism and current affairs.[177] C4C has already been increasing its investment in digital-first current affairs content, primarily via its new *Untold* strand of investigative journalism, and it would like to continue to invest in digital-first current affairs content across the next licence period. Its submission argued that commissioning content for these audiences, which is designed specifically for online distribution, is more likely to prove effective in attracting younger, online audiences to current affairs content than simply transferring or repackaging traditional current affairs programmes online.[178]

C4C's submission noted that increasing the amount of digital-first current affairs content that it produces beyond current levels would require it to reallocate its existing current affairs budget, spending a proportion of its budget for linear current affairs (primarily of that allocated to consumer-interest current affairs programmes) on digital commissions.[179] Its submission cites titles such as [redacted] and [redacted] as the sorts of titles it may look to reduce, which C4C estimates are generally substantially cheaper to produce on an hourly basis than *Untold* episodes [redacted].

C4C requested reducing the quota from 208 hours to 178 hours: a reduction of 30 hours per year that it said would enable it to save around [redacted] annually to reinvest in digital commissioning.[180] C4C's request acknowledged that some digital current affairs commissioning may also be appropriate for broadcast on linear, and that it has a certain amount of headroom as it is over-delivering against the current quota.

C4C considers that this level of reduction in its linear quota would enable it to deliver a broadly equivalent overall level of current affairs output across its services, but with a higher proportion of digital-only content.

[177] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[178] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[179] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[180] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.

Our reasoning

Reducing the 'all hours' quota to not less than 178 hours

Digital-first current affairs content is an important way in which C4C delivers its remit and attracts young audiences

5.51 C4C has media content duties to make "*relevant media content that appeals to the tastes and interests of older children and young adults*" and that "*consists of news and current affairs*". In our previous SMCP Reports we have said that C4C needed to invest more in high quality content for older children and young adults, and that it lacked a clear strategy for how it would serve these audiences.

5.52 In response, and in line with its Future4 strategy, in 2022 C4C launched a digital-first current affairs series, *Untold*, shown first on Channel 4 Streaming (then named All4). *Untold* is intended to strengthen its range of programmes that reflect the lives and interests of younger viewers.

5.53 The first series of *Untold* included ten documentaries which aimed to cover issues that young people care about, including *Gay Under the Taliban* and *The Secret World of Incels*. Other topics included *Inside the Shein Machine* and *The Jesse Lingard Story*, which were also broadcast on the main Channel 4 service. It has since launched a second series and reported that this series had a total of 1.6 million views in 2022 across its platforms, with 45% of these from 16-34-year-olds.

5.54 C4C considers that it is increasingly unlikely that younger audiences will watch current affairs content on broadcast TV channels, but the success of *Untold* suggests that it can reach them through quality digital-first current affairs content distributed via Channel 4 Streaming, YouTube and other social media platforms.[181] We agree with C4C that over the course of the next licence period it should aim to increase the quantity of digital-first current affairs content that it delivers, to ensure that it continues to reach younger audiences with high quality investigative journalism while continuing to increase streaming views. We also acknowledge that given its operating model, it is unlikely to be able to invest significant additional budget into digital current affairs over the course of the next licence period, and that the proportion allocated to current affairs from its total budget is unlikely to change significantly.

C4C is committed to delivering linear current affairs content that engages audiences over the next licence period

5.55 C4C said in its submission that it is committed to delivering high quality current affairs. It said that it is one of the few broadcasters specialising in investigative journalism with flagship peak-time current affairs programmes.[182]

5.56 C4C currently delivers its current affairs quotas through a range of programming, most notably its two long-running current affairs series *Dispatches* and *Unreported World.* Average viewing figures for both series declined last year, with *Dispatches* falling from 641,000 in 2021 to 505,000 in 2022, and *Unreported World* falling from 550,000 to 481,000, but both maintaining stable viewing figures among 16-34s.[183] C4C is experimenting with new

[181] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[182] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[183] Barb, 28 day consolidated, via TV sets only, Excludes +1.

ways to reach audiences with its traditional current affairs brands. At the end of 2022 it launched *Dispatches* and *Unreported World* TikTok accounts, which have received nearly 15 million views. It is reaching even younger audiences with these accounts – 93% of the *Unreported World* audience are under 35, as are 88% of its *Dispatches* account followers. 30% of the *Unreported World* audience on TikTok are under 17.[184]

5.57 C4C's submission stated that if it were able to pursue greater investment in digital-first current affairs, it would seek to preserve the linear output of its major current affairs strands such as *Dispatches*.

We consider that a reduction in the quota is appropriate to support C4C's digital strategy while protecting high-quality linear current affairs content

5.58 In its submission C4C estimated that making this reduction could allow it to *"triple our output of Untold episodes from around 20 episodes a year up to around 60*".[185] Although some episodes of *Untold* have been subsequently shown on the Channel 4 linear channel, C4C's submission notes that this is not guaranteed to be the case for all its digital-focused current affairs content throughout the next licence period.[186] Given this, we consider that it is appropriate for us to reduce the overall current affairs quota to give C4C additional flexibility to commission and deliver current affairs content on platforms that younger audiences are most likely to be watching.

5.59 We modelled the impacts of reducing this quota and agree with C4C's broad estimates of savings that this reduction would generate. Given C4C's current operating model, we expect that any savings will be invested back into content to support its ongoing strategy.[187]

5.60 Rebalancing its spend on current affairs away from consumer-focused linear current affairs towards digital commissioning will increase the impact that C4C's current affairs content has online. What C4C describes as 'consumer focused' current affairs programming does not tend to perform well with on-demand audiences. C4C has told us that 98% of viewing of [redacted] in 2022 was on linear (with only 2% streamed). This type of current affairs content is also less likely to appeal to younger audiences; only 8% of the audience to [redacted] is aged 16-34, while 10% of the audience for [redacted] is in that age group.[188]

5.61 We do not consider that a change to reduce the quota will have an immediate impact on the make-up of C4C's current affairs output. As shown above, C4C has consistently over-delivered on its quota during this licence period, most recently in 2022, by 64 hours. In its submission C4C recognised that this already provides it with some headroom to shift delivery from linear to digital.[189] C4C said that any re-allocation of current affairs spending would be an incremental change, with investment gradually shifting into more digital-first content as linear viewing steadily declines over the licence period.[190] We think that there would be a limited impact on the volume of current affairs for its linear audiences at the outset of the new licence. C4C's submission states that if it pursued this strategy, it would be more likely to have noticeable effects after 2030. We think it is appropriate to make this

[184] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[185] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[186] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[187] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[188] Barb, 28 day consolidated, via TV sets only. Includes Channel 4 +1. New episodes only.
[189] C4C further thinking on current affairs position, September 2023.
[190] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.

change now, to ensure that C4C can be reactive to changing audience needs and develop and implement its strategy gradually over the period.

We will hold C4C to account for its online current affairs delivery

5.62 C4C has committed to providing Ofcom with information about the number of digital-only current affairs titles that it delivers on an annual basis. We will use our annual SMCP Report to monitor and assess C4C's delivery of current affairs across its range of services. We will be asking C4C to provide information about the number of hours of digital current affairs that it provides each year, as well as information about who is viewing it and on which platforms.

Retaining the peak-time quota

Peak viewing of current affairs has the greatest reach

5.63 Linear peak-time viewing has the greatest reach of all the day parts on Channel 4, and on average, current affairs in peak time reaches 34.5% compared to 2.4% for current affairs in daytime.[191] We think it is important that a significant proportion of the current affairs C4C broadcasts on linear should remain in peak time, to ensure it has the greatest impact. As such, even though we are proposing a reduction in the all-hours current affairs quota, we think it is appropriate that the quota for peak-time viewing remains at 80 hours.

Consultation question 7:

Do you agree with our proposal to require that there are not less than 178 hours in each calendar year of the licensing period of current affairs programmes included in the Channel 4 service which are of high quality and deal with both national and international matters?

Do you agree with our proposal to retain the requirement that 80 hours of the 178 hours must be in peak viewing time?

Please provide reasons for your response, with any supporting evidence.

Original productions

Summary of proposals

We propose to require at least 45% of the hours of programmes included in Channel 4 each calendar year to be originally produced or commissioned for the service, a reduction to the current requirement of 56%.

We propose retaining the requirement for at least 70% of the hours of programmes in peak viewing time to be originally produced or commissioned for the service. Peak is defined as 18:00 to 22:30 each day.

[191] Barb, 28-day consolidated, via TV sets only. Programmes categorised as Barb CCIDS genre: Current Affairs and also Unreported World on Channel 4 (excl. +1). Individuals 4+, 3 or more consecutive minutes 1+ reach across 2022.

Statutory requirement

5.64 The Channel 4 licence contains provision for the broadcast of 'original productions'. Original productions are those commissioned by or for a public service channel such as Channel 4, with a view to their first showing on television in the UK being on that channel.

5.65 Section 278 of the Act requires Ofcom to include conditions in the licences of the public service channels that it considers appropriate for securing:

"(a) that the time allocated, in each year, to the broadcasting of original productions included in that channel is no less than what appears to them to be an appropriate proportion of the total amount of time allocated to the broadcasting of all the programmes included in the channel; and (b) that the time allocated to the broadcasting of original productions is split in what appears to them to be an appropriate manner between peak viewing times and other times."

5.66 The objective of this quota is to ensure that the channel is consistently of a high quality.[192] The channels can use repeats of their content to fulfil this quota, meaning that the quota does not guarantee the broadcast of first-run original productions.

Current obligation

5.67 The current Channel 4 licence requires that:

"At least 56 per cent of the hours of Programmes included in the Channel 4 Service in each calendar year shall be originally produced or commissioned for the Channel 4 Service and at least 70 per cent of the hours of Programmes in peak viewing time shall be originally produced or commissioned for the service."

Delivery over the licence period

5.68 Over the licence period C4C has consistently over-delivered against both the overall and peak-time original production quotas.

Figure 15: Channel 4 delivery of the original productions quota over the current licence period

Quota	2014	2015	2016	2017	2018	2019	2020	2021	2022
56% all hours	63%	65%	65%	62.3%	63%	61.8%	59.6%	63.9%	63.4%
70% peak	77%	81%	81%	81%	81.4%	83.5%	78.4%	80.6%	82.2%

Source: Ofcom/Channel 4.

5.69 C4C's delivery of original productions has remained consistent over the licence period, with a slight reduction during 2020 when many productions were paused due to the Covid-19 pandemic.

[192] Communications Act 2003 Section 279(2).

C4C's request for the new licence

In its submission, C4C presented us with proposed changes to its content and distribution strategy to help it secure the objectives of the Future4 strategy of continued digital transformation, focusing on growth on streaming and social platforms. As C4C projects a decline in viewing of linear broadcast television, from around 49% of total market viewing today to 32% in 2034,[193] it would like greater flexibility in its daytime schedule, so that it can continue to focus its investment on original productions in peak viewing time. A lower overall original productions quota would enable it to reallocate budget from daytime original productions to higher-impact peak-time content that also performs well on Channel 4 Streaming. It said: "*Our intention is to achieve greater flexibility in the daytime schedule, so that we can continue to focus our original productions investment in peak. As we are working within set budget constraints, this reallocation of origination spend in daytime allows us to focus on the peak time schedule, where our commissioning strategy is being tipped towards genres that are more streaming friendly – e.g. drama, comedy, premium factual and reality. These tend to be higher-tariff genres, but have a 'longer tail' when driving VoD viewing and as such have audience appeal after that traditional 0-7 day window. This content will hopefully ensure the long-term health and sustainability of our streaming platform*."[194]

C4C noted that any significant changes to the daytime schedule would be unlikely to happen before 2030 and would only happen if it makes commercial sense, for example if audiences to daytime linear television declined significantly further.

In its submission, C4C requested a reduction of the original productions quota from the current 56% to between 40-45%. It set out a possible scenario in which it could change the profile of the daytime schedule (6am to 6pm) in the future, reducing overall original productions by two-thirds and first-run original productions by half. In place of original productions, it indicated that it would fill the schedule with acquisitions. Based on figures for 2022, it estimated that this could provide it with up to [redacted] to reinvest in higher-impact programming that would work across peak time and on-demand. We used this example scenario to assess the possible impacts of a reduction to the original productions quota.

Our reasoning

Reducing the 'all hours' quota to 45%

Original productions are core to Channel 4's PSB delivery

5.70 In our last five-year review of public service broadcasting, we said that "*original UK-made programmes remain central to fulfilling the PSB remit*".[195] As part of its media content duties, C4C is required to make a broad range of high-quality content that "*appeals to the tastes and interests of a culturally diverse society*". C4C's investment in original productions

[193] Live viewing and PVR. Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[194] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[195] Ofcom, Recommendations to Government on the future of public service media, July 2021, p. 19.

is central to its fulfilment of this duty and the establishment of its brand identity among audiences.

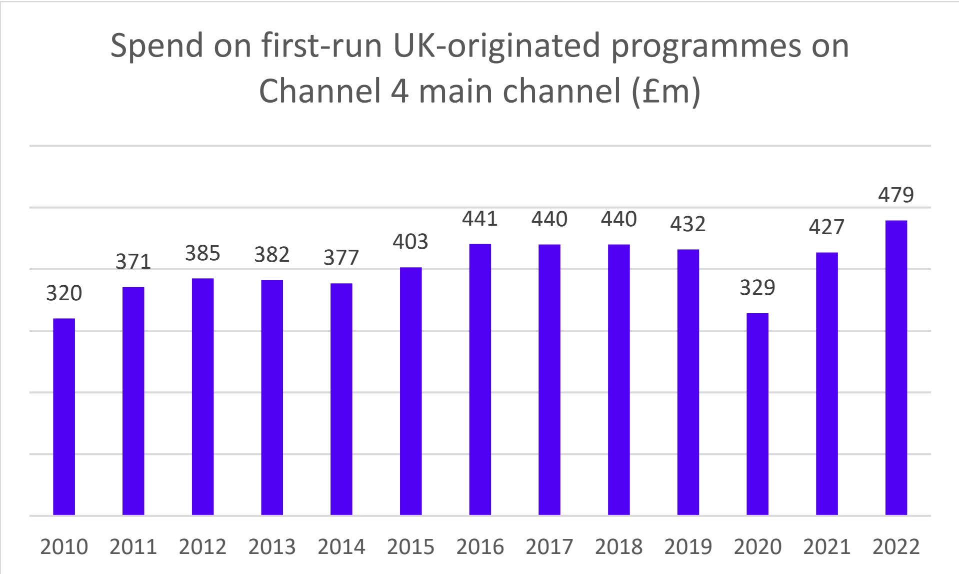
5.71 This was reflected in the Jigsaw research, which found that most audiences felt it was important that Channel 4 championed the diversity of the UK through authentically British content. Many felt that Channel 4 was doing this well, through its provision of content that portrayed life in Britain and producing programmes with British sensibilities and attitudes.[196]

> ***"Comparing it to Netflix, Channel 4 feels really relevant to British audiences and tailored to conversations that a British audience would have whereas Netflix really isn't. Doing topics that are really relevant to the UK or niche celebrities that are better known here."***[197]
>
> (Female, Cardiff, 35-54, ABC1, Heavy C4C user)

5.72 Even though there was a reduction in the original productions quota in 2010 from 60% to 56%, over the current licence period C4C has continued to invest in original productions and has over-delivered on its quota. C4C's submission acknowledges that Channel 4 delivers its remit primarily through the original content that it commissions and invests in.[198]

5.73 Despite macro-economic challenges, including a decline in the linear advertising market and inflation in the costs of production over recent years, C4C recorded its highest-ever investment in original content in 2022 (£570m).[199] C4C said in its Annual Report that this is the first time its investment has exceeded £500m since 2017. Most originated content spend was on the main channel (accounting for 87% of the total) with spend rising by 13% to £494m.[200]

Figure 16: Spend on first-run UK-originated programmes on Channel 4 (£m): 2014-2022

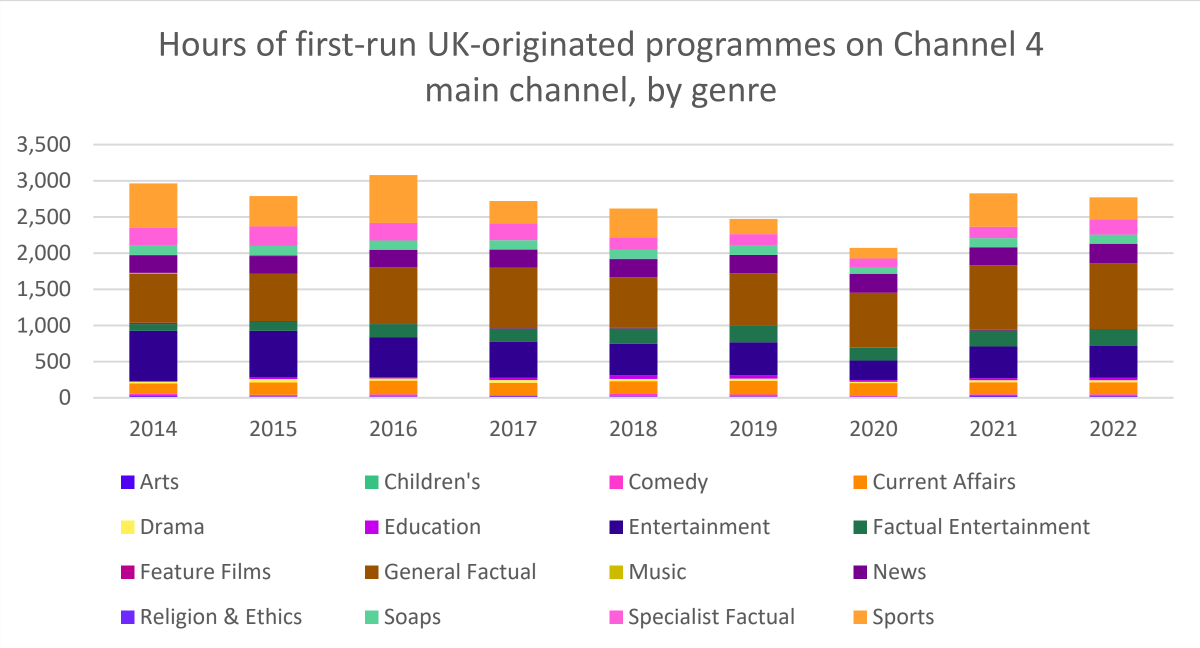


Source: Ofcom/Channel 4.

[196] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 28.
[197] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 36.
[198] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[199] Channel Four Television Corporation Report and Financial Statements 2022, p. 94
[200] Channel Four Television Corporation Report and Financial Statements 2022, p. 94

5.74 With this investment Channel 4 has delivered a relatively steady volume of first-run original productions[201] since 2014, across a broad range of genres, as shown in Figure 17 below, with the general factual genre making up the biggest proportion.

Figure 17: Hours of first-run UK-originated programmes on Channel 4, by genre: 2014-2022



Source: Ofcom/Channel 4.

5.75 C4C's submission states that in the next licence period it will *"continue to invest in a broad range of UK-originated content that delivers on our remit by representing the whole of the UK, challenging with purpose and by being creatively innovative."*[202] It has said that a key part of its strategy is to have a diversified portfolio of commissioning, combining commercially challenging genres with profitable programming. This allows it to *"reinvest our financial surplus back into original content and digital innovation through our Future4 strategy and ensures the continuing relevance and reach of our remit."*[203] C4C has told us that it anticipates its content investment across all its services will increase over the next licence period to exceed [redacted], demonstrating its commitment to investing in new, distinctive programming.[204]

Peak-time programming makes a greater contribution to C4C's streaming strategy than daytime programming

5.76 Currently, original productions in the daytime schedule on Channel 4 are predominantly lower-tariff productions, which tend to have lower engagement, especially on BVoD. In 2022, the average cost-per-hour of daytime first-run original productions on Channel 4 was [redacted], compared to [redacted] for new content in peak viewing times.[205] C4C's submission noted that, overall, only 3% of the viewing to daytime original productions in

[201] First-run originations refer to programmes commissioned by or for a channel with a view to their first showing on television in the UK in the reference year.
[202] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[203] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[204] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[205] Ofcom/Channel 4.

2023 came from streaming, while 13% of viewing to 9pm shows on Channel 4 this year was from streaming.[206]

Figure 18: Proportion of linear broadcast vs streamed viewing (both on-demand and live streams on Channel 4 Streaming) splits for Channel 4 programming, by day part

Programme slot (weekdays only)	Day part	Streamed	Live and PVR
US acquisitions	07:00 – 09:59	2%	98%
C4C repeats	10:00 – 11:59	1%	99%
Daytime first run and some C4C repeats	12:00 – 17:59	3%	97%
The Simpsons and Hollyoaks (peak)	18:00 – 18:59	4%	96%
News (peak)	19:00 – 19:59	1%	99%
Lifestyle programming (peak)	20:00 – 20:59	4%	96%
Prime-time programming (peak)	21:00 – 21:59	13%	87%
Comedy / documentaries (peak until 22:30)	22:00 – 22:59	12%	88%

Source: Jan – May 2023 consolidated 7 day window, Barb – from C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023, p. 9.

5.77 Evidence from Barb data shows that higher-tariff commissions in peak are most successful at driving higher engagement on Channel 4 Streaming. Some daytime commissions are popular on the streaming service, although still less popular on average than high-tariff peak programming. The original productions that Channel 4 broadcasts in daytime are mostly light entertainment and low tariff lifestyle programming, which do not necessarily contribute significantly to its remit to provide a broad range of high quality and diverse programming that demonstrates innovation, experimentation and creativity, although they may have a positive impact on production outside London. C4C already focuses the delivery of its most distinctive and innovative content in peak viewing times, where it can have most impact. However, C4C's submission indicated that the daytime commissions it would continue to broadcast would aim to serve the audiences who are still watching on linear, but would be the types of daytime programming that it considers also work on Channel 4 Streaming. It gave examples such as [redacted], [redacted] and [redacted].[207]

5.78 Currently, Channel 4 has a relatively small share of daytime audiences at 4.7%, down 0.6% over the last licence period, while other main PSB services have gained audiences.[208] At the

[206] Barb, 7 Day Consolidated Window, Jan-May 2023 (weekdays only), from C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023, p. 8.
[207] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[208] Over the last licence period Channel 4 has seen a loss of 0.6pp in its share of viewing during weekday daytime. Channel 5 was the only other PSB service which experienced a drop, of 0.3pp. ITV1 gained 3.1pp, BBC One 1.8pp and BBC Two 1.2pp. This compares with a gain in share of viewing on Channel 4 from 6.1% to 6.5% for evening viewing, and a gain from 7.5% to 7.9% for viewing between 21:00-22:59, which is where C4C focuses much of its high impact original production. Source: Barb, 28-day consolidated, via TV sets only, includes +1 channels. Individuals 4+, weekday 0900-1759, all week 1800-2229 and all week 2100-2259.

same time, Channel 4 has had a small gain in audience share in peak. Given that Channel 4's daytime audience is relatively small and, if current trends continue, likely to drop further, we think that reducing the amount of original productions in daytime is unlikely to have a significant negative impact on audiences.

C4C thinks it will need to change the profile of its commissioning to deliver its digital transformation.

5.79 The Jigsaw research found that audiences felt that Channel 4 Streaming relied too heavily on long-running shows. These shows were often highly valued, but it could make the offering feel similar and open C4C up to the criticism that there was not enough new content.[209] The data we hold on Channel 4's transmissions shows that around 65% of originated hours in 2022 were of returning series.

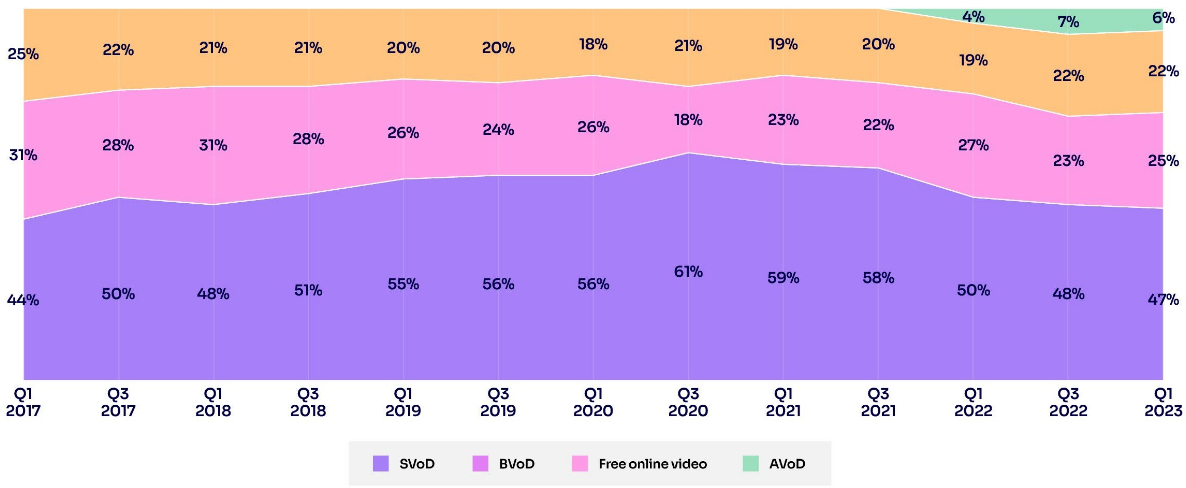
> **"It's a mixed bag for me with Channel 4. I kind of think it's a bit all or nothing. When you highlight things like Big Breakfast, 24 Hours in Police Custody and there has been stuff in the past that I've watched and loved… things like The Handmaid's Tale, Married at First Sight and then it just sort of stops…"**[210]
>
> (Female, Leeds, 35-54, C2DE, medium C4C user)

5.80 The Jigsaw research also highlighted that audiences largely claim to use Channel 4 Streaming to catch up on linear broadcast television rather than as a destination to discover new content, as they do with SVoDs.[211] This finding is supported by insights from Ampere Analysis about the BVoD market as a whole.[212]

5.81 While reach for SVoD and BVoD platforms is broadly comparable, the data shows that audiences are spending roughly half as much time with BVoD services. This could, in part, be because the BVoD services are not sufficiently differentiated from broadcasters' linear offering as they have little new and exclusive content. Without this, audiences who are not already engaged with a broadcaster's linear channels may not be motivated to engage with the BVoD service.

[209] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 27.
[210] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 28.
[211] Jigsaw, Channel 4 Corporation Relicensing research, November 2023, p. 19.
[212] Ampere Analysis, Developments in the UK media market – broadcast TV, streaming and gaming, September 2023.

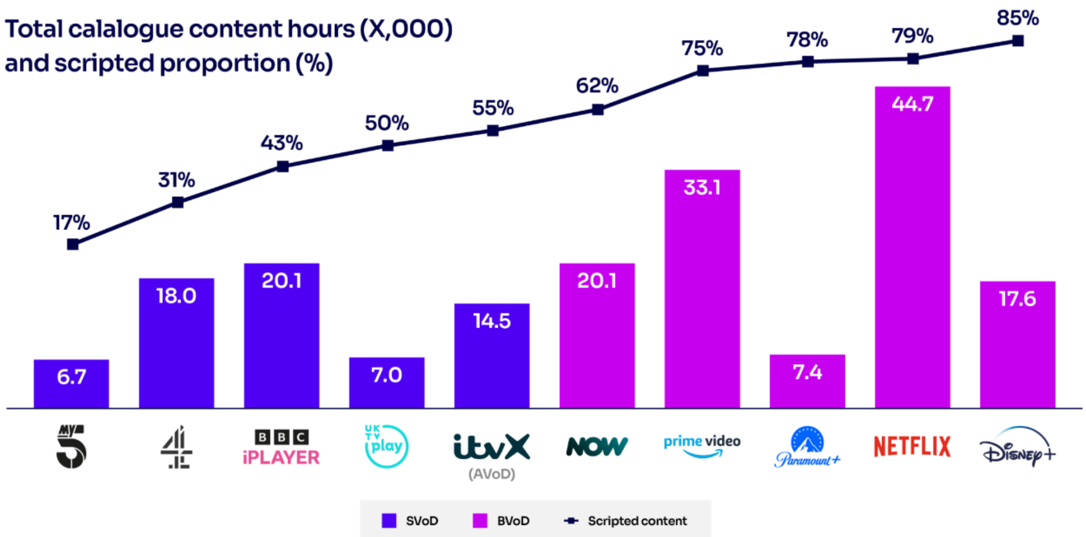
Figure 19: Share of UK digital viewing by service type: 2017-2023 (% self-reported)



Source: Ampere Analysis (reproduced by Ofcom). 'Free online video' refers to YouTube and other social video.

5.82 BVoD services are also different from SVoDs in the type of content offered. BVoD catalogues are skewed towards unscripted programming. This presents two key issues for C4C: first, unscripted programming does not typically have a 'long tail' compared to scripted content, so audiences are less likely to seek it out a long time after it was initially broadcast or uploaded. Secondly, younger audiences watch more scripted programming than unscripted, so they tend to be drawn to SVoDs that have large catalogues of scripted content.[213] Figure 20 shows that 79% of Netflix's and 75% of Amazon Prime Video's catalogue is scripted; this compares to only 31% of Channel 4 Streaming's catalogue.

Figure 20: Total catalogue content hours (000s) and scripted proportion (%): September 2023



Source: Ampere Analysis (reproduced by Ofcom).

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[213] Ampere Analysis, Developments in the UK media market – broadcast TV, streaming and gaming, September 2023.

5.83 In our recent SMCP Reports, we have been clear that we support C4C's Future4 strategy, and that it should continue to focus on this to stay relevant among its core audiences and to support its future sustainability.[214] Over the next licence period, it is likely that the trends underpinning Future4 will continue to evolve. C4C forecasts that by the end of the next licence period, the majority of its revenues will come from digital advertising and non-advertising sources, with digital advertising expected to comprise the majority of its revenues.[215] We consider that to deliver its remit and media content duties successfully in the future, C4C will need to provide high-quality original content across a breadth of genres that work well in an on-demand context.

5.84 To attract younger audiences to its streaming platform, away from SVoDs, it may be necessary for C4C to align its streaming offering more closely with the expectations of this audience by providing them with more high-impact and scripted new programming exclusive to Channel 4 Streaming. C4C said in its submission that if the original productions quota were reduced as it requests, the reallocated budget from daytime would be divided between high-impact genres including scripted genres such as comedy and drama.[216] It submitted that it may not be able to invest fully in the sort of high-impact content designed to engage audiences on its BVoD platform without reallocating spend from elsewhere in this way.[217] We consider that it is appropriate for C4C to prioritise investment in such high impact content ahead of maintaining the same level of original productions within its daytime schedule, where lower-value original productions have less impact. We modelled the impact of C4C's possible commissioning strategy and agree with C4C's broad estimates of the funds it could invest into high-impact content, should it make these changes. We therefore consider that there is an opportunity to support C4C's digital strategy by reducing the overall Channel 4 original productions quota in the next licence period.

More ability to flex between repeats and acquisitions in daytime could allow C4C to find the balance that works best for its daytime audiences

5.85 As set out in paragraph 5.66, C4C could deliver its original productions quota using repeats of its original content. This means that if we were to keep the quota at 56%, C4C might still be able to redirect a proportion of content spend away from daytime. However, in this scenario, to continue to meet the current 56% quota, C4C says it would need to increase significantly the volume of repeats during the daytime.

5.86 C4C suggested that repeats of original productions can lead to audience fatigue more quickly than acquisitions and therefore undermine the appeal of new first-run output of returning series. We looked at the share of viewing for the dayparts listed in Figure 18 above to understand whether repeats performed worse than acquisitions within Channel 4's daytime schedule. We found that the 10:00–11:59 daypart, which is where Channel 4 largely shows repeats, is the worst performing of all the day parts. From 2014-2022 that day part lost share of viewing, from 3.4% to 2.7%. We also looked at 09:00–09:59, when C4C shows US acquisitions on Channel 4, and this daypart retained its 4% share from 2014 to 2022. While different day parts are not directly comparable, this data supports C4C's theory that audiences are less interested in repeats.[218]

[214] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 3.
[215] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[216] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[217] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[218] Barb, 28-day consolidated, via TV sets only. Includes +1, individuals 4+.

We have considered the appropriateness of different quota levels

5.87 It is clear that to deliver its digital strategy successfully, C4C will need invest significantly in new high-impact content that works on its streaming service. As a result of this, it will likely need to reduce content spend elsewhere, specifically in daytime original content. Given the relatively small daytime audience and the performance of repeats, we do not consider that this will have a significant negative impact on audiences.

5.88 As such, we agree with C4C's argument that a reduction in the quota is appropriate. In proposing a change to this condition, we are aiming to find an appropriate balance between supporting C4C's digital strategy and ensuring that the daytime schedule still retains a proportion of originated UK content and provides value for the audiences that are watching it.

5.89 C4C's submission requested a reduction to between 40% and 45%. Setting a level higher than that requested by C4C, but lower than the current level of the quota; for example 50%, would risk not delivering the benefits of flexibility to rebalance spend on higher impact content and to achieve the balance between repeats and acquisitions that works best for Channel 4's daytime audience. At the same time, we consider that the largest reduction to the quota proposed by C4C, 40%, could risk the quality of the service and start to impact the character and distinctiveness of the channel. Although the character of the channel is not quantifiable, we know that original British content does help make Channel 4 distinctive for audiences.[219] On balance, we consider that reducing the quota to C4C's upper bound of 45% would be appropriate. A quota of 45% would enable C4C to focus investment on higher-value peak content, and to determine the distribution of repeats and acquisitions, to ensure that Channel 4 remains distinctive and of consistently high quality.

5.90 In proposing 45% we acknowledge that, over time, this is likely to lead to a higher level of, acquisitions in the daytime schedule. We do not anticipate any significant changes overnight but rather a gradual shift in the second half of the licence period as C4C makes changes to the type of content in which it invests. By proposing to reduce the quota now, we intend to give C4C the ability to make this shift at a moment that it considers appropriate.

5.91 Ofcom collects annual spend and hours data regarding C4C's delivery of original productions on Channel 4 and its wider portfolio of broadcast channels. We will use our SMCP Report to review C4C's investment in original content and monitor whether, when C4C starts to shift spend away from the daytime schedule, it is delivering on the strategy it has set out; namely, to reinvest that spend in high-impact content. We will also examine whether C4C is effectively delivering a breadth of genres, as required by its PSB remit, in the context of producing fewer, more high impact programmes.

Retaining 70% original production in peak time

We think C4C's peak schedule should continue to focus on original productions

5.92 Our proposed reduction of the overall original productions quota acknowledges that C4C needs to focus its content spend on the genres and types of content that have the greatest impact across both peak time and its streaming service.

5.93 Peak time on Channel 4 (6pm – 10.30pm) remains the most popular time for audiences to watch the channel, so programmes broadcast in this window are likely to have the most

[219] See paragraph 5.71.

reach and impact. In 2022, the average number of people viewing Channel 4 for each half hour before 6pm was less than 0.6 million. From 6pm viewing steadily increased until its highest level between 9pm – 9:30pm, when an average of 1.7 million watched. It then steadily fell back to below 0.7 million after 10:30pm.[220]

5.94 C4C has ensured that the proportion of hours accounted for by first-run original productions during peak time remained stable at around 70% over the period. C4C did not request the 70% peak time quota level to be changed. Our view continues to be that, in the linear context, peak time is where Channel 4's original productions will have the biggest impact and most engagement with its audiences throughout the next licence period. We think the current 70% quota for peak time remains appropriate to ensure that Channel 4 retains its distinctive identity and character.

Consultation question 8:

Do you agree with our proposal to require that:

a) at least 45% of the hours of programmes included in Channel 4 in each calendar year are originally produced or commissioned for the service; and

b) at least 70% of the hours of programmes in peak viewing time are originally produced or commissioned for Channel 4?

Please provide reasons for your response, with any evidence to support your position.

Nations' and regions' production

Proposals for consultation

We propose to retain the regional production quotas at 35% of hours and spend. This means that in each calendar year, at least 35% of the hours of programmes made in the UK for viewing on Channel 4 must be produced outside the M25, and at least 35% of its expenditure on programmes made in the UK for viewing on the service must be allocated to the production of programmes produced outside the M25 and using a range of production centres.

We also propose to retain the 'made outside England' quota at 9% of hours and spend, meaning that C4C must ensure that in any calendar year at least 9% of the hours of programmes made in the UK for viewing on Channel 4 are produced outside England, and that in any calendar year at least 9% of C4C's expenditure on programmes made in the UK for viewing on the service is allocated to the production of programmes outside England and using production centres in Scotland, Wales and Northern Ireland.

Statutory background

5.95 Section 264 of the Act provides for the objective that the PSBs together, "*so far as they include programmes made in the United Kingdom, include what appears to OFCOM to be an appropriate range and proportion of programmes made outside the M25 area*."[221] It also provides for the objective that they "*include what appears to OFCOM to be a sufficient*

[220] Barb 28-day consolidated, TV sets only.
[221] Section 264 (6)(j)

quantity of programmes that reflect the lives and concerns of different communities and cultural interests and traditions within the United Kingdom, and locally in different parts of the United Kingdom."[222] We consider that the production of programming across the UK contributes towards the fulfilment of this objective.

5.96 Section 288 of the Act requires Ofcom to set the conditions we consider appropriate for securing that C4C makes a suitable proportion of programmes for the Channel 4 service outside the M25, that these constitute a suitable range of programmes and that a suitable proportion of expenditure is spent on producing these programmes in a suitable range of production centres based outside the M25 area.

5.97 In 2019 we published updated guidance on the regional production criteria. It set out that, in order to count towards the regional production quota by hours, relevant productions must meet two out of the following three criteria:

i) A substantive base outside the M25.

ii) A minimum of 70% of total production spend outside the M25.

iii) A minimum of 50% of production talent, by cost, have their usual place of employment outside the M25.

5.98 The regional production quotas only apply to first-run programmes made within the UK and do not apply to news programmes. The quotas also do not apply to self-promotional content or acquisitions.

Current obligation

5.99 The Channel 4 licence provides that:

"The Corporation shall ensure that in each calendar year at least 35 per cent of the hours of Programmes made in the UK for viewing on the Channel 4 Service shall be produced outside the M25."

"The Corporation shall ensure that in any calendar year at least 35 per cent of its expenditure on Programmes made in the UK for viewing on the Channel 4 Service shall be allocated to the production of Programmes produced outside the M25 and must be referable to Programme production at a range of production centres."

"With effect from 1 January 2020 the Corporation shall ensure that in any calendar year at least 9 per cent of the hours of Programmes made in the UK for viewing on the Channel 4 Service are produced outside England."

"With effect from 1 January 2020 the Corporation shall ensure that in any calendar year at least 9 per cent of its expenditure on Programmes made in the UK for viewing on the Channel 4 Service is allocated to the production of Programmes outside England and referable to Programme production at production centres in Scotland, Wales and Northern Ireland."

5.100 When Ofcom granted the first Channel 4 licence in 2004, the regional productions quota, also known as the Made Outside London ('MoL') quota, was set at 30% of hours and spend. After the 2009 PSB review Ofcom increased the quota to 35%. In 2014 we found that 35% remained appropriate.[223]

[222] Section 264 (6)(i)

[223] Ofcom, Consultation: Renewal of the Channel 4 licence, July 2013, p. 20-21.

5.101 The Made Outside England ('MoE') quotas were first introduced in 2009 after the 2009 PSB Review. When introduced, the spend and hours quotas were set at 3%. In the 2014 licence the quotas were set initially at 3%, increasing to 9% in 2020.

Delivery over the licence period

5.102 C4C has consistently delivered over its MoL and MoE spend and hours quotas, with the level increasing over the licence period.

Figure 21: Channel 4 delivery of the Made Outside London quotas over the licence period

Quota	2014	2015	2016	2017	2018	2019	2020	2021	2022
Hours 35%	51.3%	53.2%	54.5%	56.9%	59.3%	54.1%	57%	66.3%	65.8%
Spend 35%	42.3%	38.5%	40.1%	44.7%	45.2%	45.4%	46.6%	54.8%	52.5%

Figure 22: Channel 4 delivery of the Made Outside England quotas over the licence period

Quota	2014	2015	2016	2017	2018	2019	Quota	2020	2021	2022
Hours 3%	6.1%	9.1%	9.2%	12.1%	10.1%	11.2%	**Hours 9%**	11.7%	9.8%	9.1%
Spend 3%	6%	7.4%	8.4%	9.5%	7.8%	7.9%	**Spend 9%**	9.4%	9.4%	9.7%

5.103 In 2018, as part of C4C's 4 'All the UK' strategy, it set itself a voluntary target to ensure that by 2023 50% of spend on first-run originated content on Channel 4 would be commissioned from suppliers outside London.[224] It met this voluntary commitment two years early in 2021, when spend reached 55%, declining slightly in 2022 to 52%.

5.104 On 8 November 2023, in response to the Government's introduction of the Media Bill and the announcement of a package of mitigations relating to the removal of Channel 4's publisher broadcaster restriction, C4C restated its commitment to spending 50% of the Channel 4 commissioning budget outside London.[225]

C4C's request for the new licence

C4C has requested that we retain both quotas at their current levels. Regarding the MoL quota, it said that:

"We continue to be committed to retaining this level [50%] of investment and have accounted for it in our long-term strategic plan. However, given the economic uncertainty and the need for maximum commercial flexibility in line with our duty to ensure that C4C remains sustainable in the medium to long term, we believe it is necessary to retain the

[224] Webpage: 4 All the UK: Working Across the UK
[225] Webpage: Support for TV production firms to accompany Channel 4 reforms.

formal quota at 35%, whilst accepting our voluntary commitment to continue to invest over 50% of our budget in the Nations and Regions. Retaining the commitment as voluntary would ensure we have the flexibility to deliver our licence obligations and ensure we are protected against the impact of disruption to, or loss of, a high-tariff commission that makes a disproportionate contribution to our Nations and Regions spend."[226]

Regarding the MoE quota it said:

"Whilst we have consistently met this quota, since the increase to 9%, we have found this quota very challenging. As such, we would strongly oppose increasing this quota so soon without giving it time to embed, and, particularly given our size, it could make us vulnerable to missing a quota because of disruption to or the loss of one or two key programmes."[227]

As well as economic and commissioning uncertainties, C4C also cited potential challenges in the growth of the production sectors in the nations and regions as a risk factor in its delivery of these quotas. It said:

"Despite growth in recent years, the UK production sector continues to be significantly smaller outside London. That means there are fewer production companies, often smaller in scale, and therefore with less capacity to develop creative ideas and produce them, in comparison with London."[228]

C4C believes it can best deliver sustainable growth in the production sectors across the nations and regions through a more 'holistic strategy'.[229] It highlights its work in building partnerships with screen agencies, investing in programmes to develop skills in the production sector, funding and development programmes for independent producers, and strengthening access to commissioners across the UK.

Our reasoning

Retaining the regional production quota at 35% of hours and spend

The current quota has facilitated significant investment from C4C into the production sector in the nations and regions

5.105 Investment in production in the nations and regions is an important part of Channel 4's contribution to the creative economy. This investment has contributed to the growth of the UK production sector and to the authentic portrayal of different communities around the UK.

5.106 Over the course of the current licence period, the percentage of all PSB qualifying network production spend[230] ('qualifying spend') attributed to the nations and regions has grown from 48.3% in 2014 to 53.6% in 2022.[231] However, this spend is not all invested in the

[226] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[227] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[228] C4C further thinking on outside London quota, September 2023.
[229] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[230] Qualifying spend refers to PSB spend on first-run originated network programmes excluding the costs of on-screen talent, archive material, promotional material, sports rights, competition prize money and news.
[231] Ofcom/broadcasters.

external production sector outside London;[232] in 2022 around 40% of all PSB MoL spend was on in-house productions. Under the current statutory framework C4C cannot produce content in-house for Channel 4, and so delivers its quota entirely using external production companies, meaning that C4C's contribution is particularly significant for independent and other external producers in the sector.

5.107 The quota has acted as an effective minimum backstop over the licence period, and C4C has consistently over-delivered by a significant amount, as shown in Figure 21 above. Investment delivered through Channel 4 is not the only way in which C4C contributes to the creative economy outside London; it also invests in the sector across its other services. According to data reported by Pact, in 2021 C4C commissions overall provided the second-largest source of commissioning spend for producers outside London.[233] In 2022 C4C spent its highest-ever amount, £228m, on original content across its TV portfolio made in the nations and regions, including a record total spend on originated content made in the UK nations, which rose by 19%, from £38m in 2021 to £45m in 2022.[234] In the context of Channel 4's consistent over-delivery of its existing quotas during the current licence period, and its restatement of its voluntary commitment, our assessment has considered whether it is appropriate to increase the minimum requirement for the forthcoming licence.

C4C's commitment to the nations and regions goes beyond its investment in regional production

5.108 In '4 All the UK', C4C detailed a broad strategy that aimed to transform C4C structurally, significantly boost jobs in the nations and regions through its new regional hubs, and thereby better represent the UK. This included transforming C4C from a purely London-based broadcaster to a broadcaster with sizeable hubs in Leeds, Bristol and Glasgow. C4C has been developing these hubs in recent years; by the end of 2022 it had 485 roles located outside London (up from 400 in 2021) and has said that will continue to increase this over the next few years.[235] 4Studio, the Leeds-based digital content unit, had 150 employees by the end of 2022,[236] and *Channel 4 News* is now presented four nights a week from both London and the newly opened purpose-built Leeds studio.[237] As these hubs develop, we anticipate that the local production sector will develop around them, particularly in Leeds, which previously had a smaller industry than cities like Manchester or Glasgow.

5.109 C4C also has in place a number of initiatives aimed at developing talent and skills across the UK and promoting the growth of independent production, including:

- **4Skills**: A training initiative, launched in October 2020, that brings together all C4C's training and development schemes, as well as introducing new initiatives, focusing on people in the nations and regions, and people from Black, Asian and minority ethnic backgrounds. 4Skills focuses on partnerships with external producers, cities, skills providers and other broadcasters to deliver targeted

[232] External producers include both independent producers as defined in the Broadcasting (Independent Productions) Order 1991 (see paragraph 5.161) and other producers who do not fall within this definition. Independent producers include small producers and 'super-indies' such as Banijay Group. Other external producers include companies such as Boom, which is owned by ITV Studios.
[233] Pact Census 2022 – Nations & Regions Annex, page 7. This data is distinct from Ofcom's MoL data, which also covers in-house productions. Pact's data only covers externally produced commissions.
[234] Channel Four Television Corporation Report and Financial Statements 2022, p. 84.
[235] Channel Four Television Corporation Report and Financial Statements 2022, p. 17.
[236] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 13.
[237] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 21-22.

interventions to support talent in under-represented groups. C4C has announced that the initiative's budget is set to double to £10m per year by 2025. It includes apprenticeships for people from diverse backgrounds. In our latest SMCP Report, we commended its work on skills and training, including via 4Skills, which continues to be an important part of the development of creative talent across the UK.[238]

- **Production Training Scheme**: A 12-month salaried training programme in which trainees are placed at external production companies across the UK. In 2022, 75% of its 33 trainees were based in the nations and regions.
- **Emerging Indie Fund**: Provides support for external production companies based in the nations and regions by providing financial assistance for programme development.
- **Indie Growth Fund**: Established in 2014, this scheme is a commercial venture set up by C4C that invests in early-stage external production companies and supports their development. As part of the 4 All the UK strategy, the Indie Growth Fund has been refocused to prioritise investment in companies based in the nations and regions, companies led by people with Black and minority ethnic backgrounds, and digital companies.
- **Partnerships with Screen Agencies**: C4C has formed a number of partnerships with screen agencies, including the 'More4 Northern Ireland' scheme with NI Screen, which secured commissions for two Northern Irish indies.

5.110 While the MoL quotas have a crucial part to play in securing investment in the nations and regions, C4C's impact in the nations and regions goes well beyond this. Taken together, these initiatives demonstrate C4C's commitment to contributing to the creative economy outside London.

An increased quota could affect C4C's ability to deal with future challenges

5.111 C4C's submission argues that an increased quota would reduce its operational flexibility and its capacity to deal with commercial pressures or risks in the future.

5.112 One of the risks C4C points to is a reduction in production capacity in the nations and regions. C4C said that if this were seen, *"the commercial impact on PSBs of maintaining current levels of outside London production would increase, as there would be less production capacity available to develop and produce the strongest ideas that are likely to appeal most to audiences."*[239] This risk is highlighted in recent research conducted for us by Oliver & Ohlbaum Associates (O&O), which forecasts slowing of growth in the UK production sector.

5.113 The UK production sector has lots of new entrants and mergers and acquisitions each year. O&O's research found that entry into the market is relatively easy, although survival may be less so, as total market growth has not mirrored that of new entries each year, meaning a number of producers are leaving the market each year.[240] While this dynamism can help to create a resilient and innovative sector, it also creates a level of uncertainty for commissioners in terms of the consistent supply of producers. C4C considers this dynamic to be a potential risk to its delivery of a higher quota requirement.

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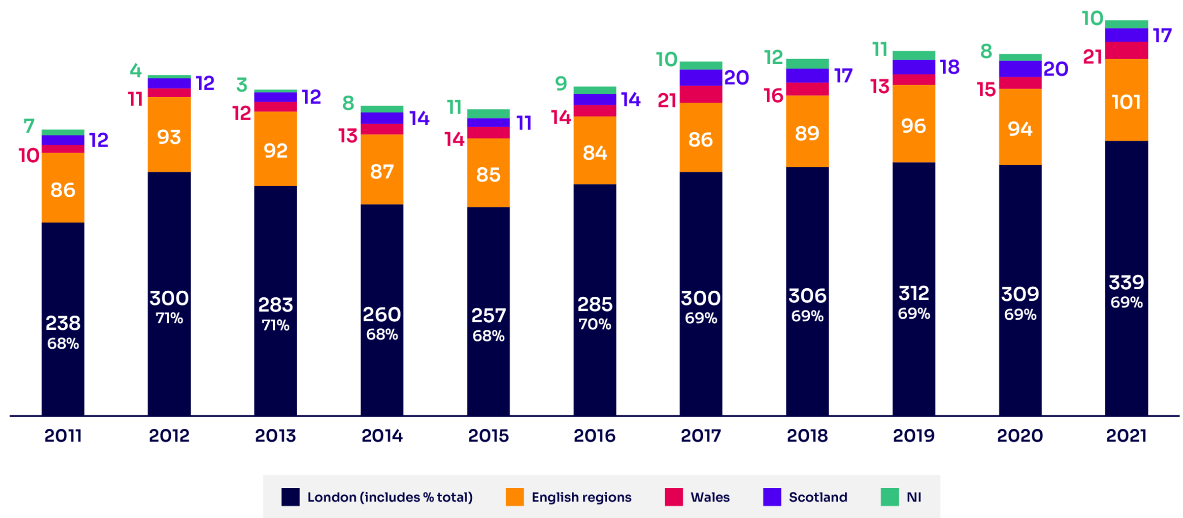
[238] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 23.
[239] C4C further thinking on outside London quota, September 2023.
[240] O&O, Understanding the UK's TV productions sector: slide deck, slide 46.

5.114 London remains the single largest production hub by number of companies, and its share of producers in the market has remained consistent at 69% since 2017. While the share of producers outside London has also remained consistent, there has been growth in the nations' share of the total number of producers since 2011. As seen in Figure 23 below, this number has fluctuated year on year.

Figure 23: Number of active producers, by company location: 2011-2021



Source: O&O, Understanding the UK's TV productions sector: slide deck, slide 41 (reproduced by Ofcom).

5.115 Industry stakeholders consider that 2023 has been a much tougher year for the UK production sector, and expect that by the end of 2023 investments will have shrunk across the market.[241] This is supported by the O&O research, which interviewed producers across the market, finding that challenges with production finance and costs have intensified in recent years, and continued economic pressure has created a challenging market for producers.[242] 97% of the producers surveyed strongly agreed that in the future, PSB commissioning budgets will be squeezed, with an increased focus on 'doing more with less'.[243]

> **"Since the Covid-19 pandemic, and other associated macro-economic events, there has been a real tightness on trying to find the right staff and crew members. Everything feels very tight and more expensive."**
>
> *(Producer, small indie)*[244]

5.116 O&O highlighted three key threats to the growth of the sector in coming years. These were: the possibility of a more rapid reduction in UK commissioning budgets due to pressures on funding via advertising, the licence fee or subscriptions; a faster pivot towards in-house

[241] Webpage: Pact Census 2023: Post-Covid boom sees exceptional TV revenue growth. [redacted] (meeting on 21 08 23), [redacted] (meeting on 19 07 23), [redacted] (meeting on 21 09 23).
[242] O&O, Understanding the UK's TV productions sector: slide deck, slide 27.
[243] O&O, Understanding the UK's TV production sector: written report, p. 16-17.
[244] O&O, Understanding the UK's TV productions sector: slide deck, slide 27.

production; and more aggressive cost inflation and skills shortages, which is explored below.[245]

5.117 O&O forecasts that growth across the UK production sector is likely to slow over the next decade, from an average of 2.9% between 2011 and 2021 to 1.7% from 2021 to 2030.[246] C4C has said that it is *"largely dependent on the relative strengths and capacity of the independent sector*",[247] meaning that a reduction in or change to the suppliers available in the nations and regions could impact how easily it can meet its quota. The forecasted slowing of growth across the UK production sector could create uncertainty for C4C in an already complex production market outside London. While the challenges in the production market magnify the importance of all PSB investment in the nations and regions, we have also taken into account the commercial risks for C4C.

5.118 As set out in the original production section, C4C intends to invest more in high-impact, high-tariff content that draws audiences to Channel 4 Streaming. C4C highlights genres such as drama, comedy and premium factual.[248] This could result in C4C investing in fewer, more expensive commissions, which may restrict the pool of producers it would be appropriate to commission, as the majority of UK producers focus on non-scripted content. More than 62% of producers have a main focus on general factual, specialist factual, factual entertainment, and entertainment programming.[249] In combination with the risks and uncertainties in the production market outside London, described above, these changes to C4C's commissioning strategy could mean that a higher quota may restrict C4C's flexibility to deliver these changes.

5.119 We consider that an increased quota could reduce C4C's operational flexibility to respond to changes in the production market or economic uncertainty. It could therefore have a negative impact on its sustainability by reducing its ability to adapt to financial and strategic challenges.

Retaining the current level of Channel 4's MoL quota is not likely to have a significant impact on the production sector

5.120 The UK production sector remains heavily reliant on PSB commissioning spend. According to the O&O research, PSB commissions accounted for a significant majority throughout the period 2011-2021, contributing 86% of the commissioning market in 2021.[250] This trend is also true of commissioning outside London; Pact found that 65% of commissioning spend outside London came from PSBs in 2021.[251] Although spending by SVoDs in the UK continues to increase, including in the nations and regions with commissions such as *Sex Education* (Netflix, Wales) and *The Rig* (Amazon Prime Video, Scotland), this still only accounts for a small proportion compared to the PSBs' overall spend.

5.121 Within the context of this reliance on PSB investment, stakeholders have told us that they are concerned that any drop in investment from C4C from its current levels of delivery could

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[245] O&O, Understanding the UK's TV productions sector: slide deck, slide 58.
[246] O&O, Understanding the UK's TV productions sector: slide deck, slide 56.
[247] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[248] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[249] O&O, Understanding the UK's TV productions sector: slide deck, slide 42.
[250] O&O, Understanding the UK's TV production sector: written report, p. 11.
[251] Pact Census 2022 – Nations & Regions Annex, p. 7.

have a negative impact on the sector.[252] We acknowledge that, as C4C currently delivers substantially above the quota, retaining the MOL quotas at 35% would not prevent C4C from reducing its current levels of delivery.

5.122 Given the strength of C4C's commitments outside London, and the high profile of the 4 All the UK strategy, as detailed in paragraphs 5.108 to 5.109 above, we think a reduction would not be consistent with C4C's published plans and commitments. However, we have modelled how a reduction in C4C's spend from current levels might affect overall PSB spend outside London, to estimate the possible impact on the production sector. Based on 2022 figures, we have estimated that if C4C made the maximum permitted reduction of spend on programming outside London on Channel 4, back to the level of its 35% quota, this would have resulted in a 6.5% drop in overall PSB qualifying spending outside London compared to actual levels of spend in 2022. This suggests that any more minor fluctuation in the proportion of Channel 4's qualifying spend below its current levels is unlikely to have a significant impact on overall PSB spend outside London. So, while C4C's investment in the nations and regions is important, any small fluctuations in this investment are unlikely to have a damaging impact on the wider market.

We consider that the current levels of the MoL quotas secure an appropriate minimum level of investment in the nations and regions

5.123 In assessing the level of this licence condition, we have considered whether it would be appropriate to increase it from the current 35% of spend and hours. Having considered the relevant factors set out above, in particular the potential benefit of greater certainty of investment that a higher quota could give to stakeholders in the nations and regions, and the risks to C4C's organisational and financial flexibility associated with a higher quota, we think that on balance we should retain the MoL quotas at their current levels of 35%.

5.124 We consider that the existing quotas have been effective in delivering the policy objective of investment in the creative economy around the UK. We welcome C4C's over-delivery of the quota and its wider investment in the nations and regions, but also recognise that it is important that C4C continues to have the flexibility to adapt to commercial pressures and fluctuations of supply within the production sector. We therefore consider that 35% remains an appropriate backstop for the duration of the next licence, guaranteeing an appropriate minimum level of spend and hours.

5.125 We will continue to monitor C4C's delivery of its wider commitments to investment in the nations and regions through our SMCP Reports.

Consultation question 9:

Do you agree with our proposals to retain the requirements that, in each calendar year, at least 35% of the hours of programmes made in the UK for viewing on Channel 4 must be produced outside the M25, and at least 35% of expenditure on programmes made in the UK for viewing on Channel 4 must be allocated to the production of programmes produced outside the M25, and must be referable to programme production at a range of production centres?

Please provide reasons for your response, with any supporting evidence.

[252] [redacted](meeting on 19 07 23), [redacted] (meeting on 20 09 23) and [redacted] (meeting on 21 08 23).

Retaining 9% of hours and spend for MoE

The recent increases to the MoE quotas have driven increased investment by Channel 4 in the nations, but do not represent all nations' investment by C4C

5.126 MoE quotas are an important tool for driving investment in the nations (in this section, 'nations' means Scotland, Wales and Northern Ireland). Our annual register[253] of qualifying programmes indicates that, on average, only a small minority of ITV and Channel 5 titles were made outside England, although investment from ITV and Channel 5 is growing, as shown in Figure 24. In contrast, the BBC and Channel 4, which have quotas requiring production in the nations,[254] deliver a consistent minimum level of investment.

Figure 24: Proportion of qualifying hours and spend across the PSBs outside England

Hours	2017	2018	2019	2020	2021	2022
BBC	22.5%	23.7%	23.2%	22.1%	22.3%	23.1%
ITV	0.3%	0.1%	0.4%	1.9%	3.9%	1.4%
Channel 4	12.1%	10.1%	11.2%	11.7%	9.8%	9.1%
Channel 5	1.2%	0.8%	1.6%	1.9%	3.3%	2.7%
Spend	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
BBC	18.3%	19.8%	20.8%	16.4%	19.7%	17.8%
ITV	0.9%	0.3%	0.6%	8.8%	14.1%	4.8%
Channel 4	9.5%	7.8%	7.9%	9.4%	9.4%	9.7%
Channel 5	1.1%	1.3%	3.9%	4.1%	6.4%	5.2%

Soure: Ofcom/PSBs.

5.127 The relatively low proportion of hours and spend from ITV and Channel 5 outside England suggests that Channel 4's MoE quotas have been important for ensuring a higher proportion of commissioning of content in the nations, rather than just outside London.

5.128 However, the hours and spend delivered on Channel 4 do not represent all of C4C's investment in the nations. As well as the initiatives detailed in paragraphs 5.108 to 5.109, C4C has said that many of the genres and types of programming typically produced in the nations are better suited to its portfolio channels, such as More4 and E4, as these channels commission predominantly factual content, and the nations have large factual production sectors.[255] Programming made for these channels does not count towards the quotas which only apply to the main Channel 4 service. C4C's spend on original content produced in the nations across its TV portfolio was £45m in 2022; this represented 20% of total original content spend outside London (£228m), and 8% of overall original content spend (£570m).[256]

[253] Every year Ofcom publishes a list of the programmes produced by the PSBs outside the M25, and criteria against which each programme qualifies as made outside London.
[254] The BBC has requirements to produce 8% of its network hours and spend in Scotland, 5% in Wales and 3% in Northern Ireland.
[255] Email from C4C, 16 November 2023.
[256] Channel Four Television Corporation Report and Financial Statements 2022, p. 12.

MoE quotas may help improve on-screen representation of audiences in the nations

5.129 As well as supporting the creative economy, the MoL and MoE quotas play a role in securing a diverse range of programmes that authentically reflect the lives and interests of communities across the UK. Despite Channel 4's higher MoE quotas since 2020, our Public Service Media Tracker[257] finds that perceptions of representation in the nations remains low. Only three in ten viewers in Wales (30%) say Channel 4 TV channels provide *'programmes that feature my region/country'* well, with slightly lower proportions saying the same in Scotland (28%) and Northern Ireland (26%). We think that C4C needs to do more to improve representation, including by commissioning programmes set in the nations that authentically portray the lives of different communities within them.

5.130 While increasing the quotas could potentially be one way to further the objective of better representation across the UK, we do not think it is the only way. For example, we consider that C4C should continue to strengthen access to commissioners for producers in the nations, and develop initiatives such as the Emerging Indie Fund which provides funds to producers based in the nations and regions for the development of programmes suited to C4C services.

C4C has found the increase to 9% for MoE quotas challenging

5.131 The current 9% quota has only been in place since 2020, and C4C's submission notes that it is finding it hard to meet. As Figure 22 above shows, although C4C significantly exceeds its MoL quotas, it only just meets its increased MoE quota; it exceeded its 9% hours quota in 2022 by just 0.1%.

5.132 C4C has said it is common that commissions are delayed, cancelled, or fail to be recommissioned due to factors beyond its control.[258] While this is true of all commissions, C4C said that the loss of a single high-tariff commission that makes a significant contribution to its nations' spend (e.g. a scripted commission like *Derry Girls*) can make the difference between it hitting and missing a quota.

5.133 We used data on previous MoE spend to conduct a hypothetical assessment of the impact wich the loss of high-tariff programming might have on C4C's MoE spend for 2022. Based on our modelling, we found that single high-tariff titles like *Screw* or *Derry Girls* were important for C4C's compliance with the MoE quota. Excluding either of these titles in 2022 would have resulted in C4C not complying with its 9% quota.

5.134 As our analysis of the appropriate level of Channel 4's original production quota explored, C4C's commissioning strategy over the next licence period is likely to evolve to focus on fewer, higher-value productions as a means of driving viewing on Channel 4 Streaming. A gradual shift towards fewer, more expensive productions in certain genres that C4C considers perform well across peak time and streaming could increase the risk of non-compliance with the 9% quota if the production was rescheduled or lost, as it would be difficult for C4C to commission alternative out-of-England production at short notice.

[257] Ofcom, Public Service Media Tracker 2022.

[258] C4C further thinking on outside London quota, September 2023.

Our analysis suggests that a 9% quota would continue to facilitate the delivery of benefits to the nations greater than Channel 4's content spend

5.135 To assess the benefit which the MoE quotas bring to the production sectors in the nations we have used analysis of their wider impact on local economies as a proxy. The spend quota promotes investment in production hubs outside England, which in turn delivers benefits to local economies in which they are located.

5.136 As set out in Annex 1, to understand the economic benefit generated by Channel 4's commissioning in the nations, we undertook an analysis of the Gross Value Added (GVA) by Channel 4's MoE spend quota.[259] GVA is a measure of the economic contribution to the UK and its nations and regions of engaging in production or providing services. We referred to two data sources: a report conducted by EY for C4C on the corporation's contribution to the UK, and a report produced by Saffery Champness for Screen Scotland.

5.137 Using information provided to us by C4C on its forecast content spend up to 2025, and assuming that the MoE quota remains unchanged at 9% of qualifying spend, we estimated Channel 4's spend (£m nominal) outside England, in total and split by nation.[260]

5.138 Using our estimated content spend, we then made estimates of GVA (£m nominal, total and split by nation annually between 2025 and 2034) based on the EY and Saffery Champness reports (see Annex 1).

5.139 Our estimated total outside England GVA, in nominal figures, over the licence period, could be in the region of £867m to £944m if the quota were retained at its current level of 9%. As set out in the methodology annex, we estimate the benefit to be around c.110-120% of the costs incurred, although we note that there are a number of assumptions that have been made to derive these estimates, all subject to a degree of uncertainty and change. The GVA analysis shows that Channel 4's out of England content spend, subject to various assumptions, delivers a marginal positive to the UK (excluding England). As explained, these figures are an estimate of the benefits to the wider economy in the nations, and not just the benefits to the production sector.

Our modelling suggests any further increase in the MoE quota could result in a net increase in costs for C4C, reducing its flexibility to address commercial challenges

5.140 We considered the impact of increased obligations on C4C's business plan. In particular, we modelled what an increase in the production quota for MoE would do to C4C's projected costs.

5.141 Using C4C's regional production quota submissions we were able to analyse both relevant hours and production spend[261] for England (including and excluding London), and out of England, as well as all the individual nations. We found that between 2017 and 2022, the average spend per hour for productions allocated to Scotland, Wales and Northern Ireland increased by about 5% per annum. In contrast, spend related to productions classified as English (including those in London) decreased slightly by about 1% per annum. As a result,

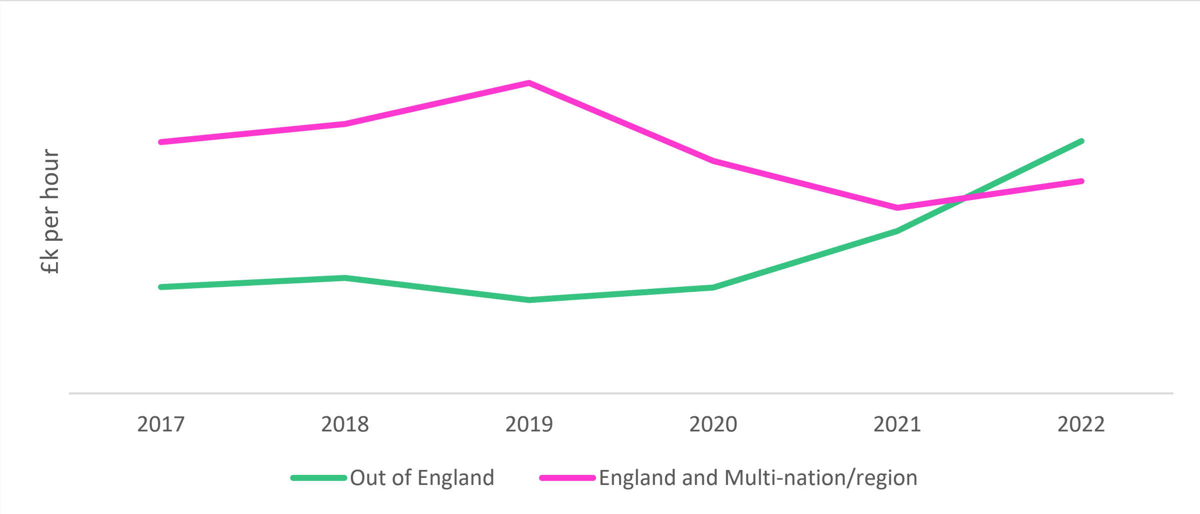
[259] For a full description of our methodology, please see Annex 1.

[260] The split of MoE spend between Scotland, Wales and Northern Ireland was made using Channel 4's recent spend.

[261] Qualifying first-run excludes news, self-promotional content, acquisitions, reruns and repeats.

out-of-England cost per hour[262] exceeded the England cost per hour in 2022. This can be seen in Figure 25.

Figure 25: Average production cost per hour for programming produced in England and multi nations/regions vs all out-of-England nations: 2017-2022



Source: C4C/Ofcom

5.142 We modelled the possible cost to C4C of an increase of 1% to the MoE quota. In doing this we considered how hourly production costs might change in future by reference to the recent changes set out in Figure 25.[263] We assumed that each additional hour produced in the nations (Scotland, Wales or Northern Ireland) would replace one hour produced in England (including London). Our forecast also assumed the same genre mix for each nation's content production across all years. We then estimated the potential impact of increases in the quota on C4C's business plan.

5.143 Our modelling showed that for each 1% increase in the MoE quota there could be a [redacted] cumulative increase in content production costs over the preferred 10-year licence period; this in turn could reduce C4C's surplus and cash reserves. We looked at the impact of imposing a quota of 16%, to match the BBC's equivalent quota level.[264] We found that the additional cost of a 16% quota could challenge the overall sustainability of C4C, based on the current licence period's total surplus of £142m (2015 to 2022).

5.144 We also looked at smaller increases to the quota, for example to 10% or 11%. While this scale of increase is unlikely to materially impact C4C's financial sustainability, increasing the obligations at a time of audience uncertainty reduces C4C's flexibility to deal with potential revenue variances.

[262] The disproportionate increase in the out-of-England (Scotland, Wales and Northern Ireland) average costs was due to a small number of expensive commissions in Northern Ireland.
[263] When calculating recent production costs trends, we have excluded costs from Northern Ireland. We found that the recent increases in the average cost of production in Northern Ireland had a significant impact on the growth costs outside England and therefore might not be a good indicator of future rates. Specifically, we isolated the costs of production in Scotland and Wales and used this growth in production cost rates (3.5% p.a.) to inform our calculation.
[264] Under its Operating Licence, the BBC's quotas are 8% of network production hours and spend in Scotland, 5% in Wales and 3% in Northern Ireland.

5.145 Our modelling shows that an increase to the spend quota would probably increase the total cost of content. In conjunction with the challenges that C4C currently faces in meeting the MoE quotas (see paragraphs 5.131 to 5.134), an uncertain economic environment, and production risks and trends highlighted by the O&O research, raising the quota would reduce C4C's ability to adapt to financial challenges in the next licence period.

5.146 As such, taking into account the factors discussed above, including the impact of C4C's out-of-England content spend, we consider that an increase to the quota would not be appropriate and have proposed no change to the quota.

Consultation question 10:

Do you agree with our proposals to retain the requirements that, in each calendar year, at least 9% of the hours of programmes made in the UK for viewing on Channel 4 are produced outside England and in each calendar year at least 9% of its expenditure on programmes made in the UK for viewing on Channel 4 is allocated to the production of programmes outside England and referable to programme production at production centres in Scotland, Wales and Northern Ireland?

Please provide reasons for your response, with any supporting evidence.

Schools programming quota

Summary of proposals

We propose retaining the current requirement of 30 minutes of schools programmes, excluding presentation material, in each calendar year of the licensing period. These programmes need not be broadcast in term time or within normal school hours.

Statutory requirement

5.147 Section 296 of the Act requires Ofcom to set the conditions that it considers appropriate *"for securing that what appears to them to be a suitable proportion of the programmes which are included in Channel 4 are schools programmes".* Schools programmes are not defined as a particular genre or content type, but as programmes that are intended for use in schools.

5.148 In determining what proportion of programmes should be schools programmes, Ofcom "*must take into account services, facilities and materials which C4C provides to schools, or makes available for schools, otherwise than by the inclusion of programmes in Channel 4".*

5.149 Channel 4's public service remit requires that it includes programmes of an educational nature and other programmes of educative value. The schools programming quota now forms a minor part of the delivery of its education remit.

Current obligation

5.150 The current Channel 4 licence contains a requirement that:

"The Corporation shall transmit at least half an hour of Schools Programmes, excluding presentation material, in each calendar year of the Licensing Period. These Programmes need not be broadcast in term time or within normal school hours."

5.151 In its second PSB Review in 2009, Ofcom considered the delivery of education content and programming for school-age children. Ofcom's viewer research has suggested that audiences thought schools programming could be effectively provided online, where a vast wealth of educational material was already available.[265]

5.152 Ofcom subsequently varied the Channel 4 licence in 2010 to require C4C to *"transmit at least half an hour of schools programmes, excluding presentation material, in each calendar year"*.

5.153 In 2014 Ofcom found that 30 minutes per year remained appropriate as a minimum licence condition.

Delivery over the licence

5.154 C4C has consistently over-delivered on the schools programming quota.

Figure 26: Channel 4 delivery of the schools programming quota over the licence period

Quota	2014	2015	2016	2017	2018	2019	2020	2021	2022
30 mins	4 hours	27.1 hours	28.6 hours	19.7 hours	38.7 hours	35.2 hours	24.2 hours	14.9 hours	9.4 hours

C4C's request for the new licence

C4C said that:

"The quota is not meaningful in its current form, and we would therefore argue for this requirement to be removed from legislation, and the licence, as soon as possible. If Ofcom is required to set a minimal quota for C4C under the existing statutory framework, the current de minimis quota should remain unchanged for the time being."[266]

Our reasoning

Retaining the schools programming quota at 30 minutes

5.155 Removal of the schools programming quota altogether would require legislative change. The Media Bill proposes to make this change, and we will remove the requirement once the new legislation is in force. However, we are renewing the licence under the current statutory framework.

5.156 In its submission C4C set out its approach to educating young people that focuses on making *"content that resonates with young audiences and reflects the issues they face, and delivers that content over social and streaming platforms"*.[267] C4C detailed some of this activity, including the launch of its new youth-focused YouTube channel, Channel 4.0, and noted that

[265] Ofcom, Ofcom's Second Public Service Broadcasting Review Phase 2: preparing for the digital future, September 2009, p. 46.
[266] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[267] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.

it had invested about £7 million in content aimed at older children (10-14-year-olds) across its services in 2022. It said:

"This investment was spread across a broad range of genres, and was specifically designed to reflect the lives and interests of young people whilst also having mainstream appeal e.g. Junior Bake Off, Celebrity Lego Masters *or purely digital commissions such as* Kids Behaving Badly and Trainspotting with Francis Bourgeois. *Our editorial approach for older children is to provide safe and appropriate content that also highlights positive role models and has educational value, enabling them to develop their knowledge and critical thinking skills."*

5.157 C4C said in 2022 it also:

"…invested £25 million on content for teenagers (14-19-year-olds), including popular returning series such as Ackley Bridge*, which tackled serious subjects, such as online bullying, addiction, and mental health;* Big Boys*; and E4's reboot of* Embarrassing Bodies, *which got young people talking about major health and sexual health issues. We will continue to air shows that speak to the lives of young people, such as the upcoming* Dance School *and* Queenie.*"*

5.158 We also note that C4C has developed its 4Schools initiative, launched in 2022. 4Schools reaches out to schools across the UK to open the world of television and the creative industries to 11-14-year-olds. While not programming, the initiative provides educational value for young people in school; in 2022, it engaged with 23,000 students in more than 60 schools, with activities such as workshops and talks from C4C and independent production companies.[268] In our latest SMCP Report we said "*the 4Schools initiative continues to engage young people, particularly those from diverse and disadvantaged socio-economic backgrounds, and encourages them to pursue a career in the creative industries*."[269]

5.159 We agree with C4C that to have an impact with young audiences, content should be tailored to young peoples' interests and viewing behaviours, reflect their lives, and be delivered on the platforms they are most likely to engage with. We think that the editorial approach to content for older children and teenagers, detailed above, contributes more effectively to Channel 4's public service remit and better serves these audiences than the provision of programming specifically for use in schools. As such, we consider it appropriate to retain this quota at the minimal level of 30 minutes per calendar year.

Consultation question 11:

Do you agree with our proposal to retain the requirement to transmit at least half an hour of schools programmes, excluding presentation material, in each calendar year of the licensing period?

Please provide reasons for your response, with any supporting evidence.

[268] Channel Four Television Corporation Report and Financial Statements 2022, p. 78.
[269] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p.2

Independent productions

Summary of proposals

We propose retaining the condition that provides that not less than 25% of the total amount of time allocated to the broadcasting of qualifying programmes in the Channel 4 service shall be allocated to the broadcasting of a range and diversity of independent productions.

Statutory requirement

5.160 Section 277 of the Act requires Ofcom to include conditions in the licences of the public service channels that Ofcom considers appropriate for securing that, in each year, *"not less than 25 per cent of the total amount of time allocated to the broadcasting of qualifying programmes included in the channel is allocated to the broadcasting of a range and diversity of independent productions*".[270]

5.161 'Independent productions'[271] means any qualifying programme[272] made by an independent producer. An independent producer is one not tied to a UK broadcaster by significant common ownership. It is a producer:

- i) not employed by a broadcaster;
- ii) which does not have a shareholding greater than 25% in a UK broadcaster; and
- iii) in which no single UK broadcaster has a shareholding greater than 25% nor any two or more UK broadcasters have an aggregate shareholding greater than 50%.

Current obligation

5.162 The Channel 4 licence provides that:

"*In each calendar year not less than 25 per cent (or such other percentage which the Secretary of State may from time to time by order pursuant to section 277(3) of the Communications Act specify) of the total amount of time allocated to the broadcasting of Qualifying Programmes in the Channel 4 Service shall be allocated to the broadcasting of a range and diversity of Independent Productions. For these purposes, the reference to a range of Independent Productions shall be interpreted in accordance with section 277(2)(c) of the Communications Act and must be include a range in terms of the cost and types of Programme."*

Delivery over the licence period

5.163 Over the licence period C4C has consistently over-delivered on this quota. Figure 27 below shows the quota outturn for Channel 4. This represents the proportion of qualifying hours produced by independent production companies; the remaining hours are made by external producers that do not qualify as independent producers under the definition explained above.

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[270] Section 277 of the Act.
[271] Defined in the Broadcasting (Independent Productions) Order 1991.
[272] Qualifying programmes are programmes which have not previously been shown in substantially the same form on the relevant service and they exclude certain types of programmes, in particular news.

Figure 27: Channel 4 delivery of the independent production quota over the licence period

Quota	2014	2015	2016	2017	2018	2019	2020	2021	2022
25%	73%	64%	60%	51%	48.5%	44.5%	50%	52.8%	54.9%

C4C's request for the new licence

C4C made no requests regarding the independent production quota.

Our reasoning

Retaining the independent production quota at 25%

5.164 The minimum quota level, as set out in section 277 of the Act, can only be amended by legislation. When the Government introduced the Media Bill on 8 November 2023, it announced that the level would be increased from 25% to 35% as part of a package of mitigations intended to ensure that Channel 4's role in driving investment in the independent production sector would be safeguarded if it decided to develop its own production capability.[273] We are renewing the licence under the current statutory framework and will implement this change once it is in force.

5.165 We think C4C's significant over-delivery of the independent production quota in each year of the current licence period demonstrates its continued commitment to the use of independent producers for its content.

5.166 In our review of C4C's performance in delivering its media content duties from 2014 to 2018, we highlighted that the number of independent production companies C4C worked with had fallen in the reporting period.[274] In 2018, C4C commissioned 154 independent production companies, representing a decline of 26% from the 2014 total of 194.[275] We said that this could be partially explained by the wave of consolidation that took place in this period, with several examples of global media companies acquiring some of the UK's largest producers.[276] We underlined that C4C should continue to support the sector, and promote innovation and creativity by sourcing content from a wide and diverse range of producers.[277]

5.167 We consider that C4C has performed well in this area since 2018.[278] In our latest SMCP Report we said that C4C continued to work with a wide range of suppliers, some for the first time, and in this way demonstrated its commitment to supporting the independent creative sector in the UK.[279] In 2022, across film, digital and TV, C4C worked with 319 content

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[273] Written ministerial statement made by Lucy Frazer, Secretary of State for Culture, Media and Sport on 8 November 2023. Webpage: Statement.
[274] Channel 4 Corporation's performance in delivering its media content duties, 2014-2018, p. 18. Under section 198C of the Act, Ofcom must review and report on the extent to which C4C has discharged its media content duties no less than every five years.
[275] Channel Four Television Corporation Report and Financial Statements 2014, p. 163.
[276] Channel 4 Corporation's performance in delivering its media content duties, 2014-2018, p. 18.
[277] Channel 4 Corporation's performance in delivering its media content duties, 2014-2018, p. 19.
[278] We will provide a full assessment of C4C's performance across the second half of the licence in our next 5 year review, but recent SMCP reports have found it performed well in this area.
[279] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 20.

suppliers, up from 294 the previous year.[280] Of these companies, 170 were qualifying independent TV production companies, an increase from 164 the previous year.[281] C4C told us that across all types of content, 38 companies were new suppliers to C4C in 2022.

5.168 Our most recent SMCP Report also highlighted that the broadcaster has shown its commitment to delivering its media content duty to support the development of people with creative talent, including via the 4Skills programme (discussed in paragraph 5.109 above).[282]

5.169 We consider that C4C's performance in this area over the licence period has been strong and the existing licence condition remains appropriate.

Consultation questions 12:

Do you agree with on our proposal to retain the condition that provides that in each calendar year not less than 25% of the total amount of time allocated to the broadcasting of qualifying programmes on Channel 4 must be allocated to the broadcasting of a range and diversity of independent productions?

Please provide reasons for your response, with any supporting evidence.

Length of the licence

Summary of proposals

We propose setting the licence period at ten years, starting on 1 January 2025 and ending on 31 December 2034.

Statutory requirement

5.170 Section 231 of the Act provides that Ofcom must determine the length of the renewed licence, which will run *"for such period as Ofcom may think fit"*.

Current licence

5.171 In 2014, Ofcom determined that ten years was the appropriate length for a new licence. We said that *"we recognise that business certainty would help C4C to make significant investments"* and "*a short licence period may adversely affect C4C's business planning, and thus impair delivery of its remit*." [283]

C4C's request for the new licence

C4C has again expressed a strong preference for a ten-year licence. It said that a ten-year licence:

[280] Channel Four Television Corporation Report and Financial Statements 2022, p. 78.
[281] Channel Four Television Corporation Report and Financial Statements 2022, p. 78.
[282] Ofcom, Letter to Channel 4 Corporation on its Statement of Media Content Policy 2022, p. 19.
[283] Ofcom, Consultation: Renewal of the Channel 4 licence, July 2013, p. 5.

> *"would provide C4C with sufficient certainty and flexibility to deliver on our remit, and on our long-term strategic objectives to drive digital growth and new revenues. A shorter licence period would create significant uncertainty, and would materially impede our ability to deliver the remit. In contrast, a longer licence period would risk linear obligations being imposed on C4C for longer than necessary; and it is difficult to forecast financials beyond the next decade when technology and viewer behaviour is evolving so rapidly. We therefore propose a new ten-year licence, from 1 January 2025 to 31 December 2034"*.[284]

Our reasoning

Setting the licence period to ten years

5.172 In determining the appropriate length of the Channel 4 licence we have considered:

a) Financial projections provided to us by C4C; and
b) Licence durations shorter or longer than ten years.

5.173 Our primary concern in determining the licence duration is that it should support C4C in the continued delivery of Channel 4 and its licence conditions. We also take into account C4C's obligations to perform its wider media content duties.

5.174 Channel 4 has traditionally operated a cross-subsidy model whereby C4C's success in generating advertising revenue across all its portfolio of channels determines the scale of investment it can make in its public service remit and licence conditions for Channel 4. This means that C4C faces higher financial risks than if it produced programmes solely with a view to maximising advertising revenues. This cross-subsidisation model will remain relevant during the next licence period.

5.175 In conducting this financial assessment, we have considered both the appropriate duration of the licence and whether changing the level of obligations significantly impacts the sustainability of a ten-year licence period. Our starting point was to consider whether a new licence with obligations similar to those in the current licence would be sustainable over the ten-year term.

C4C has submitted a business plan setting out its projections for a proposed ten-year licence period

5.176 We asked C4C to submit a business plan in support of its preferred licence duration, showing whether this could sustain the Channel 4 licence. The submitted business plan formed the basis of our analysis. It included C4C's preferred duration, and requested certain changes to licence conditions, for example to the news and current affairs requirements and the all-hours original productions quota.[285]

5.177 We assessed the business plan and assumptions to ensure they were credible, based on our current understanding of the advertising market and C4C's performance over the last licence period (see section 4). This included making negative changes to key assumptions, for example reducing C4C's share of the TV advertising market and reducing the price per impact that C4C forecast, to understand the impact these changes might have on C4C's

[284] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[285] Channel 4 Licence Renewal: Submission to Ofcom, May 2023 and Channel 4 Corporation Three Year Plan 2023-25 Board Paper September 2022, submitted to Ofcom June 2023

revenues and forecasted plans. The business plan was then used to estimate the impact of our proposed changes to content requirements over the proposed licence period.

5.178 C4C's business plan indicates that its current model for delivering Channel 4 and its licence obligations would be sustainable throughout a ten-year licence period. Its strategy and business plan takes account of:

a) The rapidly changing viewing environment and the ever-increasing competitive environment in which C4C will need to operate;
b) The need to continue to focus on digital transformation and producing content which supports and enables the transition, including changing programming quotas;
c) The need to increase content investment to maximise audience reach and share; and
d) Contingencies and financial flexibility.[286]

5.179 Specifically, by the end of the next licence period, C4C expects to generate over [redacted] annually in revenue, with over half of this generated from its digital channels, and expects its content investment to exceed [redacted] in the final year of the licence. C4C has assumed that the growth in content investment will exceed the equivalent growth [redacted]. [287]

C4C expects its revenues to grow over the forecast period to 2034

5.180 C4C's revenues are currently mainly driven by sales of advertising space on its linear and digital channels. It uses TV advertising market projections[288] as the basis for its business plan and then makes assumptions about its share of the market to forecast its advertising revenues.

5.181 Over ten years C4C forecasts that total live and PVR TV viewing will continue to decline, resulting in a general decline in linear TV advertising revenue of c.[redacted]% per annum. It assumes, because the age range of its core audience is lower and more inclined to switch to online viewing platforms than the TV market, that its share of the market will decline at a faster rate than that of other broadcasters, further adjusting down its share of commercial impacts (SOCI).[289]

5.182 In contrast, C4C forecasts that total BVoD viewing will continue to grow, based on historical market trends, albeit at a slower rate than during the current licence period. C4C set out that digital advertising revenue[290] growth will be c.[redacted]% per annum, faster than projected audience growth, estimated at c.[redacted]% per annum; this means that the price per view is expected to rise over the next licence period. C4C expects to maintain its current share of c.[redacted]% of the total digital advertising revenue.[291] During the next licence period C4C expects that its revenues will shift from primarily linear advertising to digital advertising, with linear declining as a proportion of total revenue, and digital revenue

[286] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[287] Follow-up questions dated 9 August 2023 to the Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[288] Thinkbox data derived from sales house submissions from Sky, C4C and ITV. Projected forward using Agency forecasts and C4C's assumptions provided in C4C's Three Year Plan 2023-25, Board Paper September 2022, submitted to Ofcom 9 June 2023, p. 7
[289] Channel 4 Licence Renewal: Submission to Ofcom, May 2023, p. 10 and Follow-up questions dated 9 August 2023 to the Channel 4 Licence Renewal: Submission to Ofcom 9 May 2023.
[290] Thinkbox data derived from sales house submissions from Sky, C4C and ITV
[291] Follow-up questions dated 30 June 2023 to the Channel 4 Licence Renewal: Submission to Ofcom 9 May 2023, Data pack

becoming the majority. Non-advertising revenue is expected to increase to nearly [redacted]% of total revenue, compared to 11% in 2022.[292]

5.183 As explained in paragraph 5.182, the forecasts suggest that the overall digital advertising market is projected to grow faster than viewing, indicating that the overall market is expecting digital advertising to be more valuable, through the use of technology to target specific audience demographics.

Scrutinising C4C's business plan

5.184 C4C's business plan indicates that it can deliver its remit over the proposed ten-year licence period. This is based on C4C's key assumption that it will remain primarily an advertising-funded business. It assumes that total long-form viewing minutes will remain constant, with declining linear viewing mitigated by higher viewing to VoD. We think that this assumption is reasonable, considering historic trends and the market's currently unpredictable nature.

5.185 C4C's plans to evolve its advertising strategy to reflect changing audience habits and support its digital-focused strategy, including forming partnerships to make it a more attractive destination for advertisers (see 4.6), supports its audience assumptions.

5.186 We tested the sensitivity of C4C's revenue plan to understand the level of risk inherent in C4C's audience and revenue projections by estimating the impact of:

a) reducing C4C's share of digital advertising revenue by an additional 1%;
b) reducing the revenue per view for digital advertising by 1% per view; and
c) reducing C4C's share of linear advertising revenue by an additional 1%.

5.187 As illustrated in Figure 28, relatively small changes could cumulatively have a significant impact on total revenues over the lifetime of the licence, and therefore on C4C's surplus/cash balance.

5.188 In the context of its historical cash balances of around £150m - £200m, there is scope for C4C to underperform against its forecast and still remain sustainable, and we note that in C4C's recent annual report,[293] the directors considered that the cash balances held by the Group, and the £75m revolving credit facility are *"sufficient to support the Group's medium-term funding requirements*". Nevertheless, we recognise that there remains a significant degree of uncertainty, and these forecasts, and C4C's business plan, are not without risk.

Figure 28: Cumulative impact of changing the assumptions in C4C's Business Plan, based on a ten-year period

£m	C4C (base case)	Lower digital share	Lower digital ad price	SONAR (Linear) decline
Revenue	[redacted]	[redacted]	[redacted]	[redacted]
Spot advertising	[redacted]	[redacted]	[redacted]	[redacted]
Digital All 4 advertising	[redacted]	[redacted]	[redacted]	[redacted]

[292] Channel Four Television Corporation Report and Financial Statements 2022, p. 206.
[293] Channel Four Television Corporation Report and Financial Statements 2022, p. 220.

£m	C4C (base case)	Lower digital share	Lower digital ad price	SONAR (Linear) decline
Total operating costs	[redacted]	[redacted]	[redacted]	[redacted]
Content	[redacted]	[redacted]	[redacted]	[redacted]
Surplus / (deficit)	[redacted]	[redacted]	[redacted]	[redacted]
Variance from base case surplus		*- 64*	*- 58*	*- 47*

5.189 Our proposals to maintain the nations' and regions' quotas at their current levels and reduce the original productions quota would provide additional flexibility for C4C to follow its audience as it migrates to digital. It would also provide C4C with some flexibility over its costs. This would help reduce the risk of C4C being unable to deliver its licence obligations.

C4C plans to increase its content spend in line with growth

5.190 C4C's submission notes that it plans to increase its content spend broadly in line with the projected growth in revenue during the next licence period.[294] C4C explains that the content budget needs to be able to respond to market conditions and consumer preferences. C4C articulates that it needs to produce content which will have the most impact, which in some instances may increase costs.[295]

5.191 Based on our analysis we are satisfied that C4C's projected content spend takes account of the increasing cost of producing content as well as general inflation. C4C explains that it has assumed [redacted]% annual growth (including economic inflation) in content spend *"driven by content becoming more expensive"*.[296] This predicted increase also reflects the need to be able to produce content which will have the most impact, which often has a higher cost per hour. We also looked at historic increases in the cost of C4C's content and found that in real terms C4C's total cost of content has remained relatively flat. Therefore, assuming an increase in content costs (above economic inflation) would also support C4C's potential need to commission more expensive programmes.

5.192 For all other costs, C4C has forecast to maintain broadly the same level of costs as it incurred at the latter end of the current licence period, but increasing according to the Bank of England inflation target of 2%.

5.193 We have tested this inflation assumption by comparing the most recent (March 2023) OBR CPI forecast and the Bank of England target and projections. We found that the OBR forecast CPI is below the Government's inflation target of 2% in the next five years.[297] The Bank of England expects CPI to keep on falling to reach about 2% in the first half of 2025, but not go below 2% .[298] Therefore, we consider that C4C's cost projections are credible and show its

[294] Channel 4 Licence Renewal: Submission to Ofcom, May 2023.
[295] C4C's Response to Ofcom's Further Questions on Licence Renewal, July 2023.
[296] 15 September 2023 response to follow-up questions dated 9 August 2023 to the Channel 4 Licence Renewal: Submission to Ofcom 9 May 2023.
[297] Office for Budget Responsibility, Historical official forecast data base, CPI, March 2023. [last accessed 02/11/23]
[298] Webpage: Bank of England Explainer: When will we get back to low inflation?

continued commitment to maintain its current investment level in content, as the proportion of content investment remains in line with current levels of 60-65%.

C4C has set out its mitigations against unforeseen challenges

5.194 Finally, we considered the ability of C4C's business plan to deal with 'shock' events outside its control, such as sustained high inflation and other unprecedented market shocks such as an advertising market crash. In its submission, C4C explained the mitigations that it implemented during the Covid-19 pandemic, such as a [redacted]. C4C said it would follow a similar approach to cash preservation while seeking to deliver its full remit.[299] We are satisfied that it has given due consideration to its options in such an event.

5.195 We are satisfied that C4C has a credible business plan to support a licence for a ten-year period, as set out in its licence submission.

A ten-year licence also provides consistency with other licences

5.196 A ten-year licence for Channel 4 is consistent with the terms of the other commercial PSB licences (i.e. Channels 3 and 5) and the DTT multiplex licences,[300] which are due to expire in 2034.

5.197 In view of the significant technological developments that have transformed the industry in the past decade, we think it is sensible to continue to align the expiration of these licences, as this would provide Ofcom with the opportunity to conduct a comprehensive assessment of the licences in 2034 should this be required.

We considered a number of alternative durations

5.198 We have also considered the merits of a shorter licence, for example five years. However, given the uncertainties over audiences and revenues, we do not think that a five-year licence would provide C4C or the production sector with sufficient certainty. A longer time horizon allows C4C to formulate longer-term partnerships with programme sponsors, and business plans which can provide confidence to current and potential advertisers.

5.199 We recognise that investment in high-tariff content can take years to develop, and certainty around C4C's content obligations in the long term can help mitigate the risk involved in investing in innovative, high-end content. Similarly, investment in technology to support C4C's digital transformation can take time to come to fruition, and C4C has indicated that five years might not provide it with enough certainty to make these significant investments.

5.200 We also considered whether a longer licence might be appropriate. In addition to the reasoning set out in paragraphs 5.196 to 5.197, we are not able to reliably forecast viewing, or where advertisers will be spending their budgets, or C4C's financial position, beyond a ten-year period. As such we do not think it would be appropriate to set a licence duration longer than ten years.

5.201 In conclusion we think that a ten-year licence, with the conditions that we are proposing in this consultation, is appropriate to provide C4C with sufficient long-term certainty to invest in its strategies to transform the organisation into a digital-first PSB.

[299] Follow up questions dated 30 June 2023 to the Channel 4 Licence Renewal: Submission to Ofcom 9 May 2023.

[300] Digital television allows us to bundle a number of television services into what is known as a multiplex. There are six national multiplexes identified as 1, 2, A, B, C and D. Ofcom regulates the licensees for all of these national multiplexes with the exception of multiplex 1, which is regulated under the BBC Charter and Agreement.

Consultation question 13:

Do you agree with our proposal that the Channel 4 licence should be renewed for a period of ten years?

Please provide reasons for your response, with any supporting evidence.

A1. The Gross Value Added (GVA) impact of Channel 4's MoE content spend

A 9% MoE quota could deliver a GVA of £867-944m.

A1.1 We estimate that maintaining C4C's current MoE quota at 9% of qualifying spend could deliver a GVA in the range of £867m to £944m to the UK (excluding England) in nominal terms over the proposed ten-year licence period. We estimate that the multiplier[301] delivers regional GVA at about 20% above C4C's spend.

A1.2 We set out below why we considered GVA, what GVA is, the scope and limitations of our analysis, our methodology and analysis, and how our analysis has been used in this consultation document.

Why have we considered GVA?

A1.3 As we explain in paragraphs 5.135 to 5.139, we wanted to understand the possible economic benefit for the production sectors in the nations of C4C commissioning programming in the nations, in order to assess whether the current level of the MoE quota was delivering benefit to the nations. The wider economic benefit that the MoE quota delivers to the nations will exceed investment in production hubs outside England, and can therefore be used a proxy. GVA is a measure of this wider economic benefit.

A1.4 We carried out desk-based research to see if there was any published evidence that we could use when considering the costs and the benefits of making changes to the C4C MoE quota. Our desk-based research found publications on GVA relating to media production spend in the UK regions.

What is GVA?

A1.5 GVA is a measure of the economic contribution to a geographically-defined region of conducting productive activity in that geography. It is measured at current prices, excluding taxes (less subsidies) on products and services. GVA plus taxes (less subsidies) on products and services is equivalent to Gross Domestic Product (GDP). Regional GVAs are calculated by the Office of National Statistics, which publishes the estimates on its website.[302]

A1.6 GVA measure the value of output for a measure of input, i.e. the economic benefit generated by any economic spend; multipliers can be generated by simply dividing the output by input, so long as they are consistently defined.

[301] The multiplier (or multiplier effect) is where any given change in input (e.g. £100 C4C spend) causes a larger change in output (e.g. £120 of economic benefit).
[302] Webpage: Gross Value Added (GVA).

A1.7 Calculating a GVA and a multiplier can also be done at the industry level and company level. It can be done for a company at a regional level, so long as the data is available.

A1.8 We did not consider calculating GVAs in 2014 as the data to do this was not readily available. Although it would have been possible to do this from source data (i.e. ONS data) it would have been expensive, time-consuming and disproportionate to the impact the analysis would have had on our decision at the time.

A1.9 For this consultation, however, our desk research found two recently published reports where a GVA had been calculated, which we consider are relevant to Channel 4. We have therefore used information from these reports to calculate a range of GVAs for MoE content spend.

Scope and limitations of our analysis

A1.10 As noted above, we relied on two externally published reports as well as information from C4C on its MoE content spend. In particular:

a) The two reports, while using the same underlying ONS data, were prepared for different purposes and used slightly different approaches. This means the reported results in the reports are not totally consistent.
b) We were not able to review the underlying methodology and data used in the two reports, only the results.
c) The two reports were published by two established accounting firms. As noted, we did not critique their methodology.
d) In calculating the GVA ranges, we used C4C's estimates of total qualifying content spend, the current regional split (between Scotland, Wales and Northern Ireland) and content inflation costs. All these assumptions are likely to change over the next licence period.

A1.11 The results of our analysis therefore should be considered as broad-brush estimates.

Our methodology and analysis

Sources of data

A1.12 As noted above, we are aware of two reports, published in 2021, that are relevant to estimating a range of C4C MoE GVAs. One was produced for Channel 4 and published by Ernst and Young (EY), and the other was produced for Screen Scotland and published by Saffery Champness.

EY report

A1.13 The Ernst and Young Report, *Channel 4's contribution to the UK*, *EY Report for Channel 4*, April 2021[303] calculated GVAs for Channel 4 for the nations and English regions by aggregating three output components:

a) Direct – (as per the GVA definition above) Channel 4 employee costs and profits (or losses),

[303] EY, Channel 4's contribution to the UK, April 2021.

b) Indirect – Channel 4's purchase of goods and services from other companies in its supply chain in that region. Those companies will in turn purchase goods and services from their own suppliers, and

c) Induced – the employees of Channel 4's suppliers in that region spending part of their salaries on goods and services within that region.

A1.14 EY calculated these outputs using multipliers corresponding to the different expenditure categories (the report does not provide a detailed explanation as to how it obtained these, other than saying it is based on data from ONS). EY then added the outputs to estimate a figure for total GVA generated from Channel 4's expenditure.

Figure A1: EY GVA

2021	Expenditure £m	GVA £m	Multiplier
UK	862	992	1.15
Scotland	31	36	1.16
Northern Ireland	11	8	0.72[304]
Wales	18	30	1.14
UK (Ofcom calc)	777	928	1.19

Source: EY report

A1.15 The EY figures for the nations exclude labour costs and direct GVA so are not exactly comparable to the figure for UK as a whole. In the table we have calculated the corresponding figure for the UK. In the regional multipliers we have calculated below, we have adjusted the multipliers by the ratio: UK (inc. labour and direct GVA)/ UK (exc. Labour and direct GVA).

Saffery Champness report

A1.16 The Saffery Champness report *Economic Value of the Screen Sector in Scotland in 2021*[305] uses a similar GVA[306] approach to that in the EY report. It looked at Scotland only, rather than the UK as a whole, and focused on wider media production and development spend. Saffery Champness, like EY, relied on ONS data and calculated GVAs for direct, indirect and induced impacts.

A1.17 The Saffery Champness report disaggregated the production and development spend into various sectors. The sector results for 2021 are set out below, together with our calculation of the multiplier.

Figure A2: Saffery Champness GVA

[304] Although a multiplier of less than 1 appears counter-intuitive, it is possible. For example, if the spend was on a drama that relied on expensive talent from outside the region, then while expenditure may be considered to be made within that region, payment for that talent, along with the direct and indirect flow-through, may occur outside the region.

[305] Screen Scotland, Economic Value of the Screen Sector in Scotland in 2021, August 2023.

[306] See section 3.1.

2021	Expenditure (inc. COE) £m	GVA £m	Multiplier
Development	-	26	n/a
PSB content	223	366	1.64
Inward location production	347	296	0.85
Independent film production	8	11	1.46
Other TV production	6	7	1.22
Animation, VFX and post-production	27	49	1.81
Other audiovisual	6	5	0.77
Total	**617**	**760**	**1.23**

Source: Saffery Champness report

A1.18 While Channel 4 is a PSB content provider, the Saffery Champness report quotes its content spend in Scotland of £23.5m in 2021 which comprises 10.5% of the 2021 Scottish total.[307] Of the 2021 total, 71.6% of the spend was from the BBC. We consider that our estimate of the 'PSB content' multiplier is in effect a BBC PSB content multiplier, which might not be appropriate for Channel 4. We consider the total multiplier of 1.23 to be a more reasonable estimate. It is also more consistent with the multiplier we have derived from the EY report (1.19).

Calculating MoE multipliers

A1.19 As noted above, the EY regional multipliers excluded labour costs and direct GVA. In order to make the EY and Saffery Champness estimates consistent, they have been adjusted by (1.15/1.19 =) a factor of 0.97 to produce the following regional multipliers:

Figure A3: EY Adjusted multiplier

	EY Multiplier (inc. labour and direct GVA)
Scotland	1.13
Wales	1.11
Northern Ireland	0.70

Source: Ofcom calculation using EY and Saffery Champness reports

A1.20 Our calculation of the Saffery Champness Scotland multiplier of 1.23 is 8.8% higher than our calculation of the EY Scotland multiplier (1.13). Uplifting our EY Wales and Northern Ireland multiplier calculations by 8.8% results in our estimates of the Saffery Champness regional multipliers as follows:

[307] See tables 4 and 5 of the report.

Figure A4: EY and Saffery Champness multipliers

	EY multiplier	SC multiplier
Scotland	1.13	1.23
Wales	1.11	1.21
Northern Ireland	0.70	0.76

Source: Ofcom calculation using EY and Saffery Champness reports

Estimating an MoE GVA

A1.21 Channel 4 is currently required to spend 9% of its content spend on programmes made in the UK outside England. Our proposal is for this quota to remain unchanged. In its submission on the conditions for the new licence, Channel 4 set out its content spend plans.

5.202 We assumed that 58% of this planned spend was qualifying spend,[308] and based on a 9% quota, we calculated qualifying MoE spend. We then assumed that the current split of MoE spend between Scotland, Wales and Northern Ireland[309] remained constant, and forecast MoE spend for each nation.

A1.1 We then applied the multipliers (Figure A4) to that spend, to calculate estimates of GVA for each region and a total for MoE, which in nominal figures over the proposed ten-year licence period could be in the region of £867-£944m.

A1.2 As set out in the above calculations, we have made a number of assumptions in these estimates, all subject to a degree of uncertainty and change.

How has our analysis been used in this consultation document?

A1.3 Our proposals on MoE quotas are set out in paragraphs 5.126 to 5.146 of the consultation.

[308] Qualifying spend refers to spend on first-run originated network programmes.
[309] Based on Channel 4 spend in 2021 and 2022.

A2. Responding to this consultation

How to respond

A2.1 Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on 14 February 2024.

A2.2 You can download a response form from https://www.ofcom.org.uk/consultations-and-statements/category-1/channel-4-licence-renewal. You can return this by email or post to the address provided in the response form.

A2.3 If your response is a large file, or has supporting charts, tables or other data, please email it to Channel4LicenceRenewal@ofcom.org.uk, as an attachment in Microsoft Word format, together with the cover sheet. This email address is for this consultation only and will not be valid after 14 February 2024.

A2.4 Responses may alternatively be posted to the address below, marked with the title of the consultation:

Channel 4 Licence Renewal team
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA

A2.5 We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:

- send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, wmv or QuickTime files; or
- upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.

A2.6 We will publish a transcript of any audio or video responses we receive (unless your response is confidential)

A2.7 We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt of a response submitted to us by email.

A2.8 You do not have to answer all the questions in the consultation if you do not have a view; a short response on just one point is fine. We also welcome joint responses.

A2.9 It would be helpful if your response could include direct answers to the questions asked in the consultation document. The questions are listed at Annex 5. It would also help if you could explain why you hold your views, and what you think the effect of Ofcom's proposals would be.

A2.10 If you want to discuss the issues and questions raised in this consultation, please contact the Channel 4 Licence Renewal team.

Confidentiality

A2.11 Consultations are more effective if we publish the responses before the consultation period closes. This can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents' views, we usually publish responses on the Ofcom website at regular intervals during and after the consultation period.

A2.12 If you think your response should be kept confidential, please specify which part(s) this applies to and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don't have to edit your response.

A2.13 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.

A2.14 To fulfil our pre-disclosure duty, we may share a copy of your response with the relevant government department before we publish it on our website.

A2.15 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's intellectual property rights are explained further in our Terms of Use.

Next steps

A2.16 Following this consultation period, Ofcom plans to publish a statement in Spring 2024.

A2.17 If you wish, you can register to receive mail updates alerting you to new Ofcom publications.

Ofcom's consultation processes

A2.18 Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in Annex 3.

A2.19 If you have any comments or suggestions on how we manage our consultations, please email us at consult@ofcom.org.uk. We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.

A2.20 If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact the corporation secretary:

A2.21 Corporation Secretary
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: corporationsecretary@ofcom.org.uk

A3. Ofcom's consultation principles

Ofcom has seven principles that it follows for every public written consultation:

Before the consultation

A3.1 Wherever possible, we will hold informal talks with people and organisations before announcing a big consultation, to find out whether we are thinking along the right lines. If we do not have enough time to do this, we will hold an open meeting to explain our proposals, shortly after announcing the consultation.

During the consultation

A3.2 We will be clear about whom we are consulting, why, on what questions and for how long.

A3.3 We will make the consultation document as short and simple as possible, with an overview of no more than two pages. We will try to make it as easy as possible for people to give us a written response.

A3.4 We will consult for up to ten weeks, depending on the potential impact of our proposals.

A3.5 A person within Ofcom will be in charge of making sure we follow our own guidelines and aim to reach the largest possible number of people and organisations who may be interested in the outcome of our decisions. Ofcom's Consultation Champion is the main person to contact if you have views on the way we run our consultations.

A3.6 If we are not able to follow any of these seven principles, we will explain why.

After the consultation

A3.7 We think it is important that everyone who is interested in an issue can see other people's views, so we usually publish the responses on our website at regular intervals during and after the consultation period. After the consultation we will make our decisions and publish a statement explaining what we are going to do, and why, showing how respondents' views helped to shape these decisions.

A4. Consultation coversheet

Basic details

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

Confidentiality

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

- Nothing ☐
- Name/contact details/job title ☐
- Whole response ☐
- Organisation ☐
- Part of the response ☐

If you selected 'Part of the response', please specify which parts:

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

Yes ☐ No ☐

Declaration

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

Ofcom aims to publish responses at regular intervals during and after the consultation period. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name Signed (if hard copy)

A5. Consultation questions

A5.1 We are seeking views on our proposals and reasoning. Please provide reasons for your response with any supporting evidence.

Question 1: Do you agree with our assessment of the potential impact on specific groups of persons?

Question 2: Do you agree with our Welsh language impact assessment?

Question 3: Do you agree with our proposed approach to setting the new Channel 4 licence?

Question 4: Do you agree with our proposal to retain the condition requiring not less than 208 hours of news programmes in peak viewing time to be included in the Channel 4 service in each calendar year of the licensing period?

Question 5: Do you agree with our proposal to remove the lunchtime news scheduling requirement?

Question 6: Do you agree with our proposal to retain the weekend news scheduling requirement?

Question 7: Do you agree with our proposal to require that there are not less than 178 hours in each calendar year of the licensing period of current affairs programmes included in the Channel 4 service which are of high quality and deal with both national and international matters? Do you agree with our proposal to retain the requirement that 80 hours of the 178 hours must be in peak viewing time?

Question 8: Do you agree with our proposal to require that:

a) at least 45% of the hours of programmes included in Channel 4 in each calendar year are originally produced or commissioned for the service; and

b) at least 70% of the hours of programmes in peak viewing time are originally produced or commissioned for Channel 4?

Question 9: Do you agree with our proposals to retain the requirements that, in each calendar year, at least 35% of the hours of programmes made in the UK for viewing on Channel 4 must be produced outside the M25, and at least 35% of expenditure on programmes made in the UK for viewing on Channel 4 must be allocated to the production of programmes produced outside the M25 and must be referable to programme production at a range of production centres?

Question 10: Do you agree with our proposals to retain the requirements that, in each calendar year, at least 9% of the hours of programmes made in the UK for viewing on Channel 4 are produced outside England, and in each calendar year at least 9% of its expenditure on programmes made in the UK for viewing on Channel 4 is allocated to the production of programmes outside England and referable to programme production at production centres in Scotland, Wales and Northern Ireland?

Question 11: Do you agree with our proposal to retain the requirement to transmit at least half an hour of schools programmes, excluding presentation material, in each calendar year of the licensing period?

Question 12: Do you agree with on our proposal to retain the condition that provides that in each calendar year not less than 25% of the total amount of time allocated to the broadcasting of qualifying programmes on Channel 4 must be allocated to the broadcasting of a range and diversity of independent productions?

Question 13: Do you agree with our proposal that the Channel 4 licence should be renewed for a period of ten years?